SCHOOL REFUNDING BONDS **RATINGS:**
Book-Entry-Only Bonds **(See "Ratings" herein)**

In the opinion of Bond Counsel, under existing statutes, regulations, administrative rulings, and court decisions, and assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), and the accuracy of certain representations made by the City, interest on the Bonds (i) is excluded from gross income of the owners thereof for Federal income tax purposes, and (ii) is not an "item of tax preference" for purposes of the Federal alternative minimum tax imposed on individuals and corporations. However, such interest is included in "adjusted current earnings" for purposes of calculating the Federal alternative minimum tax imposed on certain corporations. Bond Counsel is also of the opinion that under existing statutes interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). No opinion is expressed regarding other Federal or State tax consequences arising with respect to the Bonds. See "Tax Matters" herein.

The Bonds will not be designated by the City as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

$31,745,000
CITY OF BUFFALO, NEW YORK
$11,230,000 School Refunding Bonds – 2012D
(the " Series D Bonds")

Date of Issue: Date of Delivery **Maturity Dates:** December 1, 2012-2023
(as shown on the inside cover)

$20,515,000 School Refunding Bonds – 2012E
(the "Series E Bonds" and, together with the Series D Bonds, the "Bonds")

Date of Issue: Date of Delivery **Maturity Dates:** February 1, 2013-2024
(as shown on the inside cover)

The Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds.

The Bonds will mature on the dates and in the amounts, will bear interest at the rates and will have the yields or public offering prices shown on the inside cover of this Official Statement.

Interest on the Bonds will be payable on the dates as shown on the inside cover of this Official Statement. Principal and interest will be paid by Manufacturers and Traders Trust Company, Buffalo, New York, as Paying Agent, to the Securities Depository, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein. The Bonds will be subject to redemption prior to maturity as described herein.

The Bonds are general obligations of the City of Buffalo, County of Erie, New York (the "City"), and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and interest thereon and, unless paid from other sources, the Bonds are payable from ad valorem taxes which may be levied upon all the taxable real property within the City, subject to certain statutory limitations. See the "New Tax Levy Limit Law" herein.

The scheduled payment of principal of and interest on the Series D Bonds maturing on December 1 of the years 2018 through 2023, inclusive and on the Series E Bonds maturing February 1 of the years 2018 through 2024, inclusive (the "Insured Bonds"), when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY® MUNICIPAL

FOR A DESCRIPTION OF THE CITY'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE AS DESCRIBED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12, SEE "DISCLOSURE UNDERTAKING" HEREIN.

The Bonds are offered when, as, and if issued by the City and accepted by the Underwriters, subject to receipt of the unqualified legal opinion as to the validity of the Bonds of Harris Beach PLLC, Buffalo, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon by the Underwriters by their counsel, Hodgson Russ LLP, Buffalo, New York. Capital Markets Advisors, LLC has served as Financial Advisor to the City in connection with the issuance of the Bonds. It is expected that delivery of the Bonds in book-entry form will be made on or about September 25, 2012 (the "Delivery Date").

RAYMOND JAMES | MORGAN KEEGAN

Siebert Brandford Shank & Co., L.L.C.

Dated: September 6, 2012

$11,230,000 SCHOOL REFUNDING BONDS – 2012D

Dated: Date of Delivery

Principal Due: December 1 as shown below
Interest Due: December 1, 2012 and semi-annually thereafter on June 1 and December 1 in each year until maturity (or earlier redemption)

Maturity	Amount	Interest Rate	Yield	CUSIP[1]	Maturity	Amount	Interest Rate	Yield	CUSIP[1]
2012	$905,000	1.000%	0.300%	119677JS2	2019	$ 955,000	2.000%	1.920%	119677JZ6
2013	835,000	1.000%	0.550%	119677JT0	2020	730,000	3.000%	2.140%	119677KE1
2014	850,000	3.000%	0.780%	119677JU7	2020	250,000	2.750%	2.140%	119677KA9
2015	875,000	2.000%	0.910%	119677JV5	2021	1,005,000	2.000%	2.340%	119677KB7
2016	890,000	2.000%	1.070%	119677JW3	2022	1,025,000	2.250%	2.470%	119677KC5
2017	915,000	3.000%	1.340%	119677JX1	2023[2]	1,060,000	4.000%	2.590%	119677KD3
2018	935,000	2.000%	1.610%	119677JY9					

$20,515,000 SCHOOL REFUNDING BONDS – 2012E

Dated: Date of Delivery

Principal Due: February 1 as shown below
Interest Due: February 1, 2013, August 1, 2013 and semi-annually thereafter on February 1 and August 1 in each year until maturity (or earlier redemption)

Maturity	Amount	Interest Rate	Yield	CUSIP[1]	Maturity	Amount	Interest Rate	Yield	CUSIP[1]
2013	$1,640,000	1.000%	0.400%	119677KF8	2020	$ 1,770,000	5.000%	2.020%	119677KN1
2014	1,810,000	3.000%	0.660%	119677KG6	2021	1,855,000	3.000%	2.220%	119677KP6
2015	1,480,000	3.000%	0.790%	119677KH4	2022	1,910,000	3.000%	2.380%	119677KQ4
2016	1,520,000	3.000%	0.940%	119677KJ0	2023	1,745,000	2.375%	2.520%	119677KU5
2017	1,570,000	4.000%	1.180%	119677KK7	2023[2]	225,000	4.000%	2.520%	119677KR2
2018	1,630,000	4.000%	1.480%	119677KL5	2024	1,515,000	2.500%	2.660%	119677KV3
2019	1,020,000	5.000%	1.790%	119677KT8	2024[2]	150,000	4.000%	2.660%	119677KS0
2019	675,000	3.000%	1.790%	119677KM3					

(1) CUSIP numbers have been assigned by an organization not affiliated with the City or the Underwriters and are included solely for the convenience of the holders of the Bonds. Neither the City or the Underwriters are responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated above.

(2) Priced assuming redemption on December 1, 2022 for the Series D Bonds and February 1, 2022 for the Series E Bonds; however, such redemption is at the option of the City.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Appendix F - Bond Insurance and Specimen Municipal Bond Insurance Policy".

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the City from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN (OR YIELDS HIGHER THAN) THE PUBLIC OFFERING PRICES (OR YIELDS) STATED ON THE INSIDE COVER PAGE OF THE OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

CITY OF BUFFALO
NEW YORK

MAYOR
Byron W. Brown

COMPTROLLER
Mark J. F. Schroeder

COMMON COUNCIL
Richard A. Fontana, President

David A. Franczyk
Bonnie E. Russell
Christopher P. Scanlon

Darius G. Pridgen
Michael J. LoCurto
Demone A. Smith

Joseph Golombek, Jr.
David A. Rivera

Janet E. Penksa
Commissioner of Administration,
Finance, Policy and Urban Affairs

Donna J. Estrich
Director of Budget,
Administration and Finance

Timothy A. Ball, Esq.
Corporation Counsel

Harris Beach PLLC
Bond Counsel

Capital Markets Advisors, LLC
Financial Advisor

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APPENDIX A

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OFFICIAL STATEMENT
OF THE
$31,745,000
CITY OF BUFFALO, NEW YORK

$11,230,000 SCHOOL REFUNDING BONDS- 2012D
(the "Series D Bonds")
and
$20,515,000 SCHOOL REFUNDING BONDS – 2012E
(the "Series E Bonds" and together with the Series D Bonds, the "Bonds")

This Official Statement (the "Official Statement"), which includes the cover page, inside cover page and appendices hereto, presents certain information relating to the City of Buffalo, New York (the "City"), located in the County of Erie (the "County"), State of New York (the "State"), and was prepared by the City in connection with the sale of its $11,230,000 School Refunding Bonds – 2012D (the "Series D Bonds") and $20,515,000 School Refunding Bonds – 2012E (the "Series E Bonds").

The factors affecting the City's financial condition and the Bonds are described throughout this Official Statement and many of these factors, including economic and demographic factors, are complex and may influence the City's tax base, revenues, and expenditures. This Official Statement should be read in its entirety.

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Bonds and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

INTRODUCTION

The City is a municipal corporation and the second largest city in the State. The City covers a land area of 42 square miles on the eastern shore of Lake Erie in western New York State. The City's 2010 population is estimated by the U.S. Bureau of the Census to be 261,310.

The Bonds are general obligations of the City for which the City has pledged its faith and credit. For the payment of the principal of and interest on the Bonds, the City has, under existing law, the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to applicable statutory limitations. See "PROPERTY TAXES -- New Tax Levy Limit Law" herein.

With respect to the Bonds, pursuant to special legislation enacted in March 1977 by the State at the request of the City, and an Enabling Resolution adopted by the Common Council of the City (the "Common Council" or the "Council") in March 1977, the City has established a Capital Debt Service Fund (the "CDSF" or the "Fund"). In accordance with said Enabling Resolution, the City each year segregates and deposits with an appointed trustee the first real property taxes received in each of two tax collection periods, or other monies available in cash, in amounts sufficient to pay debt service on serial bonds, bond anticipation notes and capital notes issued by the City. (See "PAYMENT OF AND SECURITY FOR THE BONDS" herein.) Manufacturers and Traders Trust Company, Buffalo, New York (the "Trustee") serves as the trustee for the CDSF. The CDSF was established in order to enhance the market acceptance for capital debt obligations issued by the City. (See "PAYMENT AND SECURITY FOR THE BONDS – Capital Debt Service Fund" herein.)

The audited government-wide financial statements for the City's fiscal year ended June 30, 2011 indicate that net assets total $165.1 million, a decrease of $78.8 million over the prior year. This decrease is primarily a result of an increase in the long term liability associated with other post-employment benefits (OPEB), disclosure of which is now mandated by the adoption of GASB Statement No. 45. General Fund expenditures and other uses exceeded revenues and other sources by $12.8 million. This compares to revenues and other sources exceeding expenditures and other uses of $4.1 million, $5.3 million, $15.9 million and $21.7 million for fiscal years ended June 30, 2010, 2009, 2008 and 2007, respectively. For eight consecutive years prior to the fiscal year ended June 30, 2011, the City reported a positive change in fund balance as determined in accordance with accounting principles generally accepted in the United States ("GAAP"). The City's final budget for the 2010-2011 fiscal year included the use of $14.8 million of fund balance resulting in a reduction of fund balance for the year ended June 30, 2011. The City's audited General Fund fund balance at June 30, 2011 was $130.0 million, compared to a General Fund fund balance of $142.7 million at June 30, 2010. The Buffalo City School District's ("CSD") General Fund revenues and other financing sources exceeded expenditures and other financing uses by $23.6 million determined in accordance with GAAP for the fiscal year ended June 30, 2011. This compares to revenues and other sources exceeding expenditures and other uses of $42.3 million, $50.6 million, $45.8 million and $21.7 million for fiscal years ended June 30, 2010, 2009, 2008 and 2007, respectively. The Buffalo CSD's General Fund fund balance at June 30, 2011 was $235.7 million compared to a General Fund fund balance of $212.2 million at June 30, 2010 (See "DISCUSSION OF FINANCIAL OPERATIONS – City and Buffalo CSD General Fund Financial Operations, 2008-2009, 2009-2010 and 2010-2011" and "Independent Audits" herein.)

THE CITY'S FINANCIAL PRACTICES/OUTLOOK

Since 2003, the City has operated under State-imposed fiscal oversight imposed by the Buffalo Fiscal Stability Authority ("BFSA"), which was created by the Buffalo Fiscal Stability Authority Act (the "BFSA Act"). During this period, the City has experienced considerable and measurable improvement in its financial operations and cash flow results. Initially, the City received BFSA support in fiscal years ended June 30, 2004 ($7,811,000) and June 30, 2005 ($19,120,530). In addition, the BFSA imposed a wage freeze from April 21, 2004 through June 30, 2007. At June 30, 2003, the City's General Fund fund balance was $47.0 million, as restated, with the unreserved undesignated portion at $8.3 million; for the fiscal year ended June 30, 2010, these results had improved to $142.7 million and $50.0 million respectively. Due to the significant amount of unreserved undesignated fund balance at June 30, 2010, the City adopted budgets for fiscal years 2010-2011, 2011-2012 and 2012-2013 that included the use of fund balance. The reduction of fund balance is a result of this policy decision.

As a consequence of the substantial improvement in the City's financial operations, the City has experienced a sizeable increase in its cash and liquidity position. Historically, the City has annually sold revenue anticipation notes ("RANs") to cover seasonal gaps in the City's cash position. During the fiscal year ended June 30, 2003, the City issued $75.0 million of RANs for such purposes; the following year, the fiscal year ended June 30, 2004, the amount increased to $120.0 million. During the fiscal years ended June 30, 2005 to June 30, 2007, the BFSA sold debt to provide seasonal, cash flow financing for the City in the following amounts: fiscal 2005: $84.0 million; fiscal 2006: $90.0 million; and fiscal 2007: $60.0 million. The City's cash management and liquidity condition has improved so significantly in recent years that it was not necessary for the City to sell any such RANS to cover seasonal cash flow gaps in fiscal 2008, 2009, 2010, 2011 or 2012 and the City does not expect to issue RANs in the current fiscal year ending June 30, 2013. The absence of the need to sell short-term debt for seasonal, cash flow requirements is virtually without precedent over several decades of the City's recent financial history.

On May 5, 2008, the BFSA passed a resolution authorizing the City to issue its own bonds to finance capital projects of the City and School District. The BFSA has continued to approve the City proceeding with their own general obligation bond issues for fiscal years 2008-2012. During the period, fiscal 2005-2007, the BFSA had sold long-term indebtedness to fund the City's capital funding needs.

On May 29, 2012, the BFSA determined that all provisions of §3851.1 of the BFSA Act have been met with respect to transitioning into an Advisory Period, and in accordance with this Section of the Act the Authority entered into an Advisory Period effective July 1, 2012.

THE BONDS

Description of the Series D Bonds

The Series D Bonds will be dated the date of delivery and will mature in the principal amounts in each of the years and will bear interest at the rates shown on the inside cover page hereof.

Interest on the Series D Bonds will be payable on December 1, 2012, and semi-annually thereafter on June 1 and December 1 in each year until maturity (or earlier redemption). Principal and interest will be paid by the City's Paying Agent, Manufacturers and Traders Trust Company, Buffalo, New York, to the Securities Depository, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Series D Bonds, as described herein under "THE BONDS – Book-Entry-Only System."

The Series D Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Series D Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series D Bonds.

The record date for payment of the principal of and interest on the Series D Bonds will be the fifteenth day of the calendar month preceding each interest payment date.

Description of the Series E Bonds

The Series E Bonds will be dated the date of delivery and will mature in the principal amounts in each of the years and will bear interest at the rates shown on the inside cover page hereof.

Interest on the Series E Bonds will be payable on February 1, 2013, August 1, 2013 and semi-annually thereafter on February 1 and August 1 in each year until maturity (or earlier redemption). Principal and interest will be paid by the City's Paying Agent, Manufacturers and Traders Trust Company, Buffalo, New York, to the Securities Depository, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Series E Bonds, as described herein under "THE BONDS – Book-Entry-Only System."

The Series E Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Series E Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series E Bonds.

The record date for payment of the principal of and interest on the Series E Bonds will be the fifteenth day of the calendar month preceding each interest payment date.

Authority for and the Refunding Plan

The Bonds are authorized pursuant to the Constitution and Laws of the State, including a refunding bond resolution adopted by the Common Council on July 24, 2012 and approved by the Mayor of the City (the

"Mayor") and other proceedings and determinations related thereto. A refunding financial plan has been prepared and is described below (the "Refunding Financial Plan").

The Bonds are being issued to refund the $33,025,000 aggregate outstanding principal amount of the City's Refunding School Serial Bonds – 2002-D, 2002-E, 2002-F and 2002-G originally issued on November 26, 2002 and delivered to the Dormitory Authority of the State of New York ("DASNY") (hereafter referred to as the "Refunded Bonds") in connection with the issuance of DASNY's $416,040,000 School Districts Revenue Bond Financing Program Revenue Bonds, Series 2002D. Details concerning the Refunded Bonds are presented in the schedule below. Proceeds of the Bonds will be used to: (i) pay the maturing principal of, interest on, redemption premium payable, if any, and cost of redemption with respect to the Refunded Bonds, and (ii) pay costs of issuance related to the Bonds. The list of Refunded Bonds are set forth below

A portion of the Series D Bonds is being issued to refund the outstanding principal of the Refunding School Serial Bonds, 2002-G as listed below:

MATURITY	COUPON	MATURITY VALUE	CALL DATE	CALL PRICE
12/01/2012	5.500%	$694,000	9/26/2012	100.00%
12/01/2013	5.500%	734,000	9/26/2012	100.00%
12/01/2014	5.500%	775,000	9/26/2012	100.00%
12/01/2015	5.500%	819,000	9/26/2012	100.00%
12/01/2016	5.500%	865,000	9/26/2012	100.00%
12/01/2017	5.250%	913,000	9/26/2012	100.00%
12/01/2018	5.250%	962,000	9/26/2012	100.00%
12/01/2019	5.250%	1,014,000	9/26/2012	100.00%
12/01/2020	5.250%	1,069,000	9/26/2012	100.00%
12/01/2021	5.250%	1,127,000	9/26/2012	100.00%
12/01/2022	5.250%	1,187,000	9/26/2012	100.00%
12/01/2023	5.000%	1,250,000	9/26/2012	100.00%
		$11,409,000		

A portion of the Series E Bonds is being issued to refund the outstanding principal of the Refunding School Serial Bonds, 2002-D, 2002-E, and 2002-F as listed below:

MATURITY	COUPON	MATURITY VALUE	CALL DATE	CALL PRICE
2/01/2013	5.500%	$1,663,000	9/26/2012	100.00%
2/01/2014	5.500%	1,756,000	9/26/2012	100.00%
2/01/2015	5.500%	1,453,000	9/26/2012	100.00%
2/01/2016	5.500%	1,531,000	9/26/2012	100.00%
2/01/2017	5.500%	1,620,000	9/26/2012	100.00%
2/01/2018	5.250%	1,707,000	9/26/2012	100.00%
2/02/2019	5.250%	1,798,000	9/26/2012	100.00%
2/01/2020	5.250%	1,891,000	9/26/2012	100.00%
2/01/2021	5.250%	1,991,000	9/26/2012	100.00%
2/01/2022	5.250%	2,093,000	9/26/2012	100.00%
2/01/2023	5.250%	2,203,000	9/26/2012	100.00%
2/01/2024	5.000%	1,910,000	9/26/2012	100.00%
		$21,616,000		

Refunding Financial Plan

The Bonds are being issued to effect the refunding of the Refunded Bonds pursuant to the City's Refunding Financial Plan. The Refunding Financial Plan calls for the refunding of the Refunded Bonds through the sale, issuance and the application of the proceeds of the Bonds.

The City will deposit the proceeds from the sale of the Bonds into an escrow fund (the "Escrow Deposit Fund") with Manufacturers and Traders Trust Company, Buffalo, New York (the "Escrow Holder") pursuant to the terms of an escrow contract (the "Escrow Contract") to be entered into between the City and the Escrow Holder. In lieu of purchasing Government Obligations with the proceeds from the sale of the Bonds, the City will deposit the proceeds from the sale of the Bonds into the Escrow Deposit Fund in an amount sufficient to pay the principal of, interest on, redemption premium, if any, and cost of redemption of the Refunded Bonds on the date of redemption and pay costs of issuance relating to the issuance of the Bonds.

The Refunding Financial Plan calls for the Escrow Holder, pursuant to the Escrow Contract, to provide to DASNY on September 26, 2012 sufficient moneys from the Escrow Deposit Fund to pay the principal of, interest on, redemption premium, if any, and cost of redemption in accordance with the terms of the Refunded Bonds. DASNY will deposit these moneys into an escrow account on September 26, 2012 which, without any investment, will be sufficient to pay the City's allocable portion of the principal of, interest on, and redemption premium, if any, of DASNY's School Districts Revenue Bond Financing Program Revenue Bonds, Series 2002D on November 1, 2012. The Escrow Holder will pay all costs of issuance on the Bonds directly from the Escrow Deposit Fund.

DASNY will have a first lien on all cash in the Escrow Deposit Fund. The Escrow Contract shall terminate upon payment from the Escrow Deposit Fund of an amount sufficient for the payment, in full, of the Refunded Bonds, including interest on, redemption premiums, if any, and cost of redemption payable with respect thereto and costs of issuance payable with respect to the Bonds.

Under the Refunding Financial Plan, the Refunded Bonds will continue to be general obligations of the City and will continue to be payable from the sources mentioned above until redeemed on September 26, 2012. However, inasmuch as the cash held in the Escrow Deposit Fund shall be sufficient to meet all required payments of the principal of, interest on, redemption premiums, if any, and costs of redemption with respect to the Refunded Bonds, it is not anticipated that other sources of payment will be required. Accordingly, for purposes of presentation in this Official Statement, debt service on the Refunded Bonds is not taken into account in determining the funds and revenues available for payment of the Bonds.

Sources and Uses of Proceeds

The proceeds of the Series D Bonds will be applied as follows:

Sources:	
Par Amount of the Series D Bonds	$11,230,000.00
Reoffering Premium	355,151.35
	$11,585,151.35
Application:	
Deposit to Escrow Deposit Fund	$11,459,587.56
Underwriter's Discount	51,195.19
Bond Insurance	25,696.71
Cost of Issuance and Contingency	48,671.89
Total	$11,585,151.35

The proceeds of the Series E Bonds will be applied as follows:

Sources:	
Par Amount of the Series E Bonds	$20,515,000.00
Reoffering Premium	1,445,836.25
	$21,960,836.25
Application:	
Deposit to Escrow Deposit Fund	$21,712,069.73
Underwriter’s Discount	100,457.31
Bond Insurance	55,885.34
Cost of Issuance and Contingency	92,423.87
Total	$21,960,836.25

Nature of Obligations

Each Bond when duly issued and paid for will constitute a contract between the City and the holder thereof.

The Bonds will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Bonds, the City has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to applicable statutory limitations. See “New Tax Levy Limit Law” herein.

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds, and the State is specifically precluded from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the New Tax Levy Limit Law imposes a statutory limitation on the City’s power to increase its annual tax levy for City purposes. Such statutory limitations does not apply to the City’s power to increase its annual tax levy for Buffalo CSD purposes. The amount of such increase is limited by the formulas set forth in the New Tax Levy Limit Law. See “New Tax Levy Limit Law” herein.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities, in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of each series of the Bonds and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant of such issue to be redeemed. The City is not responsible for sending notices to Beneficial Owners.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on the payable date, in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its nominee) or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC), and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

Source: The Depository Trust Company, New York, New York.

THE INFORMATION CONTAINED IN THE ABOVE SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SAMPLE OFFERING DOCUMENT LANGUAGE SUPPLIED BY DTC, BUT THE CITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. IN ADDITION, THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENTS BY DTC OR ANY PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS.

THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OR ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE BONDS.

REDEMPTION PROVISIONS OF THE BONDS

Optional Redemption

The Series D Bonds maturing on or after December 1, 2023 will be subject to redemption prior to maturity at the option of the City on December 1, 2022 and thereafter on any date, as a whole or in part, as specified by the City, in such order of maturity as may be determined by the City, at par, plus accrued interest to the date of redemption.

The Series E Bonds maturing on or after February 1, 2023 will be subject to redemption prior to maturity at the option of the City on February 1, 2022 and thereafter on any date, as a whole or in part, as specified by the City, in such order of maturity as may be determined by the City, at par, plus accrued interest to the date of redemption.

Selection of Bonds to be Redeemed

So long as DTC or a successor securities depository is the sole registered owner of the Bonds, the City will cause notice of redemption to be given only to DTC as registered owner. The selection of the book-entry interests within each Bond maturity to be redeemed will be done in accordance with DTC procedures. See "THE BONDS – Book-Entry-Only System" herein regarding DTC's practice of determining by lot the amount of the interest of each Direct Participant for partial bond redemptions.

If the Bonds are not registered in book-entry form, any redemption of less than all of a maturity of the Bonds shall be allocated (in the amounts of $5,000 or any whole multiple) among the registered owners of such maturity of the Bonds then outstanding as nearly as practicable in proportion to the principal amounts of such maturity of the Bonds owned by each registered owner. This will be calculated based on the following formula:

$$\frac{\text{(principal to be redeemed) x (principal amount owned by owner)}}{\text{(principal amount outstanding)}}$$

Notice of Redemption

Notice of redemption shall be given by mailing such notice to the registered holders of Bonds to be redeemed at their respective addresses as shown upon the registration books of the Paying Agent at least 30 days prior to the date set for any such redemption. If notice of redemption shall have been given as aforesaid, the Bonds so called for redemption shall become due and payable at the applicable redemption price on the redemption date designated in such notice, and interest on such Bonds shall cease to accrue from and after such redemption date.

PAYMENT OF AND SECURITY FOR THE BONDS

General

Each Bond when duly issued and paid for will constitute a contract between the City and the owner thereof. The Bonds will be general obligations of the City and will contain a pledge of the faith and credit of the City for payment of principal and interest thereon. For the payment of such principal and interest, the City has, under existing law, the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to applicable statutory limitations imposed by the New Tax Levy Limit Law. Such statutory limitations does not apply to the City's power to increase its annual tax levy for Buffalo CSD purposes. See "New Tax Levy Limit Law," herein.

The State Constitution requires the City to provide by appropriation for the payment of interest on all obligations which will become due during the fiscal year. In addition, the State Constitution requires the City to provide in each year by appropriation for the payment of all installments of principal of the Bonds which will become due and payable in such year. (See "THE GOVERNMENT OF BUFFALO" herein.)

No principal of or interest on City indebtedness is past due. The City has never defaulted in the payment of principal of or interest on any indebtedness.

Capital Debt Service Fund

Pursuant to State legislation requested by the City, the Capital Debt Service Fund Act of the City, constituting Chapter 12 of the Laws of 1977 (the "Act") and an Enabling Resolution adopted by the Common Council (the "Enabling Resolution"), the City has established the CDSF, held by and maintained with the Trustee, for the purpose of paying debt service due and payable on all general obligation bonds and capital notes, and the interest on and, under certain circumstances, the amortized principal of bond anticipation notes of the City (the "Capital Debt Obligations"). The Bonds are entitled to the benefits of the Act and the Enabling Resolution including certain covenants of the City authorized by the Act and set forth in the Enabling Resolution (see Appendices D and E).

Operation of the CDSF is coordinated with the City's real property tax collection procedure in the following manner. The first real property taxes collected during each of two collection periods commencing July 1 and December 1 are deposited in the CDSF until the amount on deposit in the CDSF during each collection period equals the amount necessary to pay capital debt service as allocated to such collection periods. Capital debt service due and payable from July 1 through December 31 is paid from amounts deposited during the first collection period (July 1 - November 30) and capital debt service due and payable from January 1 through June 30 is paid from amounts deposited during the second collection period (December 1 - June 30). The City may deposit other funds at any time into the CDSF as such other funds are required by law or otherwise to be applied to payment of capital debt service.

The amounts to be deposited in the CDSF are certified by the Comptroller pursuant to an annual certificate prepared prior to the commencement of each fiscal year. Such certificate and the amounts to be deposited must be amended, if necessary, in order to provide for the payment of debt service due and payable during the fiscal year on Capital Debt Obligations issued and sold after the commencement of the fiscal year.

If at any time during a collection period, the amount on deposit in the CDSF exceeds the unpaid amount of capital debt service allocated to such collection period and any prior collection period, such excess may be returned to the City in the manner provided by the Enabling Resolution.

The Act provides that the CDSF is City property devoted to essential governmental purposes and is not subject to any order, judgment, lien, encumbrance, attachment, set off or counterclaim by any creditors of the City, other than a creditor for whose benefit the CDSF is established.

In the Enabling Resolution, the City has covenanted with the Trustee and the holders of Capital Debt Obligations that it will comply in all respects with the provisions of the Act and the Enabling Resolution, and that it will maintain the CDSF with the Trustee and operate the CDSF in the manner described. The Enabling Resolution also includes the pledge and agreement of the State to respect the Act and the contract of the City with holders of Capital Debt Obligations.

Rights and Remedies

The Act authorizes the City to include in an enabling resolution certain covenants of the City to protect and safeguard the security and rights of certain holders of Capital Debt Obligations. The Enabling Resolution provides special rights and remedies for holders of Capital Debt Obligations, and contains covenants, including its covenant to comply in all respects with the provisions of the Act, to maintain the Fund with a trustee, and to operate the Fund in the manner set forth in the Enabling Resolution. In general, the rights afforded to holders of outstanding Capital Debt Obligations by the Act and the Enabling Resolution significantly supplement the rights presently afforded holders of general obligations issued under general State law by other political subdivisions of the State.

The Enabling Resolution vests in a trustee the powers of enforcement of the Enabling Resolution. The Enabling Resolution provides that it shall be an “event of default” should the City fail or refuse to maintain the Fund and the covenants with respect thereto made with holders of Capital Debt Obligations, including default in the payment of the principal of and interest on their obligations. The Trustee, during the happening and continuance of an event of default, may, by mandamus or other suit in law or in equity, enforce all such rights, including the right to require the City to carry out the covenants made with such benefited holders, and may enjoin any acts or things which may be unlawful or in violation of the rights of such holders.

In addition, the Act provides such benefited holders with certain other rights. Under the General Municipal Law of the State, the amount of interest that may be adjudged due to creditors is limited to nine per centum (9.0%) per annum. Pursuant to the Act, however, the rate of interest to be paid by the City upon any judgment or accrued claim with respect to obligations issued by it shall be the rate of interest per annum so stated on such obligations. In addition, the Act provides that the provisions of Title 6-A of the Local Finance Law shall not apply to the City and obligations issued by it. Title 6-A provides that any municipality for which the State has declared a financial emergency has the power to stay the commencement and continuation of any enforcement against such municipality of any claim for payment relating to any contract debt or obligation of the municipality during the emergency period. Title 6-A also contains the consent of the State to any municipality filing a petition under any provision of the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness.

Neither the Act nor the Enabling Resolution purports to create any priority for the benefited holders should the City be under the jurisdiction of any federal court or court of bankruptcy. Under the United States Constitution and subject to State consent, Congress has jurisdiction over such matters, and has enacted amendments to the federal bankruptcy statute, generally to the effect and with the purpose of affording municipal corporations, under certain circumstances, easier access to judicially approved adjustments of debts, including judicial control over identifiable and unidentifiable creditors.

Legislation affecting remedies on default has from time to time resulted in litigation. While courts of final jurisdiction in various states have upheld and sustained the rights of bondholders, State and Federal courts might hold that future events, including financial crises as they may occur in the State and in municipalities of the State, require the exercise by the State of its emergency and police powers to ensure the continuation of essential public services, or if it is reasonable and necessary to serve an important service. However, in granting the City certain powers and duties in connection with the establishment of the CDSF, the State authorized and directed the City to include in its Enabling Resolution a pledge and agreement of the State with and for the benefit of the holders of Capital Debt Obligations.

The terms of the pledge and agreement are substantially as follows:

The State will not (a) repeal, revoke, repudiate, limit, alter, stay, suspend or otherwise reduce or rescind or impair the power of the City to exercise, perform, carry out and fulfill its responsibilities under the Act to the extent that the City has incorporated in the Enabling Resolution covenants and agreements to so exercise, perform, carry out and fulfill such responsibilities, (b) repeal, revoke, repudiate, limit, alter, stay, suspend or otherwise reduce or rescind or impair the rights and remedies of any such holders to fully enforce in a court of law such covenants and agreements so incorporated in the Enabling Resolution or to enforce the pledge and agreement of the State contained in the Act, or (c) otherwise exercise any sovereign power contrary to or inconsistent with the provisions of the Enabling Resolution.

The pledge and agreement shall be of no further force and effect if at any time all Capital Debt Obligations have been paid or provision for such payment has been made. The pledge and agreement by the State may be temporarily suspended upon the declaration of martial law in the City in the event of circumstances of the City deriving directly from a natural disaster (such as an earthquake or major conflagration or flood but not a snowstorm) or civil disturbance such as military invasions or civil insurrections but not strikes or crises created by fiscal or economic conditions or events.

In the opinion of Bond Counsel, the City has validly included the State pledge and agreement in the Enabling Resolution, and the State pledge and agreement is a valid and legally binding pledge and agreement of the State enforceable against the State in accordance with its terms.

ADDITIONAL REMEDY FOR HOLDERS OF SCHOOL BONDS

The Bonds are entitled to the benefits of Section 99-b of the State Finance Law ("SFL").

Section 99-b of the SFL provides for a covenant between the State and the purchasers and the holders and owners from time to time of the bonds and notes issued for school purposes that the State will not repeal, revoke or rescind the provisions of Section 99-b of the SFL, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Said section provides that in the event a holder or owner of any bond or note issued for school purposes shall file with the State Comptroller a verified statement describing such bond or note and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the issuer of the bond or note. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds and notes of such issuer issued for school purposes and the statement prepared and filed by the State Comptroller shall set forth a description of all such bonds and notes of the issuer found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of State aid or assistance due to the issuer such amount thereof as may be required to pay (a) the issuer's contribution to the State teachers retirement system, and (b) the principal of and interest on such bonds and notes of such issuer then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay said amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such issuer such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on bonds and notes shall be forwarded promptly to the paying agent or agents for the bonds and notes in default of such issuer for the sole purpose of the payment of defaulted principal of and interest on such bonds or notes. If any of such successive allotments, apportionments or payments of such State aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds and notes in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds and notes in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds and notes of such issuer. The State Comptroller shall promptly notify the chief fiscal officer of such issuer of any payment or payments made to any paying agent or agents on defaulted bonds or notes pursuant to said section of the SFL.

TAX MATTERS

In the opinion of Bond Counsel, based on existing statutes, regulations, administrative rulings and court decisions and assuming continuing compliance by the City with certain covenants, and the accuracy of certain representations, interest on the Bonds is excluded from gross income of the owners thereof for Federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various limitations, conditions and other requirements which must be met at and subsequent to the date of issue of the Bonds in order that interest on the Bonds will be and remain excluded from gross income for federal income tax purposes. Included among these requirements are restrictions on the investment and use of proceeds of the Bonds and in certain circumstances, payment of amounts in respect of such proceeds to the United States. Failure to comply with the requirement of the Code may cause interest on the Bonds to be includable in gross income for purposes of federal income tax, possibly from the date of issuance of the Bonds. The City has covenanted to comply with certain procedures and it has made certain representations and certifications, designed to assure satisfaction of the requirements of the Code in respect to the Bonds. The opinion of Bond Counsel assumes compliance with such covenants and the accuracy, in all material respects, of such representations and certificates.

Bond Counsel is of the further opinion that interest on the Bonds is not an "item of tax preference" for purposes of Federal alternative minimum tax on individuals and corporations. Interest on the Bonds is, however, included the calculation of "adjusted current earnings" for purposes of calculating the Federal alternative minimum tax imposed on certain corporations. Prospective purchases of the Bonds, should consult with their tax advisors regarding the calculation of any federal alternative minimum tax liability.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds, and the accrual or receipt of interest thereon, may have collateral federal income tax consequences for certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or Railroad benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Prospective purchasers should consult their tax advisors as to any possible collateral consequences of their ownership of the Bonds and their accrual or receipt of interest thereon. Bond Counsel expresses no opinion regarding any such collateral federal income tax consequences.

In the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including The City of New York.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds.

No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Bonds to be subject to federal or State income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Bonds or of obligations which present similar tax issues, will not affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

All summaries and explanations of provisions of law do not purport to be complete and reference is made to such laws for full and complete statements of their provisions.

ALL PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THE TAX CONSEQUENCES OF PURCHASING OR HOLDING THE BONDS.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds will be subject to the final approving opinion of Harris Beach PLLC, Buffalo, New York, Bond Counsel to the City. Bond Counsel has assumed the accuracy and truthfulness of all public records, documents and proceedings examined by it which have been executed or certified by public officials acting within the scope of their official capacities, and has not verified the accuracy or truthfulness thereof, and Bond Counsel also has assumed the accuracy of the signatures appearing upon such public records, documents and proceedings and such certifications. The opinions expressed in such approving opinion are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the City together with other legally available sources of revenue, if any, will be sufficient to enable the City to pay the principal of and interest on the Bonds as the same become due and payable. In addition, while Bond Counsel has participated in the preparation of the Official Statement, it has not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, no opinion is expressed by Bond Counsel in connection therewith.

Certain legal matters will be passed on for the Underwriter by its counsel, Hodgson Russ LLP, Buffalo, New York.

MARKET FACTORS

The financial condition of the City as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurances that adverse events in the State will not occur which might affect the market price of, and the market for, the Bonds.

If a significant default or other financial crisis should occur in the affairs of the State or of any of its agencies or political subdivisions, it could impair the acceptability of obligations issued by borrowers within the State, and both the ability of the City to arrange for additional borrowings and the market for and market value of outstanding debt obligations, including the Bonds, could be adversely affected.

The City depends in significant part on financial assistance from the State. Accordingly, in this year or future years, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes or if the State experiences delays in the adoption of the State budget, the State may have to delay payments of aid to its municipalities and school districts, including the City, until sufficient State funds are available to make such payments. The City may be adversely affected by such delay. In the past, delays in adoption of the State budget have resulted in delays in the payment of State aid to municipalities and school districts.

State aid requires appropriations by the State Legislature. There can be no assurance the State Legislature will continue appropriations at the levels of past years. Also, State aid formulas may be changed by act of the State Legislature. No assurance can be given that the State Legislature will not modify or eliminate State aid as it currently exists.

The enactment of the New Tax Levy Limit Law, which imposes a tax levy limitation upon municipalities, school districts and fire district in the State, including the City, without providing an exclusion for debt service on obligations issued by municipalities and fire districts, including the City, could have an impact upon the market price for the Bonds. See "New Tax Levy Limit Law," herein.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned underlying uninsured ratings to the City's bonded debt, including the Bonds, of A1, A and A+, respectively.

Moody's is expected to assign their municipal bond rating of "Aa3" (on review for a possible downgrade), and S&P is expected to assign their municipal bond rating of "AA-" (stable outlook) to the Insured Bonds with the understanding that upon delivery of the Insured Bonds, a policy insuring the payment when due of the principal and interest being delivered will be issued by Assured Guaranty Municipal Corp. ("AGM").

These ratings reflect only the view of the rating agency furnishing the same, and an explanation of the significance of each of these ratings may be obtained only from the respective rating agency. There is no assurance that any of these ratings will be maintained for any given period of time or will not be raised, lowered or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of any of these ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Morgan Keegan & Company, Inc. or its successor in interest, as representative (the "Representative") of the underwriters (the Underwriters") under a Purchase Contract for the Bonds among the City and the Underwriters, has agreed, subject to certain conditions, as follows:

The Underwriters will purchase all of the Bonds, if any are purchased, at a price equal to $33,394,335.10, being the par amount of the Bonds, $31,745,000, plus a premium of $1,800,987.60, less an underwriter's discount of $151,652.50. The Underwriters are initially offering the Bonds to the public at the public offering yields indicated on the inside cover page, but the Underwriters may offer and sell the Bonds to certain dealers, institutional investors and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by the Underwriter) at yields higher that the public offering yields stated on the cover page hereof and the public offering yields may be changed from time to time by the Underwriters.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan & Company, Inc. ("Morgan Keegan") from Regions financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined. Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

FINANCIAL ADVISOR

Capital Markets Advisors LLC, has acted as the Financial Advisor to the City in connection with the sale of the Bonds.

In preparing this Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

DISCLOSURE UNDERTAKING

At the time of the delivery of the Bonds, the City will provide an executed copy of its "Undertaking to Provide Continuing Disclosure" (the "Undertaking"). Said Undertaking will constitute a written agreement or contract of the City for the benefit of holders of and owners of beneficial interests in the Bonds, to provide, or cause to be provided to the Electronic Municipal Market Access ("EMMA") System implemented by the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of such Board contemplated by the Undertaking:

(1) (i) Certain annual financial information, in a form generally consistent with the information contained in Appendix A, on or prior to the 180th day following the end of each fiscal year, commencing with the fiscal year ending June 30, 2012 and (ii) the audited financial statement, if any, of the City for each fiscal year commencing with the fiscal year ending June 30, 2012 unless such audited financial statement, if any, shall not then be available in which case the unaudited financial statement shall be provided and an audited financial statement shall be provided within 30 days after it becomes available and in no event later than 360 days after the end of each fiscal year;

(2) In a timely manner, not in excess of ten (10) business days after occurrence, notice of the following events:

> (i) Principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (vii) modifications to rights of Bondholders, if material; (viii) Bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the City; [note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City]; (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City may provide notice of the occurrence of certain other events, in addition to those listed above, if it determines that any such other event is material with respect to the Bonds; but the City does not undertake to commit to provide any such notice of the occurrence of any event except those events listed above; and

(3) in a timely manner, not in excess of ten (10) business days after occurrence, notice of a failure to provide the annual financial information by the date specified.

The City's Undertaking shall remain in full force and effect until such time as the principal of, redemption premiums, if any, and interest on the Bonds shall have been paid in full or in the event that those portions of the Rule which require the Undertaking, or such provision, as the case may be, do not or no longer apply to the Bonds. The sole and exclusive remedy for breach or default under the Undertaking is an action to compel specific performance of the undertakings of the City, and no person or entity, including a Holder of the Bonds, shall be entitled to recover monetary damages thereunder under any circumstances. Any failure by the City to comply with the Undertaking will not constitute a default with respect to the Bonds.

The City reserves the right to amend or modify the Undertaking under certain circumstances set forth therein; provided that any such amendment or modification will be done in a manner consistent with Rule 15c2-12, as amended.

For the City's fiscal years (ending June 30) 2009, 2010 and 2011, the City filed through EMMA its financial statements on July 6, 2010, January 4, 2011 and March 6, 2012, respectively. For the years 2007 and 2008, the City filed annual financial statements to each of the four Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to the City's Continuing Disclosure Agreement on February 29, 2008 and March, 2009, respectively. The City has undertaken a review and revision of its oversight procedures and technical capabilities in order to minimize the likelihood of any untimely filings in the future, and the City expects to file its financial statements for the fiscal year ending June 30, 2012 by December 28, 2012 as required by its Disclosure Undertaking.

ADDITIONAL INFORMATION

This Official Statement is not to be construed as a contract or an agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no material change in the affairs of the City since the date hereof.

Additional copies of this Official Statement may be obtained upon request from the office of the Comptroller, Room 1225 City Hall, Buffalo, New York 14202 (716-851-5255), or from Capital Markets Advisors, LLC, 4211 N. Buffalo Rd., Orchard Park, NY 14127, (716-662-3910).

The preparation and distribution of this Official Statement has been authorized by the refunding bond resolution pursuant to which the Bonds are being issued, which delegate to the City Comptroller the power to sell and issue the Bonds.

Capital Markets Advisors, LLC may place a copy of this Official Statement on its website at www.capmark.org. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Capital Markets Advisors, LLC has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the City nor Capital Markets Advisors, LLC assumes any liability or responsibility for errors or omissions on such website. Further, Capital Markets Advisors, LLC and the City disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Capital Markets Advisors, LLC and the City also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

CITY OF BUFFALO

/s/ *Mark J. F. Schroeder*
Mark J. F. Schroeder
City Comptroller

September 6, 2012

APPENDIX A

THE GOVERNMENT OF BUFFALO

The City was incorporated in 1832 and operates under a Charter adopted in August 1927 and revised in 2001 pursuant to the City Home Rule Law of the State. In its Charter, the City adopted the strong Mayor-Council form of government. The Mayor, as chief executive officer, is the head of the Executive Department and oversees all administrative functions. The Comptroller, as the chief fiscal officer, is the superintendent of the fiscal affairs of the City. The Common Council performs all legislative duties. As of July 1, 2012, the Buffalo Fiscal Stability Authority (BFSA) is no longer supervising the financial affairs of the City but serves as an advisory board reviewing the City of Buffalo financial operations.

City Services

The City is responsible for and maintains police, fire, sanitation and water services, streets and several parks and playgrounds. Although the City is also responsible, in large measure, for the financing of local primary and secondary educational expenditures, the Board of Education, comprising independently elected members, administers the City's school system. Pursuant to State law, the County, not the City, is responsible for the local funding of mandated social service programs, such as Medicaid, Aid to Families with Dependent Children and home relief programs.

Elected Officials

The Mayor, elected by general election for a four-year term and eligible to succeed himself, has the power to appoint and remove the non-elected heads of City departments, boards, commissions and agencies except for the Management Information Systems Chief Information Officer and the Commissioner of Assessment and Taxation. The Chief Information Officer of Management Information Systems and Commissioner of Assessment and Taxation shall be appointed by the Mayor, the Comptroller and the President of the Common Council, by a majority thereof. Most major appointments are subject to the approval of the Common Council. In addition, the Mayor is responsible for the initial preparation of the City's operating and capital budgets which are then submitted to the Common Council for approval. The Mayor has the power of approval or veto of any additions to the budget made by the Common Council. The Mayor also has veto power over any resolution or ordinance passed by the Common Council. Any such vetoes can be overridden by a two-thirds majority vote of the Common Council.

The fiscal affairs of the City are the responsibility of the Comptroller, who is elected by the general electorate to a four-year term and is eligible to succeed himself. The specific responsibilities of the Comptroller are those delegated to him by City Charter and by the Common Council, as authorized by the Local Finance Law, and include the audit and control of all financial activities of all departments, boards, commissions and other agencies of the City. The Comptroller also supervises the debt management function and the temporary investment of monies for both the City and the Buffalo CSD. In addition, the Comptroller serves as the head of the Department of Audit and Control, as well as chief fiscal officer of the Buffalo Sewer Authority and Buffalo Municipal Water Finance Authority. The Comptroller has the power to prevent any additions to the adopted operating or capital budget by refusing to sign the required certificate of necessity. As of July 1, 2012, the Buffalo Fiscal Stability Authority (BFSA) is no longer supervising the financial affairs of the City but serves as an advisory board reviewing the City of Buffalo financial operations. (See "THE BUFFALO FISCAL STABILITY AUTHORITY" herein.)

The legislative body of the City is the Common Council, which consists of nine council members, who are elected in a general election to four-year terms from their respective districts. At its organizational meeting, the Common Council is required to elect one of its members to serve a two-year term as President of the Common Council. In addition to the legislative power to adopt ordinances and resolutions, the Council has the specific power to override the Mayor's veto of any ordinance approved by the Council, and to review and approve the operating and capital budgets and most mayoral appointments. In addition, the Council has the power to make investigations of City affairs, to subpoena witnesses and records, to administer oaths and to compel testimony. The Council, through the adoption of salary ordinances passed separately from the budget, has the power to set salaries. The establishment of water rates is the responsibility of the Buffalo Water Board.

DISCUSSION OF FINANCIAL OPERATIONS

Four-Year Financial Plans

General

On May 1, 2012, the Mayor submitted to the BFSA a proposed four-year financial plan for the City and the Buffalo CSD. Not more than 20 days after such submission, the BFSA is required to determine whether such plan is complete and complies with the BFSA Act, and is required to submit its recommendations with respect to the financial plan. The BFSA approved a revised four year financial plan at their board meeting on June 4, 2012. (See "THE BUFFALO FISCAL STABILITY AUTHORITY" herein.)

City of Buffalo

The 2012-2013 Adopted Budget increases 0.4% of over the 2011-2012 adopted expenditures. The four-year financial plan projects balanced budgets for all 4 years. To close projected gaps, the City is in the process of a comprehensive facility assessment of each of the over 200 city-owned facilities. The buildings are being evaluated as to energy efficiency, cost of needed maintenance, repairs and the level of utilization. Going forward, the City will be recommending combining underutilized facilities and closing and selling of underutilized buildings. The City will then prepare a plan utilizing the condition assessments to integrate into our Strategic Planning process. In addition, the City has utilized Federal stimulus dollars to retrofit its Community Centers with lower cost, high efficiency lighting. The City is also in the process of replacing windows in police and fire facilities that will provide a savings in heating costs

The 2012-2013 Adopted Budget decreases tax rates for the eighth consecutive year and increases the City's tax margin to 31.8%. As throughout the country, City expenses for health care and pensions are increasing. The City is offsetting these expected increases with strict personnel cost containment practices and utility savings.

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The following chart summarizes revenues and expenditures under the City's approved four-year financial plan.

CITY OF BUFFALO APPROVED FOUR-YEAR FINANCIAL PLAN
GENERAL FUND [(1)]
(000's Omitted)

	2012-2013	2013-2014	2014-2015	2015-2016
Revenues				
Property Tax	$123,000	$123,000	$126,690	$129,224
Star	15,397	15,397	15,397	15,397
NYS Gen Purpose Aid	179,936	164,511	167,801	171,157
NYS Other	9,529	15,644	8,334	5,908
Federal Aid	1,775	1,775	1,775	1,775
Sales Tax	74,332	76,687	82,497	84,996
Utility Tax	11,225	11,335	11,667	11,892
Departmental	43,324	48,642	47,266	47,091
Transfers from Other Funds	12,581	20,553	19,220	20,220
Total Revenues	471,099	477,544	480,647	487,660
Expenditures				
Personal Services	178,603	179,257	179,307	179,317
Departmental	29,182	25,858	26,202	26,896
Utilities	17,192	17,293	17,394	17,497
Fringe	142,009	144,838	148,080	150,753
Misc	6,152	6,152	6,152	6,152
Interest & Debt	899	899	899	899
Exempt	3,132	6,735	6,735	6,735
B of Ed	70,323	70,323	70,323	70,323
Capital Debt	31,932	31,707	31,707	31,707
Transfer to Other Funds	3,200	1,892	1,894	1,893
Total Expenditures	482,624	484,954	488,693	492,172
Change in Fund Balance	$(11,525)	$(3,868)	$(3,384)	$(1,764)
Deficit to be closed through Gap Closing Measures	$0	$ (3,541)	$(4,662)	$(2,748)

[(1)]Source: City of Buffalo, Division of Budget as submitted to BFSA, May 23, 2012, approved June 4, 2012.

Buffalo CSD

On May 1, 2012, the Buffalo CSD submitted a four-year financial plan for years 2012-13 through 2015-16. The plan indicates gaps after the use of reserves of $0.0 million, $25.7 million, $30.7 million and $56.2 in years 2012-13, 2013-14, 2014-15 and 2015-16, respectively. The CSD would be utilizing $45.0 in its unreserved unappropriated fund balance over the four year period, resulting in an unacceptably low "rainy day" fund. The baseline gaps are subsequently reduced to $0 through gap elimination programs including building closures, attrition, staff reductions, and other cost-saving initiatives. With continued declining enrollment and natural attrition through retirements, staff reductions should be possible without "forced" layoffs.

BUFFALO CSD APPROVED FOUR-YEAR FINANCIAL PLAN
GENERAL FUND [1]
(000's Omitted)

ITEM DESCRIPTION	2012-13	2013-14	2014-15	2015-16
General Fund Revenues:				
Property Taxes	$ 70,323	$ 70,323	$ 70,323	$ 70,323
New York State - Foundation Aid	435,409	448,471	461,925	475,783
Other State Aid	198,472	184,807	188,852	188,592
Federal Medicaid	4,000	4,000	4,000	4,000
Sales Tax	36,000	37,080	38,192	39,338
Departmental and Other Revenues	15,406	15,406	15,406	15,406
Total Revenues	759,610	760,087	778,698	793,442
General Fund Expenditures:				
Personal Services	237,410	240,722	243,462	247,238
Departmental Expenditures	53,411	51,979	52,202	52,431
Tuition (other than Charter Schools)	37,131	38,245	39,393	40,575
Charter School Tuition	91,800	104,100	112,800	119,800
Fringe Benefits	171,921	187,908	197,883	209,764
Utilities	12,252	12,620	12,998	13,388
Contingency	1,500	1,500	1,500	1,500
Transportation	37,620	38,372	39,139	39,923
Transfers to Debt Service Fund	129,300	123,105	122,763	122,763
Transfers to Other Funds	3,165	3,165	3,165	3,165
Total Expenditures	775,510	801,716	825,305	850,547
Change in Fund Balance	$(15,900)	$(15,900)	$(15,900)	$ (900)
Deficit to be closed through Gap Closing Measures	$ 0	$(25,729)	$(30,707)	$(56,205)

[1] Source: Buffalo CSD, Division of Finance, as submitted to BFSA, May 16, 2012, approved June 4, 2012.

Projected Financial Information

The management of the City and the Buffalo CSD have prepared the projected financial information set forth herein under their respective headings in "FOUR-YEAR FINANCIAL PLAN" to present the plan for the City and the Buffalo CSD for the fiscal years 2013 through 2016. The foregoing prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. However, in the view of the City's and the Buffalo CSD's management, such financial information was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the City and the Buffalo CSD. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the City's nor the Buffalo CSD's independent auditors, nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The City and the Buffalo CSD used current financial information, historical trends, anticipated cost increases and projected changes in service delivery in developing the four-year plans. The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by the management of the City and the Buffalo CSD as of the date of preparation of the four-year plans, are subject to a wide variety of significant business, economic, and other risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information. Accordingly, there can be no assurance that the prospective results are indicative of the future performance of the City or the Buffalo CSD or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

Financial Control Procedures

The publicly elected City Comptroller is responsible for controlling municipal expenditures to ensure that budget appropriations for the City are not exceeded and for reviewing all revenues received by the City. Procedures of the Comptroller's Division of Audit provide for pre-audits of requests for encumbrance of municipal funds as to budget appropriation, departmental authorization, compliance with the City Charter, City ordinances, and State laws. The Division of Audit also conducts inspections to ensure that all revenues are being collected and deposited by the City. Similar audit and control procedures for the Buffalo CSD operating budget are exercised by the Buffalo CSD directly.

Expenditures of municipal appropriations are also monitored on a regular basis by the Budget Division. The Budget Division monitors payroll by a number of control systems including review of most personnel requisitions for adequate funding and legal authorization prior to filling vacancies or creating new positions.

The Comptroller's Debt Management Policy establishes a cap on borrowing for both the City and the Buffalo CSD in relation to various indices and requires the City to pay down more debt than it issues in a fiscal year.

The City has a "Rainy Day Policy" whereby fund balance in an amount equal to no less than 30 days of prior year expenditures is to be set aside to be used for extraordinary operating or capital needs that could not be anticipated.

Charter Revisions

The voters of the City approved the recommendations of the Charter Revision Commission on November 2, 1999. The amended charter established more disciplined procedures for management of the City's capital assets (parks, streets, building, equipment, vehicles, etc.) and for planning and authorizing capital projects. The Comptroller is required to submit at the outset of the capital budgeting process an estimate of the amount of new debt the City can prudently incur during the next year and the following four years. Capital programming and budgeting are integrated into the new strategic planning process, and the Citizens Planning Council is required to review proposed capital projects and recommend a capital budget and four-year program of capital investments. Projects may be recommended by individual members of the Common Council in initial preparation of the capital budget and four-year program, and the Common Council is empowered to review and amend the four-year capital program submitted by the Mayor. Those measures, together with Common Council representation on the Citizens Planning Council, encourage the Common Council to participate in the planning of the capital budget rather than simply to add on projects after the planning process has been completed. The Mayor is required to issue systematic reports on the management of the City's Capital Assets and on Capital Investment proposals and decisions. The Capital Programming and Budgeting Process are completed by November 30 each year, which separates the process from the operating budget cycle, allows more time for deliberation by the Council, provides more definite information as to Debt Service Requirements for incorporation in the operating budget, and enables the City to take full advantage of the next construction season and favorable market conditions early in the year for issuing bonds or notes and taking bids on construction contracts (see Sections 20-19 through 20-31 of the Charter).

Section 20 of the Charter was amended effective May 1, 2008 to include a fund balance policy. Starting with the 2007-2008 fiscal year, unassigned fund balance in an amount equal to no less than 30 days of prior year expenditures is to be set aside to be used for extraordinary operating or capital needs that could not be anticipated. In addition, a reserve of fund balance in an amount equal to 15 days of prior year general fund expenditures could be set aside for purposes allowed for in General Municipal Law, Section 6-c.

Independent Audits

The financial statements of the City for the fiscal year ended June 30, 2011, included in Appendix B of this Official Statement have been audited by Drescher & Malecki, LLP, independent auditors, as stated in their report appearing herein.

The financial statements of the Buffalo CSD for the fiscal year ended June 30, 2011 included in Appendix C of this Official Statement have been audited by Freed, Maxick & Battaglia, CPAs, PC, independent auditors, as stated in their report appearing herein.

Fund Structure and Accounts

The General Fund of the City is the general operating fund which is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for substantially all operating and maintenance costs. For a description of other governmental fund types see Appendix B.

In accordance with State law, the Buffalo CSD maintains its own accounts independently of the City. The Buffalo CSD is responsible for managing and controlling its own budget appropriations approved by the City's Common Council. Accordingly, the City levies and collects real property taxes for general City and Buffalo CSD purposes. The City accounts for the entire real property tax in its General Fund and records revenue allocations to the Board as operating transfers. The City accounts for the Buffalo CSD as a component unit. The Buffalo CSD is accounted for in this manner since the Buffalo CSD is a legally separate organization. A summary of its financial statements are presented in a discrete (i.e., separate) column in the City's government-wide financial statements, in accordance with the Governmental Accounting Standards Board, Statement No. 39, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

Basis of Accounting

The government-wide financial statements of the City are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements, including the General Fund, are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include New York State general purpose aid, sales taxes, and various categorical grants. Long-term historical payment patterns of general purpose State aid are considered in determining whether such payments are susceptible to accrual.

Cash Management/Cash Flow

The Comptroller is empowered by (i) the City Charter to invest all monies not immediately required and (ii) Common Council resolution to borrow monies as needed for the uninterrupted operations of the City, subject to the limitations of the Local Finance Law. Although the Treasurer has custody of all monies deposited with the City (both for City and Buffalo CSD purposes), the Comptroller is responsible for cash management.

Cash management is handled on a combined basis for the City and Buffalo CSD General Funds and summaries of cash receipts and cash disbursements provide the basis for establishing borrowing needs. Prior years' experience shows that disbursements on a combined basis are fairly consistent for the twelve months of the fiscal year. The real property tax levy, which may be paid 50% in July and 50% in December without penalty, comprises about 13.0% and 12.0% of the combined general fund budgets of the City and the Board in fiscal year 2011-12 and 2012-13 respectively.

There is currently no outstanding short-term debt relating to cash flow timing for the City, Buffalo CSD or the BFSA.

Budget Process

On or before May 1, the Mayor submits the proposed executive budget to the Common Council. The City Charter requires that the Mayor submit a balanced budget. The Council may delete, reduce or add expenditure items but may not modify the Mayor's estimates of revenue, except for the real property tax levy, which is levied in the amount necessary to balance total appropriations and estimated revenues. The Mayor may veto additions to the proposed budget; however, the Council may override any item veto by a two-thirds vote. If the budget has not been passed by the Council by June 8, the budget as submitted by the Mayor, including all additions which he has not vetoed, is adopted. Budget amendments during the fiscal year require approval of the Mayor, the Comptroller and two-thirds of the Council.

The Buffalo CSD submits its estimates of revenues and expenditures to the City's Budget Division. Pursuant to State law, the City determines total appropriations for the Board but the allocation of monies within its total appropriation is determined by the Board. The Board's budget, as contained within the Mayor's proposed budget, is not presented with the same detail and performance measures that appear in other sections of the City budget.

City and Buffalo CSD General Fund Financial Operations, 2008-09, 2009-10 and 2010-11

The City completed its fiscal year ended June 30, 2011 with expenditures and other financing uses exceeding revenues and other financing sources in the General Fund by $12.8 million determined in accordance with GAAP. This compares to prior fiscal years in which revenues and other financing sources exceeded expenditures and other financing uses by $4.1 million in 2010 and $5.3 million in 2009. At June 30, 2011 the nonspendable fund balance which is comprised of real estate acquired for resale and long term receivable was $22.3 million; the restricted fund balance which consists of capital outlays, bond set asides and emergency medical funds was $14.9 million; the committed fund balance which consists of the "Rainy Day Fund" was $35.5 million; the assigned fund balance of $51.6 million consists of encumbrances, potential judgments and claims and funds appropriated for next year's budget. Unassigned fund balance is $5.7 million. For the years ending June 30, 2010 and 2009 the Reserved Fund Balance, which is comprised of reserves for encumbrances, real estate acquired for resale, long term receivables and capital outlays was $32.3 and $37.7 respectively. The unreserved fund balance was $110.5 million for the year ended June 30, 2010 and included $34.3 million for a "Rainy Day Fund" as established by Section 20 of the Charter (See Charter Revisions). The unreserved fund balance was $100.9 million for the year ended June 30, 2009. Of that amount, $50.0 million and $48.2 million are unreserved undesignated fund balance for the years ending June 30, 2010 and 2009, respectively. (See Appendix B for the City's audited financial statements for the fiscal year ended June 30, 2011.)

The Buffalo CSD completed its fiscal year ended June 30, 2011 with revenues and other financing sources exceeding expenditures and other financing uses by $25.6 million determined in accordance with GAAP. This compares with $42.3 million in 2010 and $50.6 million in 2009. At June 30, 2011 the non-spendable fund balance for inventory was $0.8 million; the restricted fund balance for judgments and claims, unemployment insurance and stabilization was $30.1 million; the assigned fund balance of $159.1 million consists of amounts appropriated for next year's budget, capital needs, prior year claims, other post-employment benefits and encumbrances. There is no committed fund balance. Unassigned fund balance is $45.7 million. For the years ending June 30, 2010 and 2009 the Reserved Fund Balance for inventory, judgments and claims, unemployment insurance, stabilization and encumbrances was $43.3 and $31.6 million respectively. The Unreserved Fund Balance was $168.9 million for the year ended June 30, 2010, of which $36.3 million was undesignated. The Unreserved Fund Balance of the Buffalo CSD was $138.2 million for the year ended June 30, 2009, of which $42.6 million is unreserved undesignated fund balance. (See Appendix C for the Buffalo CSD's audited financial statements for the fiscal year ended June 30, 2011.)

City and Buffalo CSD General Fund 2011-12 and Adopted 2012-13 Budgets

The City's Adopted 2012-13 General Fund budgeted appropriations are $377.2 million, representing a $20.6 million or 5.8% increase over the 2011-12 Adopted Budget. The Buffalo CSD 2012-13 Adopted General Fund budgeted appropriations are $780.0 million, representing an increase of 3.0% from the 2011-12 Adopted Budget. The Adopted 2012-13 City and Buffalo CSD budgets aggregate to $1,152.7 million, a $39.3 million (or 3.5%) increase from the budget of $1,113.4 million adopted for fiscal year 2011-12. (See "DISCUSSION OF FINANCIAL OPERATIONS – Summary of Operations" herein.)

Summary of Operations

The following two tables present separate summaries of operations for fiscal years 2008-09 through 2010-11 for the City General Fund and for the Buffalo CSD derived from financial statements and prepared in accordance with GAAP. The tables also show for fiscal year 2011-12, a revised budget for the City and a projected budget for the Buffalo CSD with an adopted budget for 2012-2013 fiscal year for the City and the Buffalo CSD.

CITY OF BUFFALO, NEW YORK
GENERAL FUND - SUMMARY OF OPERATIONS AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30
(000's Omitted)

	Actual 2008-09	Actual 2009-10	Actual 2010-11	Revised Budget[(1)] 2011-12	Adopted Budget 2012-13
REVENUES					
Real Property Taxes	$ 138,824	$ 136,329	$ 138,369	$ 138,492	$ 133,377
Other Taxes	13,040	12,407	14,465	12,925	13,825
Charges for Services	11,293	10,359	11,328	12,081	14,326
Interest	3,412	2,068	1,918	1,150	1,000
Federal Aid	158	2,199	1,237	947	803
State Aid	192,587	194,314	183,618	184,001	200,568
Local Sources and other	70,493	70,568	71,367	68,854	74,737
Licenses and Permits	3,418	3,598	3,591	3,601	3,586
Fines	6,535	6,593	7,013	8,508	8,495
Miscellaneous	7,044	7,502	6,146	7,136	7,802
Total Revenues	446,804	445,937	439,052	437,695	458,519
EXPENDITURES					
General Government	55,640	56,613	57,286	63,896	62,004
Public Safety	149,577	145,564	138,904	142,755	141,878
Streets and Sanitation	11,922	11,402	13,496	13,592	12,456
Economic Assistance and Opportunity	2,648	1,242	1,261	2,299	1,823
Culture and Recreation	1,698	3,177	7,182	7,494	7,242
Health and Community Services	2,862	2,974	2,816	2,240	2,206
Education	70,323	70,323	70,323	70,323	70,323
Fringe Benefits	107,246	116,785	127,913	124,613	144,509
Other	9,368	8,285	5,890	3,858	4,150
Interest and other fiscal charges	887	897	891	904	899
Total expenditures	412,171	417,262	425,962	431,974	447,490
Excess (deficit) of revenues over expenditures	34,633	28,675	13,090	5,721	11,029
OTHER FINANCING SOURCES (USES)					
Transfers In	5,795	8,657	9,545	12,306	12,580
Transfers Out	(35,125)	(33,190)	(35,424)	(37,223)	(35,132)
Total other financing (uses) sources	(29,330)	(24,533)	(25,879)	(24,917)	(22,552)
Change in fund balances	5,303	4,142	(12,789)	(19,196)	(11,523)
Fund balance - beginning of year	133,295	138,598	142,740	129,951	110,755
Fund balances - end of year	$138,598	$142,740	$129,951	$110,755	$99,232
FUND BALANCE					
Reserved	37,675	32,259			
Unreserved	100,923	110,481			
Non Spendable			22,311		
Restricted			14,933		
Committed			35,497		
Assigned			51,557		
Unassigned			5,653		
Total Fund Balance	$ 138,598	$ 142,740	$ 129,951		

Source: City of Buffalo, Department of Audit & Control, Division of Accounting

(1) The 2011-12 budgetary figures reflect changes made to the budget as of June 30, 2012 and reflect the use of $19.2 million of fund balance, of which $5.1 million is for prior year encumbrances.

BUFFALO CSD
GENERAL FUND - SUMMARY OF OPERATIONS AND CHANGES IN UNRESERVED FUND BALANCE
Fiscal Year Ended June 30
(000's Omitted)

	Actual 2008-09	Actual 2009-10	Actual 2010-11	Revised 2011-12*	Adopted 2012-13**
REVENUES					
Property Taxes	$ 70,323	$ 70,323	$ 70,323	$ 70,323	$ 70,323
New York State - Foundation Aid	433,686	432,812	432,812	432,812	435,409
Other State Aid	168,951	154,799	161,989	167,095	198,472
Federal Sources	1,308	20,067	10,776	4,000	4,000
Sales Tax	32,145	32,754	34,297	35,500	36,000
Departmental and Other Revenues	11,986	11,382	14,990	11,718	11,735
Total Revenues	718,399	722,137	725,187	721,448	755,939
EXPENDITURES					
Personal Services	246,444	249,251	228,130	228,683	239,912
Departmental Expenditures	54,506	52,164	51,205	57,510	52,943
Tuition (other than Charter Schools)	27,353	29,781	30,544	34,256	37,131
Charter School Tuition	66,930	70,404	85,086	91,850	91,000
Fringe Benefits	132,710	137,780	150,592	174,693	172,187
Utilities	14,016	12,081	11,882	12,434	12,252
Contingency	-	-	-	641	1,500
Transportation	39,657	39,617	36,123	39,627	40,620
Total Expenditures	581,616	591,078	593,562	639,694	647,545
Excess (deficit) of revenue over expenditure	136,783	131,059	131,625	81,754	108,394
OTHER FINANCING SOURCES (USES)					
Transfers in	2,843	3,098	3,013	5,300	3,671
Transfers out	(89,056)	(91,873)	(111,066)	(116,804)	(132,465)
Total other financing sources (uses)	(86,213)	(88,775)	(108,053)	(111,504)	(128,794)
Change in Fund Balance	50,570	42,284	23,572	(29,750)	(20,400)
Fund Balance – beginning of year	119,318	169,888	212,172	235,744	199,844
Fund Balance – end of year	$169,888	$212,172	$235,744	$205,994	$179,444
FUND BALANCE					
Reserved	31,641	43,279			
Unreserved	138,247	168,893			
Non Spendable			791		
Restricted			30,125		
Committed			-		
Assigned			159,140		
Unassigned			45,688		
Total Fund Balance	$ 169,888	$ 212,172	$ 235,744		

Source: Buffalo CSD, Division of Finance.
*2011-12 Projections as of April 13, 2012
**As submitted to BFSA May 16, 2012

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs of providing services on a continuing basis be financed or recovered primarily through revenues earned from user charges. The individual enterprises accounted for by the City in separate Enterprise Funds are solid waste collection and recycling, City-owned parking ramps and the water system.

The Solid Waste and Recycling Enterprise Fund was established on October 1, 1996 to account for the costs associated with the operation of refuse and recycling services in the City. The fund is supported by revenues from user fees assessed against all users of the service. Unpaid user fees become a lien against the property and are subject to the City's normal collection procedures. Net loss for the year ended June 30, 2011 was $2.8 million determined in accordance with GAAP. This loss includes $2.4 million non cash expenditures for Other Post Employment Benefits. This compares to a net loss of $0.4 million for the year ended June 30, 2010. The City received $17.9 million in user fees for the fiscal year ended June 30, 2011, $19.2 for the fiscal year ended June 30, 2010, and $19.2 million for the fiscal year ended June 30, 2009. The adopted 2011-12 budget includes $19.9 million for user fees with $18.6 million having been collected as of June 30, 2012. The adopted 2012-13 budget includes $20.1 million for user fees. Nonspendable Fund balance of the General Fund includes $14.8 million to cover deficits incurred by the Solid Waste and Recycling Enterprise Fund.

The Parking Enterprise Fund was established July 1, 1989 to account for the operations of City-owned parking ramps. The City has a management agreement with Buffalo Civic Auto Ramps, a non-profit organization, to operate the downtown ramps. Revenues collected in excess of normal operating costs are remitted to the City to cover administrative costs and debt service. Net assets are reserved for debt service and major repairs. The City also has lease agreements for the operation of parking ramps at three area hospitals. Net income for the fiscal year ended June 30, 2011was $0.6 million determined in accordance with GAAP. This compares to net income of $3.6 million for the fiscal year ended June 30, 2010. Operating transfers out to the General Fund were $4.2 million and $1.2 million for fiscal years ended June 30, 2011 and 2010, respectively. The adopted budget for fiscal year 2011-12 is $9.7 million. The 2011-12 budget amount includes $3.2 million for debt service and $5.2 million operating transfer to the General Fund. The adopted budget for fiscal year 2012-13 is $9.0 million. The 2012-13 budget amount includes $2.7 million for debt service and $5.2 million operating transfer to the General Fund.

The Water Enterprise Fund in conjunction with the Buffalo Water Board and the Buffalo Municipal Water Finance Authority, which are blended component units of the City, comprise the water system. The City's Water Enterprise Fund provides personnel to the operator contracted by the Water Board. Operating transfers from the Water Board cover all expenses of the Water Enterprise Fund. Total expenses for 2010-11 were $14.2 million. This compares to total expenses of $12.0 million for fiscal year 2009-10 and $12.9 million for fiscal year 2008-09. The adopted budget for 2011-12 totals $11.6 million. The adopted budget for 2012-13 totals $11.5 million. The adopted budgets do not include $2.5 million for utility costs that are now the responsibility of the Buffalo Water Board. (See "CITY-RELATED ENTITIES – *Buffalo Municipal Water Finance Authority*" and "–*Buffalo Water Board*" herein.)

With respect to the results of operations and the financial position of the Enterprise Funds generally, see Appendix B.

REVENUES

The 2011-12 revised General Fund budget estimated revenues to be derived approximately 42.0% from municipally generated revenues; 42.0% from State aid; 0.2% from federal aid and other assistance; and 15.7% from other local governments, the majority of which is the shared County sales tax. The 2012-13 adopted General Fund budget estimates revenues to be derived approximately 39.8% from municipally generated revenues; 43.7% from State aid; 0.2% from federal aid and other assistance; and 16.3% from other local governments, the majority of which is the shared County sales tax.

Municipally Generated Revenues

Primarily, municipally generated revenues include, in order of magnitude, real property taxes, utility taxes, parking fines and penalties, and an annual payment from the Buffalo Water Board.

Real Property Tax

Real property taxes become payable upon levy of such taxes by the Common Council. The City collects real property taxes for general City and Buffalo CSD purposes. The total amount of the taxpayer's bill is due and payable on July 1; however, the first half may be paid without penalty on or before July 31 and the second half on or before December 31. Penalties are assessed for delinquencies at an effective rate of 18% per annum.

The General Fund accounts for the full receipt of the tax levy, including that portion of the levy raised for the Buffalo CSD and that portion of the levy deposited in the CDSF for the payment of capital debt service. The total valuation roll for general City tax purposes partially exempts certain properties (owned and occupied by veterans and senior citizens) which are taxable for school purposes. All provisions for uncollected taxes are charged against the general City budget. The Buffalo CSD receives its tax levy for operations in full from the City.

The City's property tax levying powers, other than for debt service and certain other purposes, are limited by the State Constitution to 2.0% of the 5-year average full valuation of taxable real property of the City. On June 24, 2011, the New Tax Levy Limit Law was enacted, which imposes a tax levy limitation upon the municipalities, school districts and fire districts in the State, including the City, without providing an exclusion for debt service on obligations issued by municipalities, including the City. See "New Tax Levy Limit Law," herein. The City's budgeted levy was $144.3 million for fiscal year 2010-11. The budgeted levy for 2011-12 is $143.2 million – an overall decrease of 0.8%. The budgeted levy for 2012-13 is $138.6 million – an overall decrease of 3.2%. For a more complete discussion of property tax assessment, levy, collection and related matters, see "PROPERTY TAXES" herein.

BUDGETED ALLOCATION OF REAL PROPERTY TAX LEVY
Fiscal Year Ended June 30
(000's Omitted)

	2009	2010	2011	2012	2013
Buffalo CSD Operations	$ 59,516	$ 59,516	$ 59,516	$ 59,516	$ 59,516
City Operations	44,470	41,775	42,212	40,740	36,388
Capital Debt Service [1]	39,600	41,085	42,588	43,030	42,739
Total Budgeted Real Property Tax Levy	$143,586	$142,376	$144,316	$143,286	$138,643

Source: City of Buffalo Department of Audit & control, Division of Accounting

(1) The tax levy for Capital Debt Service includes City and Buffalo CSD debt.

Utility Taxes

The Class I Utility Tax collected by the City quarterly is levied against gas, electric and telephone utilities. Since 1990, the utility tax rate has been 3.0% of total gross receipts. The revenue from this source was $11.4 million for the 2010-11 fiscal year compared to $9.4 million in 2009-10. The budgeted amount for 2011-12 is $10.2 million, with $9.7 million having been collected as of June 30, 2012. The budgeted amount for 2012-13 is $11.0 million.

Annual Payment From The Water Board

Pursuant to an operation agreement by and between the City and the Buffalo Water Board dated September 24, 1992, the Board initially paid the City $4.0 million in the 1992-93 fiscal year. This amount may be increased by 5.0% compounded annually at the City's sole discretion. The actual amounts received were $4.7 million for 2008-09, $4.7 million for 2009-10 and $4.7 million for 2010-11. The adopted budget and received amount for 2011-12 is $4.9 million. The adopted budget amount for 2012-13 is $5.2 million. Such payment is made in lieu of utility taxes and also for certain legal, payroll and other services performed by City personnel.

Departmental and Other Revenues

Departmental revenues consist of various fees received from licenses, permits, rentals, concessions, commissions and asset sales as well as interest earnings on the temporary investment of idle funds. For the 2008-09, 2009-10 and 2010-11 fiscal years, major departmental revenues included $6.5, $6.5, and $7.0 million, respectively for parking and other fines. The adopted 2011-12 budget includes $8.5 million for parking and other fines, of which $6.6 million has been received as of June 30, 2012. The adopted 2012-13 budget also includes $8.5 million for parking and other fines.

Interest earnings in fiscal 2010-11 were $1.9 million, compared with $2.1 million in 2009-10 and $3.4 million in fiscal 2008-09. The adopted 2011- 12 budget includes $1.2 million for interest, with receipts of $1.4 million as of June 30, 2012. The adopted 2012-13 budget includes $1.0 million for interest earnings.

Revenues from licenses and permits were $3.6 million in fiscal 2010-11, $3.6 million in fiscal 2009-10 and $3.4 million in fiscal 2008-09. The adopted 2011-12 budget includes $3.6 million for licenses and permits, of which $2.1 million has been received as of June 30, 2012. The adopted 2012-13 budget also includes $3.6 million for licenses and permits.

Cable franchise tax revenues were $2.9 million in fiscal 2010-11, compared with, $2.7 million in fiscal 2009-10 and $2.5 million in fiscal 2008-09. $2.5 million was included in the adopted 2011-12 budget, with $2.1 million received as of June 30, 2012. The adopted 2012-13 budget includes $2.6 million for cable franchise tax. Other revenue included payment in lieu of taxes which totaled $5.1, $5.3, and $5.4 million in fiscal years 2010-11, 2009-10, and 2008-09 respectively. The adopted 2011-12 budget includes $5.5 million for payments in lieu of taxes. The adopted 2012-13 budget includes $5.3 million for payments in lieu of taxes.

Intergovernmental Revenues

The principal categories of State aid to the City are State aid for education, general State aid and aid and incentive for municipalities (AIM). In addition, there are several lesser State aid, grants and shared revenues including the mortgage tax (collected for the City by the State at the rate of 50 cents per $100 of mortgages) which was $1.8 million in 2009-10 compared to $1.9 million in 2008-09. The 2010-11 actual mortgage tax revenues were $1.6 million. The adopted budgeted amount for the 2011-12 fiscal year is $1.9 million. The adopted budgeted amount for the 2012-13 fiscal year is $1.6 million. State grants and aids for operating purposes are accounted for in the City's General Fund. State aid for education is accounted for in the Buffalo CSD's General Fund.

New York State Aid to Education

Beginning with the 2007-08 fiscal year, the majority of State aid to be received by the Buffalo CSD has been calculated using "Foundation Aid." Foundation Aid was established by the 2007-08 State budget and combined four categorical aid grants with certain other formula aids. Formula aids consist of State aid determined in accordance with an application submitted to the State Education Department ("SED"), which incorporates required data concerning district enrollment, attendance and approved expenditures. At its inception, Foundation Aid established minimum annual increases in State aid of 3.0% per year through 2010-

11, with high poverty districts such as the Buffalo CSD receiving more assistance. However, based on the economy of New York State, the State aid guarantees were abandoned after the first year. The Buffalo CSD received its first increase in Foundation Aid since 2008-09 with the adoption of the 2012-13 New York State Budget.

Other State aid includes State Building Aid, the purpose of which is to assure that each school district provides suitable and adequate facilities to accommodate students and programs of the district. To this end, new facilities, new buildings, additions and major alterations must meet specific standards pertaining to type, size and number of teaching stations, as well as building code requirements. Existing facilities must meet health and safety regulations and reconstruction of existing facilities must meet building code requirements.

The State Commissioner of Education must approve plans and specifications for the capital construction projects undertaken by public school districts. This charge is administered by the Office of Facilities Planning pursuant to Section 408 of the Education Law and Part 155.2 of the Regulations of the Commissioner of Education. State Building Aid is payable commencing 18 months after the State Education Department approves the final plans and specifications of a project with a Final Cost Report on file unless a waiver is granted by the Commissioner of Education. Currently, State Building Aid reimburses approximately 98.0% of approved costs for projects completed or now under construction for the Buffalo CSD. State Building Aid fluctuates from year to year based on a number of factors including the ratio of the City's wealth to the State's average wealth. The receipt of Foundation Aid is dependent upon, among others, satisfaction of certain monitoring and expenditure requirements. In addition, within Foundation Aid there are stipulations that the Buffalo CSD must use a formula-based amount on new programs, or expansion of existing programs, to improve student achievement as outlined in the Contract for Excellence ("CFE"). No increases in Foundation Aid were received in fiscal years 2009-10, 2010-11, or 2011-12. For fiscal year 2012-13, the total CFE set-aside is $13.6 million.

On March 29, 2012, New York State Governor Andrew M. Cuomo signed into law the State's fiscal year 2012-13 budget (the "Enacted State Budget"). The Enacted State Budget provides for school aid of $20 billion, which represents an increase of $805 million, or 4%, from the amount budgeted by the State in fiscal year 2011-12. Most of this $805 million increase will be allocated to high-need school districts. The Enacted State Budget continues a two-year appropriation methodology established in the 2011-12 State fiscal year and limits future school aid increases to growth as measured by the total personal income of residents of the State. Such two-year appropriation provides for an approximate 3% increase in school aid for State fiscal year 2013-14 based on estimated growth of New York State personal income. The Enacted State Budget also continues programs established in the 2011-12 State fiscal year for education performance and efficiency grants, with $50 million in total appropriations for districts that demonstrate significant student performance improvements, or that undertake long-term structural changes to reduce costs and improve efficiency. The Enacted State Budget also provides the linking of the provision of additional State Aid to compliance with a new teacher evaluation process which provides that school districts will not be eligible for aid unless they have fully implemented the new teacher evaluation process by January 17, 2013.

The Buffalo CSD depends on substantial financial assistance from the State. In fiscal year 2010-11, the Buffalo CSD received $625.9 million, of State Aid for all funds. For the current fiscal year ending June 30, 2012, the Buffalo CSD budgeted $637.4 million of State Aid receipts for all funds, and as of April 13, 2012, expects to receive approximately $637.4 million by the close of such fiscal year. The Buffalo CSD currently estimates that it will receive in the aggregate $671.3 million of State Aid for all funds for its 2012-13 fiscal year. This estimate is based upon the sum of, (i) a $633.9 million apportionment to the Buffalo CSD for operations and maintenance expenses contained in the Enacted State Budget, (ii) $36.8 million in projected receipts of State grant funding which is based upon grant funding contained in the Enacted Budget and grant funding received by the Buffalo CSD in the 2011-12 fiscal year and; (iii) $0.6 million in projected receipt of food service funding based upon food service funding received by the Buffalo CSD in the 2011-12 fiscal year. No assurance can be given that State Aid for all funds actually received by the Buffalo CSD in its 2012-13 fiscal year will equal the amounts estimated above, but the Buffalo CSD believes that this estimate of State Aid for all funds is reasonable based prior year State Aid receipts.

Another State aid category, Charter School Transitional Aid, was established in the 2007-08 as part of the State Budget to help provide relief from the financial drain caused by the significant number of charter school students in certain school districts, including the Buffalo CSD. Charter School Transitional Aid totaled \$6.7 million for 2008-09, \$4.6 million for 2009-10 and \$5.8 million for 2010-11. The 2011-12 projected amount for Charter School Transitional Aid is \$6.3 million. The aid continues on a rolling basis so long as charter school enrollment continues to increase.

The Buffalo CSD receives State aid for education in several installments paid to the City throughout its fiscal year based on a formula established by SED. These installments of State aid are paid net of the Buffalo CSD's contributions to the New York State Teachers' Retirement System.

The projected State aid for the Buffalo CSD General Fund, as of April 13, 2012 is \$599.9 million, based on the budgeted amount of \$602.5 million for the 2011-12 fiscal year.

In fiscal year 1999-00, the Buffalo CSD received additional lottery aid in the amount of \$30.0 million which was provided to the Buffalo CSD to assist in funding the Buffalo Teachers Federation ("BTF") settlement payment. The \$30.0 million comprises two components: the first \$20.0 million was used for the teacher settlement amount paid in July 2001, and the second component of \$10.0 million was to be used as a stabilization reserve for the annual debt service owed to the New York State Municipal Bond Bank Agency for the \$25.0 million advanced to the Buffalo CSD for the BTF settlement. The \$30.0 million in lottery aid took the form of a "lottery advance" from the State. In effect, the \$20.0 million was a loan from the State which is to be paid back over 30 years. The repayment of this "loan" is captured in annual installments through a reduction in the amount of lottery aid paid to the Buffalo CSD, such deductions began in fiscal year 2001. The Buffalo CSD took an additional advance of \$1.4 million in the 2005-06 fiscal year in accordance with Chapter 465 of the Laws of 2005. This advance is also treated as a "loan" to be repaid over 30 years and the repayment is captured from annual aid installments. The Buffalo CSD records the gross amount of aid with its regular basic State aid amount and books debt service payments for the amount of the installments withheld by the State.

Chapter 57 of the Laws of 2005 provided for an apportionment to school districts for public pension accruals required to be accounted for beginning in the 2004-05 school year. Upon application, the apportionment is available to the Buffalo CSD as revenue and may be used to offset any General Fund deficit resulting from the impact of the implementation of GASB Technical Bulletin 2004-2. The apportionment is an advance of the subsequent years general aid payable, and will reduce general aid in such subsequent years. The Buffalo CSD applied for and received an advance of \$11.5 million in each of the fiscal years 2004-05 through 2010-11. The Buffalo CSD applied for the advance in 2011-12 and intends to continue this practice so long as the legislation is renewed.

Payment of State aid for education may be withheld due to the failure of the City or the Buffalo CSD to comply with various requirements of State law or the regulations of the Commissioner of Education relating to instructional programs, programs for the handicapped or other matters or the failure of the City to pay debt service on obligations issued for school purposes. (see "ADDITIONAL REMEDY FOR HOLDERS OF SCHOOL BONDS") The City and the Buffalo CSD believe that they are in material compliance with all other requirements and have made the necessary debt service appropriations.

In addition to State aid for education, the Buffalo CSD receives federal medical reimbursement for certain health services provided to students. The Buffalo CSD received a total of \$1.3 million for Medicaid reimbursement in fiscal year 2010-11, anticipates \$4.0 million for 2011-12 and has budgeted \$4.0 million, for 2012-13.

The Buffalo CSD depends in significant part on financial assistance from the State. Accordingly, in this year or future years, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes or if the State experiences delays in the adoption of the State budget, the State may have to delay payments of aid to its municipalities and school districts, including the Buffalo CSD, until sufficient State funds are available to make such payments. The Buffalo CSD may be adversely affected by such delay. In the past, delays in adoption of the State budget have resulted in delays in the payment of State aid to municipalities and school districts.

In conjunction with the reconstruction of the public school facilities of the Buffalo CSD and the issuance of the bonds by the Erie County Industrial Development Agency ("ECIDA") to finance such reconstruction, the City and the Buffalo CSD have entered into a State Aid Trust Agreement. Pursuant to the State Aid Trust Agreement among the City, the Buffalo CSD, and Manufacturers and Traders Trust Company ("M&T"), the State Comptroller's Office is directed by the City and the Buffalo CSD to pay all amounts of State aid to education appropriated by the State for the benefit of the Buffalo CSD to the State Aid Depository Fund held by M&T, as Depository Bank under such agreement. Amounts held in the State Aid Depository Fund are applied to pay debt service on such ECIDA bonds. (See "BUFFALO CSD SCHOOL FACILITIES RECONSTRUCTION PROJECT" herein.)

New York State General Purpose Aid

Prior to the enactment of the BFSA Act, the City received General Purpose Aid directly from the State. Pursuant to the BFSA Act, the City receives General Purpose Aid from the State through the BFSA. General Purpose Aid revenue recognized in the 2010-11 fiscal year was $164.8 million. The budgeted amount for 2011-12 is $161.3 million and the amount budgeted for 2012-13 is $179.9 million.

STATE GENERAL PURPOSE AID
Fiscal Year Ended June 30
(000's Omitted)

	Actual 2008-09	Actual 2009-10	Actual 2010-11	Budget 2011-12	Budget 2012-13
Total General Purpose Aid	$165,616	$167,126	$164,787	$161,285	$179,936

Source: City of Buffalo Administration, Finance, Policy and Urban Affairs, Division of Budget.

Pursuant to the BFSA Act, the amounts of municipal aid appropriated by the State as local government assistance for the benefit of the City and the City's and Buffalo CSD's share of County sales taxes shall be paid by the State Comptroller to the BFSA and the City shall have no right, title, or interest in such revenues paid to the BFSA. (See "THE BUFFALO FISCAL STABILITY AUTHORITY" herein.) After application of such revenues to debt service obligations, if any, and operating expenses of the BFSA and subject to the BFSA's agreements with the City, the balance of such revenues are to be transferred to the City as State BFSA Aid.

State Aid and Initiatives for Municipalities

New York State included in its 2006-07 budget $12.8 million, in 2007-08 $12.8 million and in 2008-09 $16.1 million for a total of $41.7 million in State aid and Incentives for Municipalities (AIM) funds that was to be paid to the BFSA for distribution to the City. These funds were to be used to reduce the property tax burden within the context of the approved four-year financial plan. Any funds not used for this purpose were to be held by the BFSA for use by the City for initiatives to permanently reduce the cost of City government.

The AIM funding can be used to (1) minimize or reduce the real property tax burden; (2) invest in economic development or infrastructure to achieve economic revitalization and generate real property tax growth; and

(3) support investments in technology or other reengineering initiatives that permanently minimize or reduce operating expenses.

To date the City has received $27.0 million to spend on BFSA approved initiatives. Currently the BFSA has $14.6 million of AIM funds that have not been released to the City. (See also "Employee Contracts").

Federal Aids and Grants

Federal categorical grants received by the City for restricted purposes are not normally budgeted as General Fund revenues with the exception of the treatment of staff support grants or the administrative portion of grants managed by City departments. The funding level for the 2012-13 fiscal year for the Consolidated Plan, which includes the Community Development Block Grant (CDBG) program, HOME Investment Partnership (HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for Persons With AIDS (HOPWA), is expected to be $17.9 million, a decrease of $2.4 million compared to 2011-12. The termination or reduction of any of these programs could mean curtailment or assumption of these programs by the City.

Erie County Sales Tax

A general sales and compensating use tax of 8.75% is levied on all taxable retail sales in the County. Of the total 8.75% collected by the State, 4% is retained as State revenue and 4.75% is returned to the County. Of the County's 4.75%, 1.75% is retained by the County for County purposes, with one exception. As described below, $12.5 million of the additional 1.00% sales tax imposed by the County is shared with local municipalities pursuant to State legislation. The remaining 3% is distributed among the County, local municipalities and school districts in the County pursuant to the sales tax sharing agreement. The agreement provides that any party may terminate the agreement upon one year's prior written notice.

From 1985 and through 2006, the County annually received authorization from the State Legislature and Governor to assess an additional one percent sales tax to the base County sales tax of three percent. During that time all of the proceeds of the additional one percent sales tax were retained by the County. In 2006, the County was required by the State Legislature to adopt enabling legislation that shared $12.5 million in revenue from the one percent sales tax with the cities, towns and villages in Erie County starting in 2007. That legislation was renewed by the State Legislature at the request of the County Legislature and County Executive in 2008 and 2010. Furthermore, following legislative changes in 2010, the sharing of $12.5 million in sales tax revenue was made permanent as long as the County maintains a one percent sales tax. Absent future reauthorization, the one percent sales tax expires on November 30, 2013.

The BFSA Act requires that the City's share of County sales taxes payable to the City under the foregoing agreement will be paid by the State Comptroller to the BFSA and the City will have no right, title or interest in such revenues. After use of such revenues to pay debt service obligations, if any, and operating expenses of the BFSA and subject to the BFSA's agreements with the City, such revenues are to be transferred to the City.

For fiscal year 2012-13, the City expects to receive $78.5 million and the Buffalo CSD expects to receive $35.5 million from this source. Pursuant to the BFSA Act, the City's and the Buffalo CSD's share of sales tax is required to be received by the BFSA and subsequently forwarded to the City. The City's share will be reduced by (i) the BFSA operational expenses which are projected to be $0.8 million for 2012-13 and (ii) debt service on the deficit bonds issued by the BFSA of $3.3 million.

EXPENDITURES

City expenditures may be categorized as those made for general City services, for grants-in-aid or for operations of related entities and for debt service and certain other costs. City services are provided through numerous departments, as indicated by the following table.

Total Department	2012-13 Appropriations	Full Time Funded Positions
Legislative	$ 2,112,465	36
City Clerk	2,244,081	18
Executive	2,774,945	49
Audit & Control	2,871,359	45
Law	3,630,277	36
Assessment	2,014,404	31
Management Information Systems	3,343,453	32
Administration & Finance	13,495,074	57
Police	78,432,869	1,000
Fire	54,613,935	764
Human Resources	6,238,081	20
Public Works, Parks & Streets	27,328,838	361
Community Services	3,232,032	33
Permits & Inspections	5,692,294	93
General City Total	208,024,107	2,575
Division of Water	6,726,257	131
Parking	126,846	1
Refuse & Recycling	18,492,064	144
Total	$ 233,369,274	2,851

Source: Source: City of Buffalo, Department of Audit & Control, Division of Accounting.
(1)Appropriations in the 2012-13 Adopted City Budget.

FUNDED ANNUAL / FULL-TIME SALARIED POSITIONS BY MAJOR CITY DEPARTMENT[1] 2002-03 as compared to 2012-13

	Number of Positions FY 2002-03	Number of Positions FY 2012-13	Number Increase (Decrease)	Percentage Increase (Reduction)
Police	1,045	1,000	(45)	(4.3 %)
Fire	869	764	(105)	(12.1 %)
Public Works, Parks & Streets	484	361	(123)	(25.4 %)

Source: City of Buffalo Administration, Finance, Policy and Urban Affairs, Division of Budget.
(1)Funded full-time salaried positions as July 1, 2012.

Employee Contracts

Employee contracts are in place for the 2012-13 fiscal year with one of the City's eight bargaining units, as shown in the following table. The contracts with the remaining bargaining units have expired and are currently under negotiation. In the 2012-13 adopted budget, the City has not included any amounts for union contract settlements. State AIM money held by BFSA in the amount of $14.6 million is available to fund settled contracts.

The City

The following chart describes the City unions, number of employees, when present agreements expire and when past agreements have expired. The number of employees is effective as of August 8, 2012.

Unions	Number of Employees	Present Agreements Expire
PBA (Police Officers)	728	6-30-07
Local 282 (Firefighters)	682	6-30-04
Local 264 (Blue Collar)	528	6-30-11
Local 650 (White Collar)	432	6-30-11
CGA (Crossing Guards)	135 [1]	6-30-10
Local 2651 (Building Inspectors)	49	6-30-12
Local 264T (Pipe Caulkers)	26	6-30-04
Local 17 (Operating Engineers)	17	6-30-13

Source: City of Buffalo, Department of Audit Control, Division of Audit
[1] Seasonal Employees, laid –off during Summer Months.

The Buffalo CSD

Four employee contracts, out of eight bargaining units representing the employees of the Buffalo CSD, are in place for the 2012-13 fiscal year. The contracts of two bargaining units have expired as of July 1, 2004, one as of July 1, 2010 and one as of July 1, 2012.

The following chart describes the Buffalo CSD unions, approximate number of employees represented, and the present agreement expiration dates. The number of employees is effective as of March 31, 2012.

Unions	Number of Employees[1]	Present Agreements Expire
BTF (Teachers)	3,367	6/30/04
BCSA (Administrators)	199	6/30/04
PCTEA (White Collar)	461	6/30/13
Local 264 (Blue Collar & Food Service)	119	6/30/13
BEST (Teachers Aides & Assistants)	754	6/30/12
SUBSTITUTES UNITED (Substitute Teachers)	Variable	6/30/13
TRANSPORTATION AIDES (Bus Aides)	Variable	6/30/14
Local 409 (Engineers)	61	6/30/10
Trades	31	N/A
Exempt (includes Board)	19	N/A

Source: Buffalo CSD, Finance Department.
[1] Includes General, Grants and Food Service Funds.

Pursuant to the BFSA Act, during a Control Period, the BFSA is empowered to impose a wage and/or hiring freeze with respect to employees of the City or any Covered Organization and to review and approve or disapprove any collective bargaining agreement to be entered into by the City or any Covered Organization. In accordance with the foregoing powers, on April 21, 2004, the BFSA adopted a general wage freeze resolution which, as of April 22, 2004, froze the wages of all City employees and employees of any non-exempted Covered Organizations at their current levels. In recognition of the City's improved fiscal health the BFSA lifted this wage freeze effective July 1, 2007, which allowed for a one step increase on employees' salary schedule.

Retirement Benefits

Most City employees who are eligible for pensions under the Retirement and Social Security Law of the State, as well as most civil service employees of the Buffalo CSD, are members of either the New York State and Local Employees' Retirement System (the "ERS") or the New York State and Local Police and Fire Retirement System (the "PFRS"). Eligible teachers in the Buffalo public school system are members of the State Teachers' Retirement System (the "TRS").

The ERS was established in 1920. In 1967, all police officers and firefighters were transferred into the separate PFRS. Both retirement systems are administered by the State Comptroller. The TRS is separately administered by a ten member board. These retirement systems had been actuarially funded using the aggregate cost valuation method. Under this method, the unfunded cost of retirement benefits of active members was accrued and funded each year as a level percentage of compensation of such members. The aggregate cost valuation method does not develop a separately stated past service liability. In 1990 State laws were enacted to change from the aggregate cost valuation method to a projected unit credit ("PUC") valuation method.

The benefit packages available to City and Board employees who are members of ERS depend on the date of their enrollment in the system and/or their classification as first tier, second tier, third tier, fourth tier, fifth tier or sixth tier employees. Benefit packages available are prescribed by the State and are most liberal for first tier and least liberal for sixth tier employees. The plan adopted by the City and Buffalo CSD for first and second tier ERS members is noncontributory for employees. Third and fourth tier members of ERS make annual contributions of 3.0% of salary to the system for the first ten years of their employment. Tier five members of ERS make annual contributions of 3% to the system for their entire careers. Beginning July 1, 1976 all new members of ERS became third tier members of the system. Beginning September 1, 1983, all new members of ERS became fourth tier members of the system. Beginning January 1, 2010, all new members of ERS became fifth tier members of the system. For the plan year ended March 31, 2012, which was payable December 15, 2011, the required contribution by both the City and by the Buffalo CSD is 21.5% of salary for first tier, 19.7% for the second tier, 15.8% for third and fourth and 12.7% for fifth tier employees. For the plan year ending March 31, 2013, which is payable December 15, 2012, the required contribution by both the City and by the Buffalo CSD is 25.4% of salary for first tier, 23.2% for the second tier, 18.6% for third and fourth, 15.1% for fifth tier and 10.1% for sixth tier employees.

City police officers and firefighters who are members of PFRS are divided into four tiers. PFRS members who joined from July 1, 2009 through January 8, 2010 are in tier three. PFRS members who joined on January 9, 2010 or after are in tier five. Tier one has two retirement plans; 92.0% of the tier one members are in the special 20 year plan (384E) with additional 1/60 benefit. As with ERS, benefit plans available under PFRS are more liberal for the tier one employees. The plans adopted for PFRS employees in tiers one and two are noncontributory. For the plan year ended March 31, 2012 required contributions by the City are 26.3% of salaries for first tier special 20 year plan (384E), 21.2% of salaries for second tier employees, 20.4% of salaries for tier three employees and 17.0% for tier five employees. For the plan year ending March 31, 2013 required contributions by the City are 30.6% of salaries for first tier special 20 year plan (384E), 25.4% of salaries for second tier employees, 24.2% of salaries for tier three employees, 20.5% for their five employees and 14.9% for tier six employees.

Contributions for teachers who are members of TRS are made at a rate of salary which is the same for all members. Since July 1, 1976 new members of TRS must make annual contributions of 3.0% of their salaries, similar to third and fourth tier members of ERS. For fiscal year 2012-13, the Buffalo CSD contribution is 11.8% of salaries. Payment is withheld from aid to education payments in the fall of the fiscal year subsequent to which the rate is applicable. The Buffalo CSD records the liability in the year it is incurred, i.e., the year for which the rate is applicable.

On March 16, 2012, the Governor signed into law the new Tier 6 pension program, effective for new ERS, PFRS and TRS employees hired after April 1, 2012. The Tier 6 legislation provides, among other things, for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Due to the change to the PUC valuation method by the State Retirement System in 1990, the retirement contribution now includes a regular pension estimated contribution, an annual contribution adjustment based on previous year actuals and adjustments based on changes to the retirement system valuation.

There was a retirement contribution of $9.5 million paid by the City for the fiscal year ended June 30, 2012 for the ERS. For the PFRS the retirement contribution paid by the City for the fiscal year ended June 30, 2012 was $22.2 million. Current estimates for fiscal ending June 30, 2013 are $10.7 million for ERS and $28.5 million for PFRS. Chapter 49, Laws of 2003 changed the billing cycle and instituted a minimum contribution rate for both ERS and PFRS, which is equal to 4.5% of payroll every year, including years in which the investment performance of the system would make a lower contribution possible. The City has been paying retirement bills in December and does not anticipate amortizing bills.

There was a retirement contribution of $7.1 million paid by the Buffalo CSD for the fiscal year ended March 31, 2012 for the ERS.

For the City's method of recording the estimated unbilled liability see "DISCUSSION OF FINANCIAL OPERATIONS – Basis of Accounting," herein. Required Buffalo CSD contributions under the ERS follow the same billing and accounting procedures as those of the City.

The following table indicates general fund expenditures recorded by the City for ERS and PFRS for fiscal years 2009 through 2011, total expenditures paid by the Buffalo CSD for ERS and TRS during the fiscal years 2009 through 2011, and projected figures for 2011-12 and budget amounts for 2012-13.

TRS, ERS & PFRS EXPENDITURES
Fiscal Year Ended June 30

	Actual 2009	Actual 2010	Actual 2011	Projected 2012	Adopted Budget 2013
City (ERS & PFRS) [1]	$22,177,520	$22,430,591	$26,695,063	$36,832,648	$44,566,220
Board (ERS)	3,676,006	2,391,143	4,483,867	7,065,431	6,359,344
Board (TRS) [2]	21,303,123	21,196,134	17,683,274	30,895,846	29,182,710

Source: Source: City of Buffalo, Department of Audit & Control, Division of Accounting & Buffalo CSD, Finance Office.
(1) Net of reimbursements received from the Buffalo Society of Natural Sciences, the Buffalo Historical Society, and the Buffalo Fine Arts Academy.
(2) Includes payment for Retirement Incentive Chapter 105

GASB 45 and Other Post-Employment Benefits (OPEB)

The City and Buffalo CSD provide post-retirement healthcare benefits to former employees. In addition, the City is required to pay the difference in pay between a disabled firefighter's pension payment and the current salary for a firefighter until the retiree reaches the age of 70. These benefits are both funded on a pay as you go basis. Under the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions"

(GASB 45), all governmental entities are required to report the estimated cost of the accrued liability for such post-retirement benefits.

Under GASB 45, based on actuarial valuation, an annual required contribution (ARC) will be determined for each municipality. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements. GASB 45 does not require that the unfunded liability actually be amortized nor that it be advanced funded, only that the municipality account for its unfunded accrued liability and compliance in meeting ARC. The City has contracted with an actuary to perform the actuarial calculation. The City's total actuarial accrued liability as of June 30, 2011 was determined to be $1.6 billion. The City's ARC is $108.0 million. The Buffalo CSD had an actuarial evaluation performed in accordance with GASB 45 that disclosed an accrued OPEB liability of $1.7 billion as of June 30, 2011. The ARC for the Buffalo CSD is $158.9 million. There is no current requirement to fund the future OPEB obligation; however the Buffalo CSD designated $30.0 million of fund balance in fiscal year 2010-11 for such obligation.

Actuarial valuations will be required every two years since both the City and Buffalo CSD have OPEB plans with more than 200 members. Should the City and the School District be required to fund their unfunded actuarial accrued OPEB liability, it could have a material adverse impact upon the City's and the School District's finances and could force the City and the School District to reduce services, raise taxes or both. At the present time, however, there is no current or planned requirement for the City and the School District to partially fund their actuarial accrued OPEB liability.

Health Insurance

The City provides continuing health insurance coverage for substantially all City employees active and retired. Actual expenditures for 2010-11 totaled $64.1 million. The City paid approximately $31.0 million for active employees and $33.1 million for retired employees in 2010-11. The adopted budget for 2011-12 appropriates $66.0 million and the adopted 2012-13 appropriates $69.4 million for both active and retired employees.

The Buffalo CSD provides continuing health insurance coverage for substantially all Buffalo CSD employees, including certain teachers, who have retired from the Buffalo CSD. Since 1989, teachers who have retired with at least 15 years of service are provided with continuing health insurance coverage. It is the Buffalo CSD's practice to fund these insurance premiums as billed. For the 2010-11 fiscal year the Buffalo CSD paid $106.4 million for both active and retired employees. It projects paying $108.1 million in fiscal year 2011-12.

Debt Service

In fiscal year 2011-12, capital debt service charges for bond principal and interest and capital lease principal and interest obligations, for both the City and the Buffalo CSD amounted to $54.4 million and is anticipated to be $53.4 million for fiscal year 2012-13.

Buffalo CSD

The Buffalo CSD General Fund operations are funded primarily from State aid, City appropriations and an allotment from County sales tax revenues. For fiscal year 2011-12, the Buffalo CSD is projecting receipt of $599.9 million from State aid, $70.3 million from City Transfers including STAR aid and $35.5 million in sales tax revenues, as of April 13, 2012. As a matter of City policy, the Buffalo CSD is credited with the full amount of taxes levied by the City for operating purposes, regardless of any deficiency in tax collections.

CITY-RELATED ENTITIES

The Buffalo CSD

The Buffalo CSD is dependent on funding from the City, the County, the State and the Federal government. It is governed by an independently elected nine-member Board of Education and operates pursuant to the New York State Education Law. The administration of the schools is the responsibility of the Superintendent of Schools who is appointed by the Board of Education of the Buffalo CSD. The school system operates 17 secondary schools, 38 elementary and intermediate schools, and two special schools. There are 16 charter schools that operate independently from the Buffalo CSD. All Charter Schools receive the same per pupil tuition rate for Buffalo resident pupils, regardless of their location.

The following table sets forth information relating to the size of the school system.

SIZE OF BUFFALO SCHOOL SYSTEM
Fiscal Year Ended June 30:

	2009	2010	2011	2012*	2013**
Enrollment	34,478	34,528	33,543	32,816	32,291
Schools(1)	73	71	70	69	65
Instructional Staff (2)	3,537	3,565	3,439	3,367	3,278
Administrative Personnel(2)	203	207	201	199	198
Non-Certified Personnel(2)(3)	1,740	1,721	1,539	1,455	1,476

Source: Buffalo CSD, Finance Office
(1)Includes active schools (with student enrollment), swing schools (with temporary enrollment) and schools under reconstruction
(2)Paid from Buffalo CSD General, Grants and Food Service Funds
(3)Includes clerical, custodial, transportation, maintenance, instructional aides, exempt personnel and other full-time non- certified personnel
*as of March 31, 2012
**per budget

Pursuant to the Charter Schools Acts, the Buffalo CSD is required to pay a State-set tuition rate to charter schools that enroll students residing in the City. Charter school enrollment of City resident pupils increased from 3,100 students in the 2003-04 school year to 7,352 in the 2011-12 school year and is projected to be 7,267 in 2012-13. This increase is attributable to new seats made available through a combination of new school openings and continued growth of enrollment in existing charter schools. In 2003-04, the amount of charter school funding was $8,434 per student (including $7,934 for basic tuition, plus an estimated additional $500 for special education funding) for a total of approximately $26.4 million. In 2009-10, the charter school funding was approximately $10,929 per student (including $10,429 for basic State aid, plus an estimated additional $500 for special education funding) for a total of $70.4 million. Total payments were $85.1 million for 2010-11 at a rate of $12,505 per student including special education funding. In fiscal year 2011-12, the Buffalo CSD budgeted a total of approximately $92.6 million for tuition payments. As of April 13, 2012, total payments are projected to be $91.9 million in 2011-12 with a budgeted amount of $91.8 million for 2012-13. In 2007, the State lifted the statewide cap on the number of charter schools which may be established in the State. Accordingly, enrollment in charter schools is expected to increase through a combination of newly approved schools opening and grade evolution within existing charter schools; however it is difficult to project beyond 2011-12. New charter schools are not subject to Buffalo CSD approval, and while the cap on the number of charter schools has been raised statewide, additional requirements were added to the charter school approval process. It is unclear how these requirements will be interpreted by the Board of Regents (the body vested with responsibility for determining and formulating State education policy) and what effect such requirements will have on the establishment of additional charter schools.

The Buffalo CSD's general fund operations, for its 2010-11 fiscal year, were funded 9.6% from the City, 1.5% from the Federal government, 81.7% from State aid, 4.7% from an allotment of County sales tax revenues and

2.5% from other sources of revenue. The Buffalo CSD received $34.3 million in sales tax revenues for 2010-11, and is projected to receive $35.5 million for 2011-12, as of April 13, 2012.

The total amount of State aid the Buffalo CSD received for all funds during the 2010-11 fiscal year was $625.9 million and is projected to receive $637.4 million for 2011-12, as of April 13, 2012.

Buffalo Municipal Water Finance Authority

The Buffalo Municipal Water Finance Authority (the "Water Authority") is a public benefit corporation created by the Buffalo Municipal Water Finance Authority Act, constituting Title 2-B of Article 5 of the Public Authorities Law of the State of New York. The Water Authority is administered by a Board of Directors consisting of seven members. Four members of the Board are ex-officio members; two are appointed by the Mayor and subject to confirmation by the City Common Council and one is appointed by the Governor. Pursuant to a Financing Agreement, the Water Authority has entered into an agreement with the Buffalo Water Board (the "Water Board") and the City to provide for the financing of the acquisition of and capital improvements to the Water System through the issuance of bonds or other obligations of the Water Authority. The Water Authority has the power to issue bonds to finance renovations and improvements to the Water System, require the Water Board to fix rates sufficient to pay the costs of operating and financing the Water System and require the City to adequately maintain the System. The Water Authority issued $17,150,000 in bonds in April 2012 to finance system improvements. The total Water System Revenue bonds outstanding as of June 30, 2012 is $159,595,000. The Water Authority has no taxing power. The City is not liable to repay any debt issued by the Water Authority.

Buffalo Water Board

The Water Board is a corporate municipal instrumentality of the State created by Chapter 368 of the New York Law of 1988. Pursuant to an Acquisition Agreement by and between the Water Board and the City, the Water Board acquired title to the Water System from the City on December 29, 1992.

Pursuant to the operation agreement amendment dated August 22, 1997, the Water Board assumed the responsibility to manage, operate, maintain and repair the water system. The operation of the system includes the engagement of independent contractors for the fulfillment of the Water Board's duties and obligations with respect to the system. The Water Board has contracted with an independent contractor to manage the system and a Management Agreement is in place which expires on June 30, 2020. The employees of the City of Buffalo, Division of Water continue to operate, maintain, repair and improve the system as provided for in the aforementioned Management Agreement. The Water Board will continue to provide water services for governmental purposes at no charge to the City. (See "REVENUES – Municipally Generated Revenues – Annual Payment from the Water Board," herein.)

The Water Board is empowered to establish, fix, revise, charge, collect and enforce the payment of all fees, rates, rents and other service charges for the use of or services furnished to the Water System. The Water Board has covenanted to establish and collect rates, fees and charges to provide sufficient funds in each fiscal year to at least equal (a) 115% of estimated debt service on outstanding Water Authority Indebtedness, (b) 100% of the operating expenses of the Water System, (c) 100% of Water Authority and Water Board expenses and (d) 100% of amounts necessary to pay other required deposits.

The Water Board consists of seven members who are appointed by the Mayor and subject to confirmation by the City Common Council.

Buffalo Urban Renewal Agency

The Buffalo Urban Renewal Agency ("BURA") was established under the General Municipal Law of the State in 1966 and is composed of the Mayor and eight other members, including the President of the Common

Council, the Chairman of the Urban Renewal Committee of the Council, the Minority Leader of the Council, the Corporation Counsel of the City, the Executive Director of the Mayor's Office of Strategic Planning, the Commissioner of Administration and Finance of the City, and two residents of the City appointed by the Mayor. The terms of the members expire with the term of the Mayor.

The City's Office of Strategic Planning is designated as the operating arm of BURA. Generally, BURA is designated by the Common Council as the vehicle through which federal grants for urban renewal to the City are channeled. BURA and its activities are predominately federally supported.

The Consolidated Plan, which includes the Community Development Block Grant (CDBG) program, HOME Investment Partnership (HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for Persons with AIDS (HOPWA). In the 2012-13 fiscal year, BURA will administer funds of approximately $19.4 million, of which $13.3 million are Federal CDBG funds. A significant portion of these funds have been utilized to fund physical development related to neighborhood and commercial revitalization within the City.

Buffalo Sewer Authority

The Buffalo Sewer Authority (the "Sewer Authority") is a public benefit corporation created in 1935 under the Public Authorities Law of New York State. The Sewer Authority is responsible for the collection, conveyance and treatment of wastewater generated within the City and several suburban communities in order to eliminate sewage pollution in the Niagara and Buffalo Rivers and Lake Erie. Currently the Sewer Authority operates and maintains 845 miles of sewers in the City. The Sewer Authority also operates the Bird Island Sewage Treatment Plant, which is a 180-million gallon per day treatment facility providing primary and secondary treatment and disinfection.

The Board of the Sewer Authority consists of five members appointed by the Mayor for a term of three years. These appointments are subject to confirmation by the Common Council. The Buffalo Sewer Authority is a separate entity which has the power to raise its own revenues, incur debt, construct facilities and to enforce its rules, regulations and permits. With the consent of the City, the Sewer Authority is authorized to utilize the employees and facilities of the City to carry out its duties and responsibilities. The Sewer Authority utilizes the services of the City's Law Department, the Department of Audit and Control, the Assessment Department, the Treasury Division and the Water Board. Sewer rent charges based on assessed valuation are mailed with the City tax bills and sewer rents based upon water usage are billed by the Water Board. For all these services, the Sewer Authority paid the City $3.9 million in 2011-12. This charge includes $0.5 million for the Water Board. Additionally, the Sewer Authority will pay the Water Board an estimated $0.5 million for water use during 2012-13. Finally, the Corporation Counsel, Comptroller and the Treasurer serve in the same capacity for the Sewer Authority as they do for the City.

The 2012-13 budget for the Sewer Authority totals $53.7 million. There was a $1.4 million increase over the prior year. The major revenues for the Sewer Authority are sewer charges based upon water consumption. The sewer levy, which is a sewer charge based on assessed valuation, was held constant.

The outstanding debt for the Sewer Authority was $42.1 million at June 30, 2012. This amount includes $40.6 million in bonds issued by New York State Environmental Facilities Corporation (the "EFC"), in 2003, 2004 and 2006 (Series 2003A, 2004B, 2004D and 2006C).

The Sewer Authority received its final State Pollution Discharge Elimination System ("SPDES") permit effective July 1, 2004. This permit requires the Sewer Authority to prepare a long term plan to fund and abate CSO (Combined Sewer Overflows) in the City. The project to develop the CSO abatement started in January 2000 and was completed in July 2004 and forwarded to the DEC for review. The Sewer Authority, the DEC and the EPA are in discussions to develop an order of consent, which will detail the specifics of the plan that will be implemented.

Buffalo Municipal Housing Authority

Public housing projects in the City are owned and operated by the Buffalo Municipal Housing Authority ("BMHA"), an independent government agency created in 1934 under the New York State Public Housing Law. The BMHA is administered by a seven-member board; five members are appointed by the Mayor for a five-year term and two members are elected by the tenants. The BMHA makes payments in lieu of taxes to the City on behalf of the low rent housing projects.

Under the State program, the BMHA constructed four projects with 1,934 units between July 1953 and November 1959. Funds for construction were provided through the issuance of State housing bonds. The original State subsidy for construction of these projects was based upon construction costs.

In March 1961, the BMHA, the City and the State entered into a contract whereby the BMHA receives an annual subsidy from the State and the City. The City is responsible for the annual net operating losses after the State subsidy amount. Currently, two of the projects have been federalized, one is vacant. The City doesn't anticipate making any further subsidy payments on these projects. The City of Buffalo and County of Erie have entered into a fifteen-year agreement with Frederick Douglass Associates, L.P., a New York State limited partnership, pursuant to which the City pays an annual operating subsidy of $0.6 million and the limited partnership makes an annual PILOT payment to the City and the County.

The BMHA constructed 22 federally aided housing projects with a total of 5,223 units between 1937 and 1980. Funds for the construction of these projects were made available through the issuance of public housing bonds by the U.S. Department of Housing and Urban Renewal. These projects have been financially self-supporting and are financed through federal rent subsidies, federal operating subsidies and debt service subsidies. Also, the federal government provides funding for modernization of these projects. Presently, the BMHA maintains 4,295 units. This reduction in units is due in part to demolitions and conversion of units to enhance marketability. In addition, The BMHA administers approximately 1,200 housing choice vouchers under two Section 8 programs.

The BMHA also participates in the implementation of the HOPE VI Grant Program (Homeownership and Opportunity for People Everywhere). This grant enables the demolition of obsolete public housing projects or portions thereof, the revitalization (where appropriate) of sites (including remaining public housing units) on which sites are located, replacement housing which will avoid or lessen concentration of very low-income families, and tenant based assistance in accordance with Section 8 of the United States Housing Act of 1937 for the purpose of providing replacement housing and assisting tenants to be displaced by demolition.

Other Entities

Erie County

The County, in which the City is located, historically has been responsible for the funding and administration of social service programs such as Medicaid, Family Assistance and Safety Net Assistance programs for City residents.

The County operates the former City library system and meets all operating costs of the system. The City is responsible for capital construction costs and all maintenance for any branches located in the City.

The Delaware Park Zoo is operated under a private management contract with the Buffalo Zoological Society (the "Zoological Society"). The Zoo's financial controls include contractual provisions that the Common Council must approve all fees charged by the Zoological Society and all concession licenses and sub-licenses; all substantial repairs must be approved by the City's Director of Buildings; the Zoological Society's proposed budget must be submitted to the City and all salaries over $20,000 per year must be approved by the Mayor.

The County Department of Central Police Services has responsibility for police recruit training including City police officers, for the police laboratory, for police computer services and for the intake of complaint calls at the 911 communications center.

The amount of County real property taxes that may be levied in any fiscal year, other than for debt service on County indebtedness, is constitutionally limited to 1.5% (subject to an increase up to 2.0% by resolution of the County Legislature) of the average full valuation of taxable real estate for the previous five years. A local law, however, effective January 1, 1979, limits the maximum amount of real property taxes that can be levied other than for debt service to 1.0% of such average full valuation of taxable real property.

Niagara Frontier Transportation Authority

The Niagara Frontier Transportation Authority (the "NFTA") was created in 1967 as a Public Benefit Corporation in New York State. The NFTA is a multi-modal transportation authority responsible for air and surface transportation in Erie and Niagara Counties. Its Board consists of a chairman and 10 other voting commissioners appointed by the Governor with the confirmation of the State Senate and 1 non-voting commissioner representing the authority's largest union. There is a financial or operating relationship with the City related to the Board of Education's payments to cover the cost of transporting school children to and from Buffalo CSD schools and the NFTA acts as a pass through of Federal Transit Administration grant funds for projects related to the Buffalo Niagara Medical Campus and Cars Sharing Main Street.

The NFTA operates a unified Metro Bus and Rail system in the two-county area with three transportation centers, the Metropolitan Transportation Center in the city of Buffalo, the Niagara Falls Transportation Center and the Portage Road Transit Center. The Metro Bus system is run by a subsidiary of the NFTA, Niagara Frontier Transit Metro System, Inc. This subsidiary began operations on April 1, 1974. Metros' fleet includes 330 buses, 62 small buses for fixed route and Paratransit service, five MetroLink Trolleys, and 27 rail cars. The 78 bus routes, traveling 11.7 million miles per year, and the 6.2-mile rail line provide transportation service across the 1,575 square mile service area in Erie and Niagara counties, serving 28 million passengers a year.

The NFTA also operates the Buffalo Niagara International Airport (BNIA) and the Niagara Falls International Airport (NFIA). The BNIA is a 25-gate facility, which includes a federal inspection service providing accommodations for both domestic and international flights. Nine major national air carriers including Air Tran, American Eagle, Continental, Delta, Jet Blue, Northwest, Southwest, United and US Airways, and their respective regional air carriers, service BNIA with an average of 111 daily nonstop flights to 23 cities serve 5.5 million passengers. The Niagara Falls International Airport serves as the reliever airport for the area, and presently has commercial, charter and general aviation operations at the airport and a military base and home station for units of both the United States Air Force Reserve and the New York State Air National Guard.

The Property Management Group of the NFTA manages more than 2,000 acres of real estate. This includes the 1,204 slip NFTA Boat Harbor, Outer Harbor property, rail right of ways and non-public transportation assets including industrial warehouse distribution and associated office space.

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THE BUFFALO FISCAL STABILITY AUTHORITY

In May 2003, the State declared a state of fiscal crisis with respect to the City and on July 3, 2003, the Governor signed into law Chapter 122 of the Laws of 2003 of the State, as amended from time to time (the "BFSA Act"), creating the BFSA. The BFSA is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation with a broad range of financial control and oversight powers over the City. Such oversight includes reviewing and commenting on the terms of any proposed borrowing by the City and certain non-exempted "Covered Organizations" (as defined in the BFSA Act and include, among others, the Buffalo CSD and the JSCB).

The BFSA is governed by a board of nine directors, seven of which are appointed by the Governor of the State. Of the seven directors appointed by the Governor, one must be a resident of the City, one is to be appointed following the recommendation of the State Comptroller, and one is to be appointed on the joint recommendation of the Temporary President of the Senate and the Speaker of the Assembly. The Mayor of the City and the County Executive serve as ex officio directors. The Governor designates the Chairperson and Vice Chair from among the directors. Five directors constitute a quorum.

The BFSA Act provides that the BFSA shall have different financial control and oversight powers depending upon whether the City's financial condition causes it to be in a "control period" or an "advisory period." Pursuant to the BFSA Act, an advisory period may not begin until the BFSA has determined that: "(a) for each of the three immediately preceding City fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any BFSA assistance as provided for within the BFSA Act, when reported in accordance with generally accepted accounting principles, and; (b) the Comptroller and the State Comptroller jointly certify that securities were sold by the City during the immediately preceding City fiscal year in the general public market and that there is a substantial likelihood that such securities can be sold by the City in the general public market from such date through the end of the next succeeding City fiscal year in amounts that will satisfy substantially all of the capital and cash flow requirements of the City during that period in accordance with the four-year financial plan then in existence". On May 29, 2012, the BFSA made a determination that all provisions of the BFSA Act with respect to transitioning into an advisory period had been met and resolved to enter into an advisory period effective July 1, 2012. An advisory period shall continue through June 30, 2037, unless a control period is reimposed.

Under the BFSA Act, the BFSA began its existence during a City control period, which means that the BFSA commenced operation with its maximum authorized complement of financial control and oversight powers, as described below. Under an advisory period the BFSA will operate with a reduced set of financial oversight powers and responsibilities. After an advisory period has been established, a control period may be reimposed on the City upon a determination that a fiscal crisis is imminent or that any of the following events has occurred or that there is a substantial likelihood and imminence of its occurrence: (a) the City shall have failed to adopt a balanced budget, financial plan or budget modification as required by Sections 3856 and 3857 of the BFSA Act; (b) the City shall have failed to pay the principal of or interest on any of its bonds or notes when due; (c) the City shall have incurred an operating deficit of one percent or more in the aggregate results of operations of any major fund of the City or a Covered Organization during its fiscal year assuming all revenues and expenditures are reported in accordance with generally accepted accounting principles, subject to the provisions of the BFSA Act; (d) the chief fiscal officer's certification at any time, at the request of the BFSA or on the chief fiscal officer's initiative, which certification shall be made from time to time as promptly as circumstances warrant and reported to the BFSA, that on the basis of facts existing at such time such officer could not make the certification described in subdivision one of Section 3851 of the BFSA Act; or (e) the City shall have violated any provision of the BFSA Act.

During an advisory period, the BFSA is empowered, among other things, (i) to review the operation, management, efficiency and productivity of City operations and of any Covered Organization's operations, and to make reports and recommendations thereon; (ii) to review and comment on the budget, financial plan and financial plan modifications of the City and any of the Covered Organization's; (iii) to audit compliance with the City and any of the Covered Organization's financial plans; (iv) to review and comment on the terms of any proposed borrowing, including the prudence of each proposed issuance of bonds or notes by the City; (v) to assess and comment on the impact of any collective bargaining agreement to be entered by the City; and (vi) to impose a control period upon making one of the statutory findings.

While currently under an advisory period, a control period could be reimposed in the event of the occurrence of certain events as described above. During a control period, the BFSA would be empowered, among other things, (i) to approve or disapprove contracts, including collective bargaining agreements to be entered into by the City or any Covered Organization, binding or purporting to bind the City or any Covered Organization; (ii) to approve or disapprove the terms of borrowings by the City and Covered Organizations; (iii) to approve, disapprove or modify the City's financial plans and take any action necessary in order to implement the financial plan should the City or any Covered Organization fail to comply with any material action necessary to fulfill the plan, including issuing binding orders to the appropriate local officials; (iv) to set a maximum level of spending for any proposed budget of any Covered Organization; (v) to impose a wage or hiring freeze, or both, with respect to employees of the City or any Covered Organization; (vi) to review the operation, management, efficiency and productivity of the City and any Covered Organization; and (vii) upon a determination that no condition exists which would permit imposition of a control period to terminate the control period.

BFSA Review of Financial Plans and Budgets

The BFSA entered into an advisory period effective July 1, 2012. The BFSA is empowered under an advisory period to review and comment on the budget and financial plans of the City and the Covered Organizations.

BFSA Debt Issuances

The BFSA has the power during a control period to issue bonds and notes for various City purposes, including the restructuring of a portion of the City's outstanding debt. Pursuant to the BFSA Act, such bonds or notes are payable from City tax revenues, Buffalo CSD tax revenues and State aid revenues. City tax revenues consist of the portion of the net collections from sales and compensating use taxes, penalties and interest authorized by the State and imposed by the County that are payable to the City under the local sales tax agreement among the City, the County and the cities of Lackawanna and Tonawanda authorized by Section 1262(c) of the State Tax Law (a rate of no less than 3% for the period ending June 30, 2037 plus certain additional amounts as provided by law) on the sale and use of tangible personal property and services in the County (see "REVENUES–Erie County Sales Tax"). The Buffalo CSD tax revenues consist of the portion of the County's net collections from the Local Sales Tax that is payable to the Buffalo CSD by the County pursuant to Section 1262(a) of the State Tax Law. The Buffalo CSD presently receives a pro rata share, on the basis of average daily attendance of public school pupils who are residents of the County, of an amount equal to 29.0% of the net collections from such 3%, which amount is shared among all school districts with territory in the County. State aid revenues consist of all general purpose local government aid, emergency financial assistance to certain cities, emergency financial assistance to eligible municipalities, supplemental municipal aid, and any successor type of aid and any new aid appropriated by the State as local government assistance for the benefit of the City, which are paid or payable to the BFSA pursuant to the BFSA Act, except as otherwise prescribed by the State Legislature. BFSA bonds and notes are not secured by or payable from State aid and the BFSA has no lien on or right to receive State aid. The BFSA last issued bonds on behalf of the City and the Buffalo CSD on May 3, 2007. The BFSA has issued five series of bonds on behalf of the City and Buffalo CSD in a total aggregate principal amount of $156.6 million, of which $88.3 million are outstanding as of August 15, 2012. As noted below, $25.7 million bonds were issued by BFSA in 2004 to finance a projected City budget deficit. The other four series were issued to finance or refinance capital projects for the City and Buffalo CSD. In relation to each of such four series, the City issued and sold to BFSA corresponding general obligation bonds which were purchased by BFSA with the proceeds of its own bonds. (See "CITY

INDEBTEDNESS – Debt Limit" – footnote 2 to the STATEMENT OF DEBT CONTRACTING POWER and footnote 1 to the STATEMENT OF DIRECT AND OVERLAPPING INDEBTEDNESS.)

BFSA AMOUNTS BORROWED ON BEHALF OF THE CITY (000's Omitted)

Calendar Year Issued	Amount Outstanding at August 15, 2012	Series	Interest Rate	Final Maturity
2004	$6,270	2004A	4.0 – 5.25%	2015
2005	$15,475	2005A	4.0 – 5.0%	2025
2005	$23,380	2005B & C	5.0%	2019
2006	$19,980	2006A	4.0 - 5.0%	2021
2007	$23,235	2007A	4.0 - 5.0%	2023

Source: Buffalo Fiscal Stability Authority.

BFSA Oversight Actions Related to the City's 2012-13 Fiscal Year

On May 1, 2012, the City and the non-exempted Covered Organizations submitted to the BFSA their respective 2012-13 budgets and 2013-16 four-year financial plans for review and approval. On May 8, 2012 and also on May 23, 2012, the City submitted a revised budget for 2012-13 and the related revised four-year financial plan for 2013-16 to the BFSA for approval. The Buffalo CSD submitted a revised 2012-13 budget and 2013-16 four-year financial plan to BFSA on May 16, 2012. The Buffalo Municipal Housing Authority ("BMHA") also submitted a revised 2012-13 budget and 2013-16 four-year financial plan to the BFSA on May 31, 2012. The Buffalo Urban Renewal Agency ("BURA") did not submit a revised budget. The BFSA approved such budgets and financial plans for the City and the Covered Organizations on June 4, 2012.

The BFSA entered into an advisory period on July 1, 2012. Under an advisory period, the BFSA may comment on budget and financial plan modifications as the BFSA deems necessary or appropriate. In accordance with the BFSA Act, for so long as an advisory period shall remain in effect, the City and the non-exempted Covered Organizations are required to submit their budget modifications to the BFSA to address changing expenditures and revenue projections.

BFSA Oversight Actions Related to the City's 2011-12 Fiscal Year

On May 2, 2011, the City and the non-exempted Covered Organizations submitted to the BFSA their respective 2011-12 budgets and 2012-15 four-year financial plans for review and approval. On June 10, 2011, the City submitted a revised budget for 2011-12 and the related four-year financial plan for 2012-15 to the BFSA for approval. The Buffalo CSD submitted a revised 2011-12 budget and 2012-15 four-year financial plan to BFSA on May 31, 2011 based upon the 2011-12 budget adopted by the Board of Education. The BURA also submitted a revised 2011-12 budget and 2012-15 four-year financial plan to the BFSA on June 9, 2011. The BMHA did not submit a revised budget. The BFSA approved such budgets and financial plans for the City and the three Covered Organizations on June 15, 2011. On October 3, 2011, the BFSA approved a budget modification for the City in the amount of $1.8 million for the construction of a Court detention facility, to be funded from reserved fund balance for capital outlays, and a budget modification for the Joint Schools Construction Board in the amount of $8.7 million related to the Phase III reconstruction work. On such date the BFSA also approved a collective bargaining agreement between the City and Local 17 Operating Engineers, representing approximately 23 individuals City-wide. Also on October 3, 2011, the BFSA approved a collective bargaining agreement between the District and the AFSCME Local 264, representing approximately 119 Food Service Workers and Summer Food Service Workers. On December 7, 2011, the BFSA approved a request by the City to redesignate efficiency incentive grant funding to new projects, which redesignation resulted in a modification to the financial plan with respect to the three out-years and affected the

City's anticipated programs to eliminate the budget gap by $2.0 million. Also on December 7, 2011, the BFSA approved (i) the issuance and sale by the BMHA of senior housing revenue bonds for various purposes related to a low-income senior housing facility located in the City of Buffalo, and (ii) a collective bargaining agreement between the Buffalo CSD and the Professional, Clerical, and Technical Employees' Association, representing approximately 450 filled positions. This collective bargaining agreement required both a budget modification and financial plan modification as costs for the collective bargaining agreement were not reflected in the original budget or related four-year financial plan. The BFSA approved the budget modification in the amount of $5.7 million for 2011-12 to be funded from Assigned Fund Balance, and for an additional $12.5 million in the remaining three out-years of the Financial Plan. On March 14, 2012, the BFSA approved (i) the City's 2012-2016 capital improvement program budget, and (ii) the 2012 capital borrowing proposed by the City of Buffalo in an amount not to exceed $27.0 million. On May 14, 2012, the BFSA approved a retirement incentive which had been negotiated between the Buffalo CSD and the Buffalo Teachers Federation. On May 29, 2012, the BFSA determined that the provisions of the BFSA Act with respect to transitioning from a control period to an advisory period had been met and resolved to enter into an advisory period effective July 1, 2012. On June 4, 2012, the BFSA approved the 2011 and 2012 capital fund program budgets of the BMHA.

BFSA Oversight Actions Related to the City's 2010-11 Fiscal Year

On May 3, 2010, the City and the non-exempted Covered Organizations submitted to the BFSA their respective 2010-11 budgets and 2011-14 four-year financial plans for review and approval. On May 31, 2010, the City submitted a revised budget for 2010-11 and the four-year financial plan for 2011-14 to the BFSA for approval. The Buffalo CSD submitted a revised 2010-11 budget and 2011-14 four-year financial plan to BFSA on June 18, 2010 based upon the 2010-11 budget adopted by the Board of Education. The BMHA and BURA did not submit revised budgets. The BFSA approved such budgets and financial plans for the City and the three Covered Organizations on June 22, 2010. On February 17, 2011, the BFSA approved a collective bargaining agreement between BURA and the Civil Service Employees Association, Inc., Local 815, representing approximately fifty-one individuals. BFSA also approved BURA's proposal to extend the same terms to approximately twenty-seven unrepresented exempt employees. No budget or financial plan modifications were required as the incremental costs associated with this collective bargaining agreement had been previously reflected within the BFSA-approved 2010-11 budget and 2011-2014 four-year financial plan. On March 9, 2011, the BFSA disapproved a memorandum of agreement amending the previous collective bargaining agreement between the BMHA and the International Union of Engineers, Local 17, thus causing the agreement to be renegotiated. In the event the BFSA continues to exercise control period powers at the time that the parties reach a revised agreement, the BFSA will be required to approve the revised agreement. On May 11, 2011, the BFSA passed a resolution which in ordered that any increase in wages or other benefits provided in the arbitration panel opinion and award to the Buffalo Professional Firefighters Association Inc., Local 282, for the period beginning July 1, 2002 through June 30, 2004 not be paid for any period prior to July 1, 2007. Also on May 11, 2011, the BFSA approved (i) a retirement incentive which had been negotiated between the Buffalo CSD and the Buffalo Teachers Federation, and (ii) a collective bargaining agreement between the Buffalo CSD and the Transportation Aides, representing 594 school bus aides. On June 15, 2011, the BFSA approved a budget modification in the amount of $2,582,000 for various judgments and claims to be paid by the City.

BFSA Oversight Actions Related to the City's 2009-10 Fiscal Year

On May 1, 2009, the City submitted to BFSA its 2009-10 budget and 2010-13 four-year financial plan for review and approval. On May 13, 2009, the BFSA disapproved a collective bargaining agreement between the BMHA and AFSCME Local 264 on the basis that (i) salary increases were excessive relative to the market, and (ii) the risk associated with labor concessions contained in the BMHA and AFSCME Local 264 collective bargaining agreements was high and thus inconsistent with the financial plan. On May 27, 2009, the City and the School District submitted revised budgets for 2009-10 and four-year financial plans for 2010-13 to the BFSA for approval and on June 5, 2009 the BMHA and BURA submitted revised budgets for 2009-10 and four-year financial plans 2010-13 for approval. The BFSA approved such budgets and financial plans for all four governmental units on June 10, 2009. On July 29, 2009, the BFSA approved a collective bargaining agreement between Buffalo CSD and the Substitutes United of Buffalo NEA/NY, representing approximately 770 substitute teachers. A financial plan modification was not required as the overall financial impact of this agreement was beneficial to the Buffalo CSD over the term of the collective bargaining agreement. On October 23, 2009, the BFSA approved the issuance by the Erie County Industrial Development Agency on behalf of the Joint Schools Construction Board of the Series 2009A bonds covering Phase IV of the schools reconstruction project, subject to certain pricing benchmarks. On December 9, 2009, the BFSA approved a revised collective bargaining agreement between the BMHA and AFSCME Local 264, which had been renegotiated after the initial collective bargaining agreement was disapproved by the BFSA on June 5, 2009, and involved approximately 219 represented employees. Also on December 9, 2009, the BFSA approved the re-instatement of parks and recreation positions transferred from the County due to the termination of the 2004 City-County Inter-Municipal Parks Agreement, and the creation of the position of Deputy Commissioner of Parks and Recreation, noting a budget transfer of $904,077 was necessary to cover such additional expenses for the parks system through the remainder of the fiscal year. On March 22, 2010, the BFSA approved a budget modification for capital outlay for the Department of Parks and Recreation. On May 12, 2010, the BFSA approved a series of budget modifications for various purposes including: funding of certain police department positions; acquisition of an emergency vehicle; proceeds to be made available to various organizations in the City; increases for various operational expenditures includes injured-on-duty payments, VOIP telephones, and demolitions; and reimbursement to police benevolent association members for certain healthcare contributions. Also on May 12, 2010, the BFSA approved a renegotiated wage and benefit package for non-represented employees of the BMHA, effecting approximately 24 employees; such agreement was originally disapproved by the BFSA on June 5, 2009.

Litigation Regarding Wage Freeze Imposed by BFSA

As a result of the fiscal-related actions taken by the BFSA, a number of affected collective bargaining units representing employees of the City and certain non-exempted Covered Organizations initiated legal proceedings in federal and state courts challenging certain of the BFSA actions, including the BFSA's imposition of the wage freeze on April 21, 2004. These bargaining units sought reversal of those actions, in particular the imposition of the wage freeze. These challenges were litigated by the bargaining units and were ultimately unsuccessful. On June 5, 2007, the BFSA adopted a resolution lifting the wage freeze effective July 1, 2007. By the same resolution, the BFSA approved the City's and Buffalo CSD's financial plan providing a one-step increase on employees' salary schedules effective July 1, 2007. Certain bargaining units challenged this action, claiming entitlement to three additional steps as of July 1, 2007; *i.e.*, the three additional salary steps employees would have received but for the wage freeze. On March 29, 2011, the New York State Court of Appeals, the State's highest Court, ruled in favor of the BFSA, the City, and the Buffalo CSD. In June 2011, the Buffalo Teachers Federation moved in Federal District Court to reopen the case in which the wage freeze had been found to be constitutional. The motion was a result of the decision by the Court of Appeals of New York finding that the steps and increments did not accrue during the wage freeze. BFSA opposed the motion which was denied on February 8, 2012. The Buffalo Teachers Federation, et al, filed a Notice of Appeal on March 7, 2012. The BFSA, together with the Buffalo CSD and the City continue to formally oppose the Buffalo Teachers Federal et al., in this litigation. The Union representing the Police commenced an action in Federal District Court on July 21, 2011 seeking a declaration that the statute creating the BFSA is unconstitutional based upon the imposition of the freeze and the lifting of the freeze. Both BFSA and the City moved to dismiss the complaint and the motion was granted on May 22, 2012. The Police Union has not filed a notice of appeal. On July 15, 2011, the Buffalo Professional Firefighters Association, Inc. brought a proceeding to declare a resolution enacted by the BFSA on May 11, 2011 to be invalid. The resolution ordered the City of Buffalo to not pay any increases in wages or benefits provided under a recent arbitration award for the period beginning July 1, 2002 through June 30, 2004. BFSA and the City moved to dismiss the proceeding, the motion was granted on January 12, 2012, and a notice of appeal has been filed by the Buffalo Professional Firefighters Association, Inc. The BFSA and the City will oppose the reversal of the decision of the lower court in this matter. (See "LITIGATION" herein.)

The BFSA has provided the information contained in this section of the Official Statement entitled "THE BUFFALO FISCAL STABILITY AUTHORITY." The BFSA has not reviewed nor makes no representation as to the accuracy, completeness or fairness of any other information included in this Official Statement.

CITY INDEBTEDNESS

At July 1, 2012, the City had outstanding general obligation serial bonds of $328.6 million. Real property within the City is subject to assessment and taxation for City debt, as well as debt of the Sewer Authority and a proportionate share of County debt. For a description of certain other long-term obligations of the City not classified as long-term debt see Appendix B.

Certain Features of Debt Authorization

In general, the State Legislature has empowered the City to borrow and incur capital indebtedness by the enactment of the Local Finance Law, subject to certain constitutional provisions and to limitations imposed on the City by the BFSA Act. The City is prohibited from giving or loaning any money or property to or in aid of any individual or private corporation or private undertaking or giving or loaning its credit to or in aid of any of the foregoing or any public corporation. The City may contract indebtedness only for City purposes. The City generally authorizes construction and financing of facilities which are of service to its citizens on a City-wide basis. The City finances and maintains refuse services, streets and schools, City-owned buildings and several parks and playgrounds, all of which necessitate a regular capital improvement program. Capital projects are normally planned and proposed to the Common Council by the City Administration. Certain capital projects are subject to regulation and approval of applicable commissions and agencies. In addition, the City is authorized to issue bonds to pay judgments and claims.

Each bond resolution requires approval by the Mayor within ten days after its passage or, if disapproved by the Mayor, must be passed again by three-fourths vote of the Common Council. Generally, each adopted bond resolution is thereafter subject to petition for repeal during the thirty-day period following its adoption. Each petition must be signed by electors of the City who were registered at the last preceding general election equal in number to at least 10% of registered voters in the City for such election. If a petition for repeal is filed, and such bond resolution is not repealed by the Council, it must be submitted to referendum for approval or disapproval by the electorate. Assuming no petition is presented and no referendum is required on the resolution, such resolution takes effect upon expiration of the thirty-day period.

The Local Finance Law also provides a twenty-day statute of limitations after publication of an adopted bond resolution together with a statutory form of notice which, in effect, stops legal challenges to the validity of obligations authorized by such bond resolution, except for alleged constitutional violations. The City follows this procedure for all of the bond resolutions, adopted in connection with the Series D Bonds and the Series E Bonds.

The City is authorized by the State Constitution to contract debt for objects or purposes which the State Legislature has determined to have a "period of probable usefulness" and the maximum maturity of such debt may not exceed the period of probable usefulness of the object or purpose as determined by statute or, in the alternative, the weighted average period of probable usefulness of the several objects or purposes for which it is contracted. Serial bonds mature in annual installments and may be issued to finance any object or purpose for which a "period of probable usefulness" has been determined by the State Legislature. With the exception of serial bonds issued under certain housing and urban renewal programs, no annual installment of a serial bond may be more than 50% in excess of the smallest prior installment unless the Common Council provides for substantially level or declining debt service in the manner prescribed by the State Legislature. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal-year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose determined by statute.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (constitutional, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

A condition precedent to the incurrence of capital indebtedness to be financed by borrowing is the adoption of a bond resolution in conformity with the provisions of the Local Finance Law, which law requires that the City estimate the maximum cost of, and amount to be expended for, the particular object or purpose to be financed. Except for financings prior to July 15, 2012, Section 107.00 (d)(9) of the Local Finance Law requires that the City provide a percentage of the cost to be financed from current funds, either budgeted or received from proceeds of capital note issues. In addition, there is no requirement for a current fund down payment with respect to projects having a useful life not in excess of five years, capital improvements estimated to be self-sustaining, improvements to docks, wharves, and piers, and certain other types of improvements.

In general, the Local Finance Law contains similar provisions providing the City with power to issue general obligation revenue and tax anticipation notes, budget and capital notes. The Common Council has delegated its power with respect to the issuance and sale of bonds and notes to the Comptroller, the chief fiscal officer of the City under its Charter.

All indebtedness contracted by the City pursuant to the Local Finance Law constitutes a general obligation of the City. As required by the State Constitution and applicable law, the City pledges its faith and credit for the payment of the principal of and interest on all City indebtedness.

Debt Limit

The State Constitution limits the amount of indebtedness, both funded and short-term, which the City may incur. In accordance with the BFSA Act, debt issued by the BFSA is not subject to the City's debt limit. The State Constitution provides that the City may not contract indebtedness in an amount greater than 9% of the average full value of taxable real property in the City for the most recent five years. Certain indebtedness is excluded in ascertaining the City's authority to contract indebtedness within the constitutional limits; accordingly, debt of this kind, commonly referred to as "excluded debt", may be issued without regard to the constitutional limits and without affecting the City's authority to issue debt subject to the limit. Such exclusions are authorized by the Constitution and include the following:

(i) tax anticipation notes, revenue anticipation notes and budget notes, to the extent such obligations are retired within five years of their original issuance;

(ii) indebtedness (commonly referred to as "self-sustaining debt") contracted for public improvements or services which provide sufficient annual revenue after paying annual operating expenses of the improvement or service, to pay at least 25% of the annual interest and principal installments due on such indebtedness (the indebtedness is excluded after approval by the State Comptroller in a proportion equal to the proportion of annual debt service covered by net revenues of the improvement or service for which it was contracted, and under State law, the revenues from such improvement or service, for the period of the exclusions, must be used solely for debt service on the excluded indebtedness, operating and other costs of the improvement or service, or deposited in a special account to be used for such purposes); and

(iii) indebtedness contracted for supply of water.

The City received from the State Comptroller a renewal certificate stating that the City, in computing its debt contracting power pursuant to Article 8 of the Constitution of the State and Section 123.00 of the Local Finance Law, may exclude 100% of the principal amount of outstanding bonds heretofore issued for the construction of public parking facilities in the City which are operational, it having been shown during the fiscal year ended June 30, 2011, that the net revenues of the facilities are sufficient to pay 100% of the debt service on the respective issues of outstanding bonds. This certificate expires on October 1, 2012. Authorized but unissued debt is not charged against the debt limit.

The following table shows the debt-incurring power of the City within the debt limit as of August 1, 2012.

CITY OF BUFFALO
STATEMENT OF DEBT CONTRACTING POWER
August 1, 2012[(1) (2)]

		Amount	Percent
Debt Contracting Limitation			
Nine Percent of Average Full Valuation - Article VIII, Section 4, of the Constitution of the State of New York		$588,627,282	100.00%
Gross Indebtedness:			
Borrowings:			
Serial Bonds	$295,604,414		
DASNY Refunding	33,025,000		
Total Gross Debt	328,629,414		
Exclusions:			
Exempt Debt:			
Water Supply Bonds	1,540,158		
Parking Facilities Bonds	15,930,000		
Reserve to Pay Non-Exempt Debt	1,711,765		
Approp. in Current Budget to Pay Non-Exempt Debt Maturing during Remainder of FY	37,144,921		
Total Exclusions	$55,756,844		
Net Indebtedness		272,872,570	46.4%
Debt-Contracting Margin		317,754,712	53.6%
Less Authorized But Unissued Non-Exempt Debt		6,170,000	1.0%
Effective Borrowing Capacity		$309,584,712	52.6%

Source: City of Buffalo, Department of Audit and Control, Division of Cash & Debt Management.
(1)For computation of debt-contracting limitation, see table of Constitutional Tax Levying and Debts Contracting Limitation under "PROPERTY TAXES," herein.
(2)Included within debt amount are bonds of the City in the amount of $69,614,414 sold to BFSA.

Debt Statement

The following table, showing all outstanding direct general obligation indebtedness to which the City has pledged its faith and credit for payment of principal and interest, indicates the net amount of debt which is actually serviced from general City revenues, and includes that portion of the debt of the Municipal Bond Bank Agency, of the County and the Sewer Authority for which the real property taxpayers of the City are responsible. No authorized but unissued debt has been included.

CITY OF BUFFALO
STATEMENT OF DIRECT AND OVERLAPPING INDEBTEDNESS
August 1, 2012

DIRECT DEBT

BONDED DEBT		
General Purpose[1]	$196,312,435	
School	115,416,821	
Off-Street Parking Facilities[2]	15,360,000	
Water[3]	1,540,158	
Total Bonded Debt		$328,629,414
MUNICIPAL BOND BANK AGENCY[4]		23,700,000
CAPITAL LEASE OBLIGATIONS		3,726,373
GROSS DIRECT DEBT		356,055,787
DEDUCTIONS		
Off-Street Parking Facilities	(15,360,000)	
Water[3]	(1,540,158)	
Total Deductions		(16,900,158)
NET DIRECT DEBT		339,155,629

OVERLAPPING DEBT	Outstanding	City %	City Share
Erie County	$467,541,552[5]	13.6%[6]	63,585,651
Buffalo Sewer Authority	42,120,000[7]	23.0%[8]	9,687,600
Total Net Overlapping Debt			73,273,251
NET DIRECT AND OVERLAPPING DEBT			$412,428,880

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.

[1]Included within debt amount are bonds of the City (total for each bonded debt, General Purpose - $59,362,435; School - $8,711,821; and Water - $1,540,158 sold to BFSA.)

[2]Pursuant to lease agreements between the City and various non-profit private parking operators, the City receives rentals from leased parking facilities in an annual amount sufficient to defray a significant amount of the principal and interest requirements on the City parking bonds which financed such facilities. The costs of operation, maintenance and repairs of such facilities are borne by the private operators. During the 2010-11 fiscal year, net revenues received by the City from rental payments are budgeted for $7,612,169 or over 100% of the $3,124,104 debt service budgeted to be paid on the City parking bonds that were eligible for debt exclusion. Only those bonds that have financed parking facilities which are operational and either partially or fully self-sustaining are eligible for exclusion.

[3]Exempt in full pursuant to Local Finance Law. The Water Board has covenanted with the City and the Water Authority to establish rates sufficient to cover all City-issued debt for water purposes.

[4]The City is obligated to make annual payments to the State Municipal Bond Bank Agency for payment of debt service on bonds issued on behalf of the City by that Agency.

[5]Excludes County general obligations sold for sewer districts in the County payable from assessments on property outside the City. Such debt is paid from annual benefit assessments in each district by various fees and charges. Excludes Debt issued by the Erie County Fiscal Authority. (Source: Erie County Comptroller's Office)

[6]Ratio of City to total County full valuation for 2011, as equalized by the County Commissioner of Finance (publication dated July 1, 2011).

[7]Does not include outstanding bonds of the Sewer Authority deemed to be defeased as a result of the escrow of the United States Treasury Obligations, the principal of and interest on which will be sufficient to pay such bonds as they become due.

[8]Within the City, approximately 23.0% of the operating fund revenue of the Sewer Authority is derived from a sewer rent on the assessed value of real property, and 52.0% of the revenue is received from a sewer rent based on water usage.

Debt Ratios

The following table sets forth certain debt ratios based upon the City's Statement of Direct and Overlapping Indebtedness as of August 1, 2012.

	Amount	Per Capita[1]	Ratio to Assessed Value of Taxable Property[2]	Ratio to Estimated Full Value of Taxable Property[3]
Gross Direct Debt	$ 356,055,787	$1,363	5.5%	5.2%
Net Direct Debt	339,155,629	1,298	5.3%	5.0%
Net Direct and Overlapping Debt	412,428,880	1,578	6.4%	6.0%

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.
[1]The population of the City determined by estimates made by the U.S. Bureau of the Census for 2010 is 261,310.
[2]The assessed valuation of the City for the 2012-13 fiscal year is $6,438,116,744.
[3]The full valuation of the City for the 2012-13 fiscal year based on the Special Equalization Ratio of .9400 established by the State Board of Equalization and Assessment is $6,849,060,366.

Debt Service Requirements

The following table shows the debt service requirements to maturity on the City's outstanding general obligation bonded indebtedness as of August 1, 2012.

ANNUAL DEBT SERVICE REQUIREMENTS
Maturing During Fiscal Year Ending June 30:

Year	Principal	Interest	Total
2013	$39,541,673	$12,472,749	$52,014,422
2014	37,705,657	12,274,002	49,979,659
2015	34,894,440	10,622,560	45,516,999
2016	32,767,712	9,127,766	41,895,478
2017	28,863,597	7,737,348	36,600,945
2018	24,614,277	6,587,380	31,201,657
2019	24,775,816	5,536,939	30,312,755
2020	24,843,181	4,430,539	29,273,720
2021	21,831,890	3,344,498	25,176,389
2022	19,179,585	2,468,753	21,648,339
2023	18,498,964	1,669,071	20,168,035
2024	11,590,163	861,344	12,451,506
2025	6,457,459	373,418	6,830,876
2026	2,660,000	116,150	2,776,150
2027	405,000	13,163	418,163
	$328,629,414	$77,635,680	$406,265,093

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.

Rate of Principal Retirement

The following table presents the amount and percentage of principal of general obligation long-term debt excluding the new issue to be retired over the following respective periods.

Fiscal Years Ending June 30:	Amount	Percentage of Total Principal Amount Retired
2013-2017	$173,773,078	52.9%
2018-2022	133,743,714	40.7%
2023-2027	21,12,622	6.4%
	$328,629,414	100.0%

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.

CITY OF BUFFALO, NEW YORK
TREND OF BONDED INDEBTEDNESS
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30:	Gross Bonded Debt
2002	$465,885,000
2003	435,873,000
2004	415,580,000
2005	404,012,899
2006	392,710,245
2007	383,728,748
2008	347,525,258
2009	364,760,253
2010	326,118,021
2011	313,957,579
2012	328,629,414

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.

Short-Term Indebtedness

Imbalances in the City's cash flow throughout the year may necessitate the issuance of short-term indebtedness for operating needs. In accordance with the BFSA Act, debt issued by the City is subject to the review of the BFSA. (See "THE BUFFALO FISCAL STABILITY AUTHORITY" herein.) The following information describes the characteristics of each major type of short-term debt obligation that the City is authorized to issue.

Revenue Anticipation Notes

Revenue anticipation notes may be issued in any fiscal year in anticipation of the collection of estimated taxes (other than real property taxes), monies estimated to be received from the State and federal governments and certain other types of income which are due and payable in such fiscal year. Generally, such notes must mature within one year after the date of issuance and may be renewed from time to time for periods of up to one year in an amount not exceeding such uncollected revenue; however, the maturity of such notes, including renewals, may not extend beyond the end of the second fiscal year following the fiscal year in which such notes were originally issued. Interest on revenue anticipation notes is provided for by appropriation in the City budget. If such notes, including renewals, have not been redeemed by their final maturity, monies for the redemption thereof may be provided for either by the revenues in anticipation of which the original notes were issued, or by appropriations in the City budget and from the proceeds of obligations issued in anticipation of revenue receipts budgeted to finance such appropriations.

The following table sets forth the principal amounts of revenue anticipation notes issued by the City in recent fiscal years.

Fiscal Year Ended June 30:	Revenue Anticipation Notes Total Issued	BFSA Seasonal Borrowings
2002	$120,000,000	-
2003	75,000,000	-
2004	120,000,000	-
2005	-	$84,000,000
2006	-	90,000,000
2007	-	60,000,000
2008	-	-
2009	-	-
2010	-	-
2011	-	-
2012	-	-

Source: City of Buffalo, Department of Audit and Control, Division of Cash and Debt Management.

Tax Anticipation Notes

Generally, tax anticipation notes may be issued by the City during a fiscal year in anticipation of the collection of real property taxes levied for such fiscal year. The notes must mature within one year from the date of their issuance. If the taxes against which such notes are issued remain uncollected, such notes may be renewed from time to time for periods of up to one year in an amount not exceeding the amount of such uncollected taxes. Such notes, including renewals, must be redeemed not later than five years from the date of original issuance. Payment of interest on such notes is provided by appropriation in the City budget. If such notes, including renewals, have not been redeemed from real property taxes within five years from the date on which the original notes were issued, monies for the redemption thereof must be provided by appropriation in the City budget. The proceeds of such notes may be used for any purpose for which the tax receipts against which such notes were issued could be used. The City has not issued tax anticipation notes since 1982.

Bond Anticipation Notes

Bond anticipation notes may be issued for any purpose for which bonds may be issued. Such notes must be redeemed either from the proceeds of the bonds in anticipation of which they were issued or from City appropriations. The proceeds of such notes may be used only for the same object or purpose for which the proceeds of the bonds in anticipation of which such notes have been issued may be used. Such notes may be renewed from time to time provided, however, that a portion thereof must be redeemed no later than two years after the date on which the original notes were issued and the final maturity thereof may not exceed five years from the original date of issuance of such notes. In no event, however, may such notes be renewed after receipt by the City of proceeds from the sale of the bonds in anticipation of which the notes were issued. Payment of interest on such notes is provided by appropriation in the City budget. There are no bond anticipation notes outstanding; the last such notes matured in February 2001.

Budget Notes

Budget notes generally may be issued for the purpose of covering expenditures for which an insufficient provision or no provision has been made in the City budget. In general, the maximum principal amount of budget notes which may be issued in any fiscal year may not exceed approximately 5% of the City budget; however, budget notes may also be issued in unlimited amounts for certain specified purposes. Budget notes must mature not later than the close of the fiscal year following the year in which they are issued and must be redeemed from taxes levied for the fiscal year of maturity or from other available revenues. However, if the budget notes are authorized subsequent to the adoption of the budget, such notes may mature at the end of the second year succeeding the year in which issued. Both principal and interest are provided by appropriation in the City budget in the year in which they mature. The City last issued budget notes on May 7, 1992, in the amount of $17.1 million. These notes matured on December 31, 1992.

Deficiency Notes

The City may issue deficiency notes during any fiscal year to finance a deficiency in any fund or funds arising from revenues being less than the amount estimated in the budget for such current fiscal year. The City has not issued and currently does not anticipate the issuance of such debt.

Urban Renewal Notes

The City may issue urban renewal notes in anticipation of the receipt of monies for an urban renewal projects under certain State and federal programs and from the sale of property acquired in connection with such projects. The City has not sold urban renewal notes since 1967 and does not currently anticipate the issuance of such debt. (See "CITY-RELATED ENTITIES – Buffalo Urban Renewal Agency" herein.)

Capital Notes

Capital notes may be issued to finance all or part of the costs of any object or purpose for which serial bonds may be issued. The City has not sold capital notes since 1970 and does not currently anticipate the issuance of such debt.

Prospective Long-Term Indebtedness of the City

As of July 1, 2012, the City had authorized but unissued general obligation debt in the amount of $6.2 million. Several efforts are ongoing to rescind or amend existing bond resolutions authorizing general obligation debt that remains unissued and is unlikely to be issued, due to a change in circumstances. The 2012 Capital Improvement Budget, which totaled $27.0 million, was adopted on December 9, 2011.

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PROPERTY TAXES

The City derives its power to levy an ad valorem real property tax from Article 8, Section 10 of the State Constitution. The City is responsible for levying taxes for City and Buffalo CSD purposes. The City's property tax levying powers, other than for debt service and certain other purposes, are limited by the State Constitution to 2% of the most recent five-year average full valuation of taxable real property of the City. (See "REVENUES – Municipally Generated Revenues - Real Property Tax" herein.) On June 24, 2011, the New Tax Levy Limit Law was enacted, which imposes a tax levy limitation upon the municipalities, school districts and fire districts in the State, including the City, without providing an exclusion for debt service on obligations issued by municipalities and fire districts, including the City. See "New Tax Levy Limit Law," herein.

New Tax Levy Limit Law

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the "Tax Levy Limitation Law"). The Tax Levy Limitation Law applies to virtually all local governments, including school districts (with the exception of New York City, Yonkers, Syracuse, Rochester and Buffalo). It also applies to independent special districts and to town and county improvement districts as part of their parent municipalities tax levies.

The Tax Levy Limitation Law restricts, among other things, the amount of real property taxes (including assessments of certain special improvement districts) that may be levied by or on behalf of a municipality in a particular year, beginning with fiscal years commencing on or after January 1, 2012. It expires on June 15, 2016 unless extended. Pursuant to the Tax Levy Limitation Law, the tax levy of a municipality cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the consumer price index ("CPI"), over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases or changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. A municipality may exceed the tax levy limitation for the coming fiscal year only if the governing body of such municipality first enacts, by at least a sixty percent vote of the total voting strength of the board, a local law (resolution in the case of fire districts and certain special districts) to override such limitation for such coming fiscal year only. There are exceptions to the tax levy limitation provided in the Tax Levy Limitation Law, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, the Police and Fire Retirement System, and the Teachers' Retirement System. Municipalities are also permitted to carry forward a certain portion of their unused levy limitation from a prior year. Each municipality prior to adoption of each fiscal year budget must submit for review to the State Comptroller any information that is necessary in the calculation of its tax levy for each fiscal year.

The Tax Levy Limitation Law does not contain an exception from the levy limitation for the payment of debt service on either outstanding general obligation debt of municipalities or such debt incurred after the effective date of the tax levy limitation provisions.

Article 8 Section 2 of the State Constitution requires every issuer of general obligation notes and bonds in the State to pledge its faith and credit for the payment of the principal thereof and the interest thereon. This has been interpreted by the Court of Appeals, the State's highest court, in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), as follows:

> "A pledge of the city's faith and credit is both a commitment to pay and a commitment of the city's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the city's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith"

> and "credit", are used and they are not tautological. That is what the words say and that is what courts have held they mean."

Article 8 Section 12 of the State Constitution specifically provides as follows:

> "It shall be the duty of the legislature, subject to the provisions of this constitution, to restrict the power of taxation, assessment, borrowing money, contracting indebtedness, and loaning the credit of counties, cities, towns and villages, so as to prevent abuses in taxation and assessments and in contracting of indebtedness by them. Nothing in this article shall be construed to prevent the legislature from further restricting the powers herein specified of any county, city, town, village or school district to contract indebtedness or to levy taxes on real estate. The legislature shall not, however, restrict the power to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted."

On the relationship of the Article 8 Section 2 requirement to pledge the faith and credit and the Article 8 Section 12 protection of the levy of real property taxes to pay debt service on bonds subject to the general obligation pledge, the Court of Appeals in the Flushing National Bank case stated:

> "So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the city's power to levy taxes on real estate for the payment of interest on or principal of indebtedness previously contracted….While phrased in permissive language, these provisions, when read together with the requirement of the pledge of faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded".

In addition, the Court of Appeals in the Flushing National Bank case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of municipalities.

Therefore, while the Tax Levy Limitation Law may constrict an issuer's power to levy real property taxes for the payment of debt service on debt contracted after the effective date of said Tax Levy Limitation Law, it is clear that no statute is able (1) to limit an issuer's pledge of its faith and credit to the payment of any of its general obligation indebtedness or (2) to limit an issuer's levy of real property taxes to pay debt service on general obligation debt contracted prior to the effective date of the Tax Levy Limitation Law. Whether the Constitution grants a municipality authority to treat debt service payments as a constitutional exception to such statutory tax levy limitation outside of any statutorily determined tax levy amount is not clear.

It is possible that the Tax Levy Limitation Law will be subject to judicial review to resolve the constitutional issues raised by its adoption. Although courts in New York have historically been protective of the rights of holders of general obligation debt of political subdivisions, the outcome of any such legal challenge cannot be predicted.

COMPUTATION OF REAL ESTATE TAX LEVYING LIMITATION[(1)]
for the 2012-13 Fiscal Year

Two Per Centum of Five-Year Average Full Valuation		$130,806,063
EXCLUSIONS ADDED THERETO		
Net Debt Service[(2)]	$42,837,584	
Appropriation for capital project account reserve	400,000	
Appropriation for objects or purposes for which a period of probable usefulness is provided by Section 11.00 of Local Finance Law	6,196,757	
Total Exclusions		49,434,341
MAXIMUM TAXING POWER		180,240,404
REAL ESTATE TAX LEVY		138,643,357
TAX LEVYING MARGIN		$41,597,047

Source: City of Buffalo Administration, Finance, Policy and Urban Affairs, Division of Budget
(1)As of July 1, 2011, first day of the proposed 2011-12 Fiscal Year Budget

(2)Gross Debt Service		$53,521,841
Less: Tax and Revenue Anticipation Note Interest	$ 0	
Revenue Applied to Debt	0	
Resources Applied to Debt	7,827,545	
Interfund Transfers	2,856,712	10,684,257
Net Debt Service[(3)]		$42,837,584

(3)Excludes Enterprise Fund – Water

The State Board of Equalization and Assessment annually establishes State Equalization Ratios for the City and all localities in the State which are determined by statistical sampling of market sales/assessment studies. The equalization ratios are used in calculation and distribution of certain State aid and are used by many localities in the calculation of debt contracting and real property taxing limitations. The debt contracting and real property taxing limitations are based on a percentage amount of average full valuation. The City determines the assessed valuation for taxable real properties. The State Board of Equalization determines the assessed valuation of special franchises and the taxable ceiling of railroad property. Special franchises include assessments on certain specialized equipment of utilities under, above, upon or through public streets or public places. Assessments are made on certain properties which are taxable for school purposes, but which the City exempts for general municipal purposes.

In response to the Hurd decision, the State Legislature authorized special equalization ratios to be used in the computation of tax levying and debt contracting limitations for those affected entities. Such State Equalization Ratios are based upon a trend of market sales/assessment studies which lag current data by approximately three years. The following table indicates the recent five-year trend of assessed valuations, the State special equalization ratios assigned to the City by the State and full valuations.

COMPUTATION OF CONSTITUTIONAL TAX LEVYING AND DEBT CONTRACTING LIMITATION
For the 2012-13 Fiscal Year

Fiscal Year Ended June 30:	Assessed Valuation[1]	State Special Equalization Ratio[2]	Full Valuation[3]
2009	$6,132,108,194	0.9768	$6,277,752,041
2010	6,211,380,838	0.9662	6,428,669,880
2011	6,406,851,468	0.9604	6,671,024,019
2012	6,405,793,577	0.9349	6,851,848,943
2013	6,438,116,744	0.9400	6,849,060,366

Total Five-Year Full Valuation	$32,701,915,666
Five-Year Average Full Valuation	$6,540,383,133
Tax Levying Limitation: 2% of Average Full Valuation	$130,806,063
Debt Contracting Limitation: 9% of Average Full Valuation	$588,627,282

Source: City of Buffalo Administration, Finance, Policy and Urban Affairs, Division of Budget.

(1) Includes: (a) property of veterans exempt for general City purposes but taxable for school purposes pursuant to Section 458 of Real Property Tax Law; (b) property owners 65 years of age or over with children attending public schools exempt for general City purposes but taxable for school purposes pursuant to Section 467 of the Real Property Tax Law; and (c) Special Franchises.

(2) Special Equalization Ratios established by State Board of Equalization and Assessment in January 2011.

(3) Determined by dividing Assessed Valuation by State Special Equalization Ratio.

Preparation of the City assessment roll is the statutory responsibility of the City under the Real Property Tax Law of the State. The Assessment Department of the City undertakes regular inspections of properties to ensure that new construction or improvements or demolitions are reflected in the annual roll of taxable properties.

The County, in a joint effort with the New York State Division of Equalization and Assessment and the Erie County Assessors Association, initiated a reassessment of all real properties within the County in order to eliminate inequities among taxing districts within the County. The City's Assessment Department adopted the results of the County reassessment program with minor revisions for the purpose of its own assessment roll, commencing with the City's 1987-88 fiscal year. Since then, the City has undertaken a reassessment of all properties in the City and has used the results of the reassessment commencing with the City's 1993-94 fiscal year. Currently, the City's Assessed Valuation has increased by $306.0 million or 5.0%, since 2009.

The following table indicates the composition of total valuation of all properties in the City for the last five fiscal years and depicts the trend of taxable valuations by major category, tax-exempt properties by major category, and special franchises. The categories of property owned by veterans and senior citizens are partially exempt for real property tax purposes.

COMPOSITION OF REAL PROPERTY
for the Fiscal Year Ended June 30

	2008	2009	2010	2011	2012
TAXABLE FOR GENERAL CITY AND SCHOOL PURPOSES					
Residential	$3,914,739,200	$3,956,732,911	$4,016,446,355	$4,178,672,320	$4,192,173,859
Commercial	1,321,626,635	1,329,838,571	1,322,960,067	1,324,885,938	1,322,248,153
Industrial	157,308,390	158,870,117	161,837,648	156,671,800	153,709,600
Utilities[1]	149,593,289	152,743,694	163,941,583	164,680,795	164,678,045
Railroads[2]	36,620,825	39,939,473	41,055,683	48,373,233	48,375,983
Vacant Land	61,155,414	55,464,854	54,595,398	51,869,666	56,423,371
Total Taxable Property	5,641,043,753	5,693,589,620	5,760,836,734	5,925,153,752	5,937,609,011
Special Franchises[3]	348,041,503	346,220,441	359,195,223	390,518,568	379,674,935
TAX BASE FOR GENERAL CITY AND SCHOOL PURPOSES	5,989,085,256	6,039,810,061	6,120,031,957	6,315,672,320	6,317,283,946
TAXABLE FOR SCHOOL PURPOSES ONLY					
Veterans[4]	110,638,312	101,364,559	108,513,731	103,323,163	92,947,146
Others[5]	-0-	-0-	-0-	-0-	-0-
Aged 65 and over[5]	2,085,105	2,025,105	1,961,305	1,888,705	1,898,755
Aged 65 and over[6]	(16,036,933)	(11,091,531)	(19,126,155)	(14,033,020)	(6,336,270)
TAX BASE-SCHOOL PURPOSES ONLY	6,085,771,740	6,132,108,194	6,211,380,838	6,406,851,468	6,405,793,577
TAX-EXEMPT FOR GENERAL CITY PURPOSES ONLY					
Railroads[2]	81,639,312	78,325,164	76,243,679	68,926,129	68,934,629
Veterans[4]	110,638,312	101,364,559	108,513,731	103,323,463	92,947,146
Aged 65 and Over[7]	138,928,883	139,528,554	134,559,751	133,796,636	133,788,136
Other[8]	3,248,916,224	3,351,815,934	3,394,367,265	3,442,839,542	3,423,581,080
TOTAL TAX-EXEMPT FOR GENERAL CITY PURPOSES ONLY	3,580,122,731	3,671,034,211	3,713,684,426	3,748,885,770	3,719,250,991
CITY AND SCHOOL TOTAL VALUATION	$9,569,207,987	$9,710,844,272	$9,833,716,383	$10,064,558,090	$10,036,534,937

Source: City of Buffalo, Department of Assessment

[1] Land and buildings. Pipes, conduits, wires, etc. through public streets assessed as special franchises. The characterization of real property as commercial or utility is not uniform from year to year.

[2] Taxable ceiling and extent of exemption established annually by State Board of Equalization and Assessment.

[3] Right, authority or permission to construct, maintain or operate in, under, above, upon or through any public street, highway, or other public place including water mains, pipes, tanks, conduits, wires for transformers. Assessment determined annually by State Board of Equalization and Assessment.

[4] Property of veterans exempt for general City purposes but taxable for school purposes.

[5] Property owners 65 years of age or over exempt for general City purposes but taxable for school purposes.

[6] Property owners 65 years of age or over exempt for school tax purposes only.

[7] Property owners 65 years of age or over exempt for general City purposes.

[8] Public, charitable, educational, religious, etc.

In addition to the partial property tax exemptions granted to veterans and senior citizens, both the City and the County have adopted policies for providing property tax exemptions to attract new business, residential development and industry in the City and surrounding areas. For 2012-13, $677.1 million will be exempted by these policies as compared to $703.1 million in 2011-12 and $726.9 million in 2010-11.

The City receives payments in lieu of taxes, which in fiscal year 2012-13 is budgeted for $5.3 million as compared to $5.5 million in 2011-12 and $5.5 million in 2010-11. As the tax exemptions granted under the City and County policies expire, the related property is placed on the tax rolls.

Tax Levy

The amount of real property tax that is annually levied by the City is raised for City and Buffalo CSD operating purposes (within the taxing limitations described above), for capital debt service (not constrained by the tax levying limitation) and includes the amounts required to balance the City and Buffalo CSD budgets after other revenue sources have been taken into account. Other taxing districts which levy taxes or charges on real property in the City are the Sewer Authority and the County.

As a matter of City policy, the Buffalo CSD is credited with the full amount of taxes levied by the City for school general operating purposes regardless of any deficiency in tax collections.

The following table indicates the total real property tax rates levied within the City for the last five fiscal years.

Table of Tax Rates Per $1,000 of Assessed Valuation[1]

	General City Purposes		School Purposes			Overlapping Entities		
Fiscal Year Ended June 30:	Operations	Capital Debt Service	Operations	Capital Debt Service	Total City	County Of Erie [2]	Buffalo Sewer Authority	Total
2008 (Homestead)	6.7	3.7	7.9	1.4	19.7	5.2	1.8	26.7
2008 (Non-Homestead)	10.9	6.1	13.3	2.4	32.7	5.2	1.8	39.7
2009 (Homestead)	5.5	4.0	7.6	1.4	18.5	5.2	1.8	25.5
2009 (Non-Homestead)	9.4	6.8	13.4	2.4	32.0	5.2	1.8	39.0
2010 (Homestead)	5.5	4.0	7.6	1.4	18.5	5.3	1.8	25.6
2010 (Non-Homestead)	9.4	6.8	13.4	2.4	32.0	5.3	1.8	39.1
2011 (Homestead)	5.3	4.0	7.3	1.3	17.9	5.4	1.7	25.0
2011 (Non-Homestead)	9.4	7.0	13.2	2.4	32.0	5.4	1.7	39.1
2012 (Homestead)	5.2	4.1	7.4	1.3	18.0	5.5	1.7	25.2
2012 (Non-Homestead)	9.0	7.1	13.1	2.4	31.6	5.5	1.7	38.8
2013 (Homestead)	4.8	4.2	7.6	1.4	18.0	n/a	1.7	n/a
2013 (Non-Homestead)	7.6	6.7	12.4	2.3	29.0	n/a	1.7	n/a

Source: City of Buffalo, Department of Audit & Control, Division of Accounting, County of Erie, and Buffalo Sewer Authority
[1]Tax rates reflect full value reassessment
[2]Erie County has a January 1 through December 31 fiscal year. Rate is based on Equalized Full Valuation for year 2012.

Tax Collection Procedure and History

The ad valorem real property tax rate is established as part of the City's budget process to balance total appropriations and estimated revenues. (See "DISCUSSION OF FINANCIAL OPERATIONS – Budget Process" herein.) Real property taxes become payable upon levy of such taxes by the Common Council. The taxes are collected by the City Treasury. The total amount of the taxpayer's bill is due and payable on July 1; however, the first half may be paid without penalty on or before July 31 and the second half on or before

December 31. No discounts for prepayment are allowed. Penalties are assessed for delinquencies at an effective rate of 18% per annum.

Special assessments (for sidewalks, demolitions, lot clearance) on benefited property are due and payable on the date of the first publication of the special assessment notice and may be paid before the expiration of one month from such date without additions. At the expiration of one month, 1% per month is added to all past due and unpaid special assessments. Each year on March 1 the amount of all past due and unpaid special assessments and the interest accrued thereon is added to the real property tax roll for the succeeding fiscal year. Such special assessments are payable with the first half installment of real property taxes and subject to the same additions for non-payment that apply to the first half installment.

Real estate for which taxes remain unpaid as of May 25 is subject to the sale of a tax sale certificate, giving the purchaser a claim to the property. Within two years from the date of sale of the tax sale certificate, the property may be redeemed by the payment of the face amount of the tax sale certificate with interest at the rate of 1% per month. After the redemption period of two years, conveyance of the property may be secured or foreclosure proceedings instituted. Previously, such tax sale certificates were sold to private buyers; however, for many years the City has found no private bidders for the tax liens, and the City has itself acquired all tax liens. Consequently, the City has elected not to hold a sale of tax sale certificates since July 1, 1977. The City is empowered to seek personal judgment against the property owners. (See "PROPERTY TAXES – Real Property Tax Delinquencies" herein.)

The City does not collect real property taxes levied by the County and is not responsible for delinquencies of County taxes levied against City properties.

The following table shows the recent trend of current property tax levies as adjusted during the year, unpaid special assessments added to annual tax bills, collection of the total current levy, and total collections (i.e., including collections of delinquent taxes), all as of June 30 of the fiscal year indicated.

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Table of Real Property Tax Levies and Collections
(000's Omitted)

Fiscal Year Ended June 30	Current Property Tax Levy	Unpaid Special Assessments Added	Total Current Levy	Amount of Total Current Levy Collected	Percent of Total Current Levy Collected	Collection of Delinquent Taxes	Total Collections	Percent of Total Collections to Total Current Levy
2002	116,034	20	116,054[1][2]	108,237	93.26%	9,303	117,540	101.28%
2003	116,465	-	116,465[1][2]	108,771	93.39%	8,676	117,447	100.84%
2004	124,716	-	124,716[1][2]	116,714	93.58%	11,504	128,218	102.81%
2005	129,256	109	129,365[1][2]	121,485	93.91%	8,108	129,593	100.18%
2006	129,213	48	129,261[1][2]	121,415	93.93%	6,519	127,934	98.97%
2007	129,594	37	129,631[1][2]	121,849	94.00%	7,251	129,100	99.59%
2008	130,072	36	130,108[1][2]	123,394	94.84%	9,777	133,171	102.35%
2009	128,683	6	128,689[1][2]	121,873	94.70%	7,146	129,019	100.26%
2010	126,219	11	126,230[1][2]	119,932	95.01%	6,120	126,052	99.86%
2011	129,069	-	129,069[1][2]	122,281	94.74%	6,477	128,758	99.76%

Source: City of Buffalo, Department of Assessment & Taxation, Division of Assessment.
[1]Total current levy includes assessment adjustments processed during the year of $0.5 million for fiscal year ended June 30, 2002, $0.7 million for fiscal year ended June 30, 2003, $0.9 million for fiscal year ended June 30, 2004, $1.6 million for fiscal year ended June 30, 2005, $0.6 million for fiscal year ended June 30, 2006, $1.0 for fiscal year ended June 30, 2007, $1.6 million for fiscal year ended June 30, 2008, $1.2 million for fiscal year end June 30, 2009, $0.3 million for fiscal year end June 30, 2010 and $0.4 million for fiscal year end June 30, 2011.
[2]Total current levy was reduced by the New York State Enhanced Star Exemption for the fiscal years ended June 30 as follows;:2002 - $15.4 million; 2003 - $16.1 million; 2004 - $17.2 million; 2005 - $18.4 million; 2006 - $17.7 million; 2007 - $17.9 million; 2008 - $18.1 million: 2009 - $16.2 million; 2010 - $16.4 million, and 2011 - $15.7 million.

Real Property Tax Delinquencies

As of June 30, 2011, cumulative real property tax delinquencies were $18.3 million. The City reserved $8.6 million as uncollectible at June 30, 2011. It is the City's policy to write off as uncollectible property taxes which have been delinquent for more than five years.

The primary mechanism for recovery of delinquent taxes has been tax foreclosure. Until June 22, 1975, the City foreclosed on properties following four years of tax delinquency. On June 23, 1975, the City enacted a two-year foreclosure law. The City began a one year foreclosure option on October 26, 1998 as a result of State legislation which was enacted as of January 1, 1995. The effective annual penalty rate for late payment is 18% per annum. This was increased effective July 1, 1992.

In September 2003, the City participated in the Statewide Tax Lien Revenue Program with the Municipal Bond Bank Agency. The City sold $8.8 million of tax liens which consisted of $4.6 million of outstanding taxes and $4.2 of accrued interest and fees related to the outstanding taxes. The City received a cash advance of $4.1 million which was based on the value of the liens and the assessed value of the related properties. The City is also entitled to but has not received any residual interest on future collections.

Major Taxpayers

The following table of the fifteen largest taxpayers indicates the distribution of taxable properties in the City. As indicated, two utilities are liable for approximately 6.4% and 3.1%, respectively, of the total tax levy for fiscal year 2012-13 and no other taxpayer individually accounts for more than 2.0% of the tax levy.

CITY OF BUFFALO
FIFTEEN LARGEST PAYERS OF CITY REAL PROPERTY TAXES[1][2]
Fiscal Year Ending June 30, 2012

Rank	Taxpayer	Nature of Business	Net Assessed Valuation	Real Property Taxes Levied	Ratio of Tax to Tax Levy
1	National Grid, PLC	Utility	$304,641,957	$8,827,609	6.37%
2	National Fuel Gas Corporation	Utility	148,192,705	4,292,757	3.10%
3	Verizon Communications, Inc.	Telecommunications	65,993,608	1,911,663	1.38%
4	Seneca One Realty, LLC	Property Management	59,100,000	1,711,973	1.23%
5	M&T Trust Company [3]	Banking	49,312,200	1,428,446	1.03%
6	Consolidated Rail Corporation	Railroad	79,562,727	1,160,738	0.84%
7	Violet Realty, Inc.	Retail Mall	21,000,000	608,315	0.44%
8	Acquest Government Leases, LLC	Property Management	65,000,000	480,640	0.35%
9	Government Properties Income Trust	Property Management	14,500,000	420,027	0.30%
10	WNY Lodging LLC	Hotel/Hospitality	12,500,000	362,092	0.26%
11	Norfolk Southern Corporation	Shipping/Transportation	26,385,835	344,993	0.25%
12	General Mills, Inc.	Commercial Foods	10,400,800	301,284	0.22%
13	Main-Seneca Corporation	Property Management	8,950,000	259,258	0.19%
14	Uniquest Delaware, LLC	Property Management	37,387,775	256,696	0.19%
15	50-60 Lakefront Boulevard, LLC	Commercial Development	8,000,000	231,739	0.17%
	Total Fifteen Largest Taxpayers			22,598,230	16.30%
	Total Real Property Tax Levy			$138,643,357	100.00%
	Non-Homestead Tax Rate	0.2897			

Source: City of Buffalo, Department of Audit & Control, Division of Cash & Debt Management.
[1]Based on assessed values greater than $100,000.
[2]Does not include those properties which are exempt from taxes and are providing Payments In-Lieu of Taxes (PILOT)
[3]Taxes on bank property only, does not include taxes paid as mortgagee

ECONOMIC AND DEMOGRAPHIC FACTORS

The City was incorporated in 1832. It is the second largest city in the State, encompassing a land area of 42 square miles with a 2010 population of 261,310. The City is located in Erie County in western New York State on the eastern shore of Lake Erie.

Employment

The economy of the Buffalo area underwent a transition in the decade from 1980 to 1990. Traditionally dominated by heavy manufacturing and petrochemical industries, the area lost manufacturing jobs in part from the decline in steelmaking employment at both Bethlehem Steel and Republic Steel. However, these losses were offset by increases in employment in trade, government, services, finance, insurance and real estate and contract construction.

While total employment declined from 1990 through 2010, growth in government, services, financial and insurance sectors helped compensate for reductions in manufacturing and trade. Statistically, the Buffalo area's job categories compare well with the U.S. average in the year 2010 with slight variances in two categories – finance/insurance and mining/construction.

The City remains committed to its downtown development strategy as a means of further diversifying its employment base. (See "ECONOMIC AND DEMOGRAPHIC FACTORS – Development Activity" herein.)

Major employers in the Buffalo area include the State, University of Buffalo, the U.S. Government, Kaleida Health, the County, Buffalo CSD, Catholic Health Systems and Manufacturers and Traders Trust Company.

TRENDS IN EMPLOYMENT BY CATEGORY IN THE BUFFALO METROPOLITAN STATISTICAL AREA ("MSA") 1990-2012
(000's Omitted)

	1990		2000		2010		2011		2012[1]	
	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States
Category[2]										
Manufacturing	92.6	17,695.0	83.0	17,263.0	49.5	11,524.0	49.2	11,733.0	53.0	11,895.6
Trade, Transp., Util.	114.3	22,666.0	109.3	26,225.0	97.8	24,605.0	99.6	25,019.0	97.6	25,127.0
Retail Trade	71.4	13,182.3	65.8	15,279.8	60.9	14,413.0	62.6	14,642.5	60.1	14,632.4
Wholesale Trade	23.7	5,268.4	23.9	5,933.2	21.0	5,456.0	21.0	5,528.8	21.6	5,600.7
Government	89.3	18,415.0	90.7	20,790.0	95.1	22,482.0	94.6	22,105.0	95.0	21,989.7
Service Providing	432.4	85,764.0	455.3	107,136.0	469.52	112,064.0	471.6	113,337.0	469.1	92,317.4
Other Services	19.0	4,261.0	23.1	5,168.0	24.1	5,364.0	23.1	5,341.0	23.2	5,365.1
Transp., Warehouse, Util.	19.2	3,475.6	19.6	4,410.3	15.8	4,183.5	16.0	4,292.5	19.9	4,332.6
Finance and Insurance	23.9	4,976.4	23.2	5,676.7	24.1	5,691.3	23.8	5,751.9	24.6	5,766.5
Nat. Res., Mining, Const.	22.4	765.0	20.8	599.0	18.8	655.9	20.5	784.0	19.9	784.8
Total Non-Agricultural	908.2	176,468.7	914.7	208,481.0	876.6	206,438.7	882.0	208,534.7	884.0	187,811.8

Source: U.S. Department of Labor - Bureau of Labor Statistics Data, August 2012
Source: New York State Department of Labor - Workforce Industry Data, August 2012
(1) Includes preliminary figures for the month of June and July 2012
(2) Does not include all categories of employment

Total Non-Agricultural Employment by Category 1990-2012

	1990		2000		2010		2011		2012[1]	
	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States	Buffalo MSA	United States
Category[2]										
Manufacturing	10.2%	10.0%	9.1%	8.3%	5.6%	5.6%	5.6%	5.6%	6.0%	6.3%
Trade, Transportation & Utilities	12.6%	12.8%	11.9%	12.6%	11.4%	11.9%	11.3%	12.0%	11.0%	13.4%
Retail Trade	7.9%	7.5%	7.2%	7.3%	6.9%	7.0%	7.1%	7.0%	6.8%	7.8%
Wholesale Trade	2.6%	3.0%	2.6%	2.8%	2.5%	2.6%	2.4%	2.7%	2.4%	3.0%
Government	9.8%	10.4%	9.9%	10.0%	10.8%	10.9%	10.7%	10.6%	10.8%	11.7%
Service Providing	47.6%	48.6%	49.8%	51.4%	53.5%	54.3%	53.5%	54.3%	53.1%	49.2%
Other Services	2.1%	2.4%	2.5%	2.5%	2.7%	2.6%	2.6%	2.6%	2.6%	2.9%
Transp., Warehouse, Util.	2.1%	2.1%	2.1%	2.1%	1.8%	2.0%	1.8%	2.1%	2.3%	2.3%
Finance and Insurance	2.6%	2.8%	2.6%	2.7%	2.7%	2.8%	2.7%	2.8%	2.8%	3.1%
Nat. Res., Mining, Const.	2.5%	0.4%	2.3%	0.3%	2.1%	0.3%	2.3%	0.3%	2.3%	0.4%
Total Non-Agricultural	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Department of Labor - Bureau of Labor Statistics Data, August 2012
Source: New York State Department of Labor - Workforce Industry Data, August 2012
(1) Includes preliminary figures for the month of June and July 2012
(2) Does not include all categories of employment

Unemployment Rates

The following table indicates that the City's rate of unemployment is higher than the State and national percentages. City data in the table were determined by using the Census share methodology, which is based on the ratio of the City to the County with respect to employment figures. The 2002-2010 data for the City is based on the City's population data from the 2000 Census. The 2011 data for the City is based on the 2010 Census.

UNEMPLOYMENT RATES [(1)]

Year	City	Buffalo MSA	State	United States
2003	7.2%	5.9%	6.4%	6.0%
2004	7.3%	5.8%	5.8%	5.5%
2005	6.5%	5.3%	5.0%	5.1%
2006	6.3%	4.7%	4.6%	4.6%
2007	5.9%	4.9%	4.5%	4.6%
2008	6.9%	6.0%	5.3%	5.8%
2009	10.0%	8.6%	8.4%	9.3%
2010	10.2%	8.4%	8.4%	9.6%
2011	9.7%	7.8%	8.0%	9.0%
2012[(2)]	11.0%	8.7%	8.8%	8.2%

Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2012
[(1)]Total employment by place of residence
[(2)] Figures from January-June 2012; Data for city, Buffalo MSA and State include June preliminary figures.

Population

The 2010 Census revealed that the City's population declined from 292,648 in 2000 to 261,310 in 2010.

POPULATION TREND 1980-2010

	1980	1990	2000	2010
Buffalo	357,870	328,123	292,648	261,310
Erie County	1,015,472	968,532	950,265	919,040
Buffalo MSA	1,242,573	1,189,288	1,170,111	1,135,509
New York State	17,355,668	17,990,455	18,976,457	19,378,102
United States	225,234,182	249,632,692	281,421,906	308,745,538

Source: U.S. Department of Commerce, Bureau of the Census.

CITY OF BUFFALO
HOUSING CHARACTERISTICS
1980-2010

	1980	1990	2000	2010
Year Round Housing Units	156,393	151,971	145,574	139,174
Occupied Housing Units	140,954	136,436	122,720	112,844
Persons Per Household	2.41	2.33	2.29	2.26

Source: U.S. Department of Commerce, Bureau of the Census

Construction Activity

CITY OF BUFFALO
RESIDENTIAL, INDUSTRIAL AND COMMERCIAL BUILDING PERMIT ACTIVITY
2002-2011

Fiscal Year Ended June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Demolitions Completed	347	355	618	238	367	646	935	693	486	383
Inspections	74,499	65,163	62,560	31,274	25,333	59,000	40,574	37,545	29,314	32,696

Source: City of Buffalo, Department of Economic Development, Permit and Inspection Services.

Development Activity

In January 2010, the delivery of economic development services was reorganized in the City of Buffalo. The economic development functions of the Department of Economic Development, Permits, and Inspection Services were transferred back to the Office of Strategic Planning. The Executive Director of this Department is charged with the overall direction of all City based economic and community development activities in the City of Buffalo. The Office of Strategic Planning and all its related agencies are responsible for the development and maintenance of the City of Buffalo's Comprehensive Plan. This physical land use plan provides a strategic framework to guide public and private investment in the City for the period 2004 to 2025.

In February 2006, the City formally adopted the "Queen City in the 21st Century: the Buffalo Comprehensive Plan." This is the preeminent legal document guiding all development in the City, providing the policy framework for all other local planning efforts including plans for downtown, neighborhoods, the waterfront, special districts and special purposes. The plan prescribes seven policies to guide reinvestment: (1) deliver quality public services; (2) maintain public infrastructure; (3) transform Buffalo's economy; (4) reconstruct the schools; (5) rebuild neighborhoods; (6) restore the Olmsted Parks, protect the Ellicott street plan, and develop the waterfront; and (7) protect and restore the urban fabric.

In order to fulfill its economic development mission, the City pursues federal and State assistance aggressively. The Office of Strategic Planning administers the City's Community Development Block Grant (CDBG) program, which funds a variety of economic development, housing, neighborhood and human service programs.

For a detailed overview of recent development in the City, please review the table within the section hereof that reports the cost, construction status and a brief description of various projects.

Downtown Development

Downtown Buffalo is the regional center of the area economy, employing over 58,000 people in the public and private sectors. A concentration of banking, business, governmental, educational, recreational and cultural institutions are located downtown. Buffalo's Central Business District contains over 12.4 million square feet of office space, holding a relatively stable vacancy rate since 2000. Office vacancy rates for Class A space and Class B space are 5.2% and 13.4% respectively. Total office supply has steadily increased even as older buildings were removed from the inventory and converted to residential uses. One example is the former Hotel Lafayette. The local developer for this project wrapped up the renovation of the Lafayette Hotel, built in 1904, this year. The $42 million comprehensive restoration includes 115 market-rate apartments, a 34-room boutique hotel, and ground floor retail space that includes a florist, a women's clothing store and a home décor store. A well know local dessert company has moved its bakery production and distribution business into this hotel as well. In order to stimulate economic development, increase transit ridership and give Main Street a "facelift"; the City and the Niagara Frontier Transportation Authority (NFTA) plan to reintroduce vehicular traffic along Buffalo's 1.2-mile Main Street Pedestrian Mall through the project "Cars Sharing-Main Street" project. The environmental assessment was completed during 2009, allowing the project sponsors to proceed with design and construction of the $9.0 million initial phase, stretching from Tupper to Chippewa Streets. A $2.2 million two-way conversion and streetscape improvement project was completed at the 700 Block of Main Street during 2009. Funding for the 600 Block of Main Street has been allocated and construction is planned to begin in the Fall of 2012. In addition, the TIGER Grant (Transportation Investment Generating Economic Recovery) awarded to the City of Buffalo in 2011 from the U.S. Department of Transportation will be used for the next phase of the Cars Sharing Main Street project. This portion of the Main Street project calls for restoring traffic to the 500 block between Chippewa and Mohawk streets. The design standards for the 500 Block of Main are set to be completed by August, 2013.

Since 2006, the City and its partners have produced more than 500 new housing units spanning most income ranges and entail housing types developed as "new builds" or adaptive re-use of existing buildings. In 2012, nine different residential developments are either under construction or have been announced totaling over $36 million in development and producing 183 housing units. Downtown Buffalo is also the regional hub of Western New York entertainment, drawing approximately seven million visitors per year. The largest draw is special events which attract 1.3 million visits per year for the Taste of Buffalo, the M&T Lunchtime concert series, the Buffalo Wing Cook Off, and other events. Sporting events draw 1.2 million visits for hockey, baseball and lacrosse, while some 700,000 patrons enjoy Theatre District events.

The increased economic activity in downtown Buffalo was documented through property valuation. For example, with an investment of $12.0 million, a string of abandoned and underutilized buildings on Genesee Street in Downtown Buffalo have been converted into the Genesee Gateway Project, which offers over 60,000 square feet of completely remodeled commercial and retail space with modern amenities in an historic setting.

Waterfront Development

On July 14, 2005 the Erie Canal Harbor Development Corporation (ECHDC) was created to coordinate development of Buffalo's waterfront. The ECHDC is a subsidiary of the Empire State Development Corporation, New York State's economic development agency. The ECHDC will oversee a variety of waterfront projects within the City's Inner and Outer Harbors, working with local, State, federal and private stakeholders. During March 2006, the ECHDC presented a $1.4 billion waterfront master plan that transforms the waterfront area into a place to live, work and play. The master plan features the Harbor Front Market, a Main Street Lift Bridge connecting the Outer and Inner Harbors, residential and mixed-use development and Cobblestone District projects. ECHDC redevelopment efforts will be funded by annual payments of $4.7 million for 20 years from the re-licensing settlement negotiated between the New York Power Authority, the City and the County.

The ECHDC is engaged in a planning process to develop over $295.0 million worth of mixed-use development over 20 acres located at the foot of Main Street in Buffalo' Inner Harbor. The "Canal Side" project includes reuse of the former Memorial Auditorium site, which was demolished in 2009, the adaptive re-use of the Donovan Office Building and commercial, and hotel, retail, residential, and entertainment and office components. During 2011, the Canal Side Project completed the extension of the Central Wharf and an additional 400 feet of waterfront access, updated plans for the historically aligned canals, tripled the number of cultural, recreational and educational events and the upscale bistro, the Liberty Hound, has opened in the Naval Museum. Construction has begun on the Donovan Building and public canals on the former "Aud Block" this summer.

During 2009, the ECHDC began preparation of an Environmental Impact Statement (EIS) to evaluate a potential bridge crossing over the Buffalo River and/or City Ship Canal that directly links the City's Inner Harbor and Outer Harbor areas. The EIS will identify a preferred alternative and is scheduled for completion during 2013. Final design and construction activities will commence after completion of the Buffalo Harbor Bridge EIS. The Buffalo Harbor Bridge will provide a vital link between Buffalo's Central Business District and developable land at the Outer Harbor.

Construction of Phase I of the Southtowns Connector/Outer Harbor Project was completed in 2009. The $54.0 million initial phase improves access to Buffalo's waterfront by reconfiguring the Route 5 and Fuhrmann Boulevard road complex into an arterial system with a separate grand waterfront boulevard. Pedestrian and bicycle amenities were completed during 2010. This project is expected to develop significant development momentum, since Outer Harbor development had previously been hampered by poor access.

The Cobblestone District at the foot of Main Street has become a focus of waterfront development. Adjacent to the Erie Canal Harbor is the site of the $122.5 million First Niagara Center, a multi-purpose stadium which accommodates professional hockey, basketball, lacrosse, concerts and other events. The First Niagara Center is the home of the Buffalo Sabres National Hockey League franchise. During January 2007 the Office of Strategic Planning produced a final draft of a Local Waterfront Revitalization Program (LWRP) for the entire

City of Buffalo waterfront, including the Inner and Outer Harbors, Niagara River, Buffalo River and Scajaqauda Creek waterfront corridors. The LWRP is an integral part of the City's Comprehensive Plan, providing long-term guidance for use and development of the City's waterfront. The LWRP expresses the City's and the citizens' vision for its waterfront: public access, improved environmental quality, and an asset that enhances future economic prosperity. An adopted LWRP also helps leverage additional federal and state waterfront funding. The LWRP awaits formal adoption by the Buffalo Common Council.

The City of Buffalo has been awarded three significant Brownfield Opportunity Area (BOA) grants from the New York State Department of State. This funding will be used to undertake separate Step 2 Nomination studies on three Brownfield Opportunity Areas to transformation of more than 2,500 acres of land: the Buffalo Harbor BOA, the Buffalo River Corridor BOA, and the Tonawanda Street Corridor BOA. At 1,039 acres, the Buffalo Harbor BOA represents a large concentration of brownfields, vacant and/or underutilized parcels that are a legacy from the industrial users that located adjacent to the Buffalo waterfront. At 980 acres, the Buffalo River Corridor BOA includes a large concentration of brownfields, vacant and/or underutilized parcels that are a legacy from the chemical manufacturers and other industrial users that located adjacent to the Buffalo River. Redevelopment of these areas will be advanced due to their strategic regional location, access to major highways and bi-national bridge, proximity to railways and an environmentally rich setting next to Lake Erie and the Buffalo River. All three BOAs are set to be completed in 2012, these documents will help guide the transformation of more than 2,500 acres of land within the City of Buffalo.

Buffalo Niagara Medical Campus (BNMC)

Historically, significant investment has been made among the various medical institutions located in the vicinity of Main and High Streets near downtown Buffalo. In 2001, the University at Buffalo (UB), Roswell Park Cancer Institute, Kaleida Health, Hauptman-Woodward Medical Research Institute and the Buffalo Medical Group Foundation founded the Buffalo Niagara Medical Campus (BNMC). This consortium continues to work with local, state and federal government, corporate partners, and neighboring organizations and businesses to implement a 120-acre world-class medical campus.

Approximately $500.0 million in new projects are underway for the northern end of the BNMC near the Buffalo General Hospital. This new development will result in at least an additional 1.2 million square feet of research, clinical and support space; 3,000 employees and 60,000 more annual patients and visitors. Construction continued in 2011 on the $291.0 million Global Heart & Vascular Institute/UB Center for Translational Research with doors set to open in late 2012. The new emergency department that can accommodate up to 60,000 visits per year opened in November 2011. The Consolidated Kalieda Health Long-Term Care Facility opened in December of 2011. This 300 bed facility was designed to accent the adjacent historic Fruit Belt neighborhood. In addition, construction continues on the Ellicott Street Linear Park – a $6 million Federal streetscape project.

The BNMC generates significant economic impact. Over 8,000 employees work within the BNMC. BNMC institutions account for $600.0 million of annual expenditures and $300.0 million of direct regional economic impact. The BNMC houses over 3 million square feet of clinical, medical, educational and research space. Over the next 10 to 15 years, 1.8 million square feet of additional development and over 1,700 new jobs are anticipated.

Over $11.4 million in funding has been committed for BNMC streetscape and infrastructure improvements and the Allen Street Extension. The Allen Street Extension will cross Main Street and pass through the Allen Street LRRT station directly into the BNMC; effectively connecting the Allentown, BNMC and Fruit Belt neighborhoods. BNMC infrastructure improvements for Ellicott Street are in the design phase while the Allen Street Extension is in the planning phase.

Investment within and on the periphery of the BNMC suggests that spin-off development is occurring. During 2007, the BNMC purchased the former Trico complex at 460 Ellicott Street for $12.4 million. The BNMC has renovated the Trico site into the $10.0 million "Innovation Center," housing 108,000 square feet of Class A office space, with shared conference rooms and support services. At the same time the University at Buffalo acquired the recently renovated M. Wile Building at 77 Goodell Street for $8.0 million. A new 4-story structure housing the Educational Opportunity Center (EOC) will be connected to the former M. Wile Building, forming the UB Downtown Gateway expanding the University at Buffalo's downtown presence. The EOC will provide space for high- school equivalency, college preparatory and job training programs. This project allows the EOC to relocate from an older and smaller space on Washington Street.

Industrial Financing & Development

The City provides financing, land and working capital assistance to local business. On behalf of the City, the Buffalo Urban Renewal Agency (BURA) is set to provide a variety of financing services, incentives and loan programs for industrial and commercial ventures. These programs are geared towards job creation and business retention and neighborhood economic development.

The City conducts a land development program making industrial sites available to expanding industrial firms and has created three industrial parks. The New Buffalo Industrial Park, Thruway Industrial Park, and the Buffalo Free Trade Complex have combined for over 240 acres of industrial development.

During 1999 the City of Buffalo acquired 114 acres of land near the Union Ship Canal, effectively jump-starting redevelopment in the South Buffalo Redevelopment Area, with over 1,600 acres of land. The first phase of the Buffalo Lakeside Commerce Park (BLCP), formerly known as the Union Ship Canal, was implemented at a cost of $7.5 million. This included a contribution of $2.5 million in capital funds by the County of Erie. The project included $4.0 million in road and infrastructure improvements, $1.5 million for land use planning and environmental considerations, and $2.0 million for site clearance and demolition costs. A Phase I ground-breaking was held during November 2004. The first tenant, CertainTeed®, moved into to the BLCP during November 2004, occupying a new 250,000 square foot facility and employing 200 people. During 2006, the 90,000 sq. ft. Cobey Inc. manufacturing facility was completed. During 2008 Sonwil, a local transportation and logistics company, opened a $13.0 million, 300,000 sq. ft. distribution center, occupying 32 acres. The $10.0 million facility occupies 10 acres. $2.8 million in road and infrastructure improvements for BLCP Phase II were constructed during 2005. The first half of 2012 provided a true milestone for the maturity of the BLCP into premier brownfield reclamation site in the City of Buffalo. With the completion of Ship Canal Commons at BLCP, a new 22-acre waterfront park is now open to the public. This green space is an amenity for the existing business park, and was developed as part of the New York State Department of Conservation (NYSDEC) sponsored brownfield remediation project surrounding the Union Ship Canal. The highlights of the project included the planting of over 1,000 trees, the installation of a 200-linear foot pedestrian bridge, miles of recreational pathways, and the installation of historical artifacts and interpretive signage.

In addition, 2012 has brought the completion of the final phase of road and infrastructure construction at BLCP. An additional six development sites have been brought on-line. There is approximately 80 acres of land that is now shovel-ready for development at Buffalo Lakeside Commerce Park.

Other Development

The following table lists additional recent development projects in the City of Buffalo.

Development Activity Project	Cost	Status	Description
Downtown			
520 Main Street		Under Construction	Retail or office use on the first floor, with two upper level apartments
716 Swan Street		Under Construction	Upscale restaurant and two upper level apartments
14 North Street		Under Construction	Conversion of former church to 14 apartments
477 Main Street	2.0 million	Announced 2012	Office space
111 Hydraulic Street	8.6 million	Under Construction	Office space
496 Main Street	1.5 million	Under Construction	Office space
678 Main Street	1.4 million	Under Construction	Office space
AM&A's Warehouse Lofts	10.0 million	Under Construction	Conversion into 49 apartments
AC Lofts	15.0 million	Completed 2011	Conversion into 90 student apartments
Buffalo Transportation Museum	6.3 million	Under Construction	Automobile museum
Donovan Building	30 million	Under Construction	160,000 s.f. ground level retail & restaurant, upper level offices, 96 room Courtyard by Marriot
UB Educational Opportunity Center	46 million	Announced 2009	Downtown Gateway Complex
Federal Courthouse	120.0 million	Completed 2011	New Federal Courthouse
Genesee Gateway	13.0 million	Under Construction	60,000 sq. ft. Commercial Re-Use
Lafayette Hotel	42.0 million	Completed 2012	Conversion into mixed-use building apartments, boutique hotel, retail, office space, night club
Lake Hotel	1.1 million	Under Construction	Upscale apartments
Larkin Square		Completed 2012	New retail & entertainment destination includes restaurant, market and pickle ball court
Larkin Men's Club		Announced 2011	Residential
Larkin Center of Commerce	50.0 million	Completed	Office space
Statler Building	3.0 million	Under Construction	Conversion into mixed-use building apartments, hotel, retail, office space, restaurants
The Calumet	2.0 million	Under Construction	Office space, restaurant
Tishman Building	35 million	Announced 2012	Conversion to 123 guest rooms to the Hilton Garden, 18 apartments, office & retail space
Kamman Building	1.0 million	Completed 2011	Office space
Schaefer Building	0.9 million	Completed 2011	Office space, apartments
Hyatt Regency	13.5 million	Completed 2010	Renovation of hotel building
Avant Building	85.0 million	Completed 2009	Renovation of upscale hotel, office and condominium tower
The Lofts at Cobblestone	12.5 million	Completed 2009	Conversion of vacant structure to office space and 5 apartments
Seneca Creek Temp Casino Expansion	9.0 million	Completed 2009	Expansion of existing Temporary Casino
Warehouse Lofts	7.6 million	Completed 2008	Conversion of former Paper Company into 30 apartments and office space
Seneca Buffalo Creek Casino	125.0 million	Delayed 2008	Construction of Casino
Seneca Buffalo Creek Casino Hotel	208.0 million	Delayed 2008	Construction of Hotel
Buffalo Niagara Medical Campus			
1001 Main Street	80 million	Announced 2012	Medical office building
Bosche Building		Under Construction	City of Buffalo has begun stabilization of the historic Bosche Bldg, 918 Main
Roswell Park Clinical Sciences Center	40.0 million	Announced 2011	Clinical Science Center adjoining main hospital
St John Housing	1.5 million	Under Construction	Ten new residential units
640 Ellicott, Innovation Center	12.0 million	Under Construction	Renovation of Trico Building for Office and R&D
UB Medical School	375 million	Under Construction	New University of Buffalo School of Medicine and Biomedical Sciences
Women's & Childrens Hospital		Announced 2012	12 story, 400,000 s.f. facility will be built at the corner of Ellicott & High Sts.
Kaleida Health	64.0 million	Completed 2011	Long-term care facility
Packard Building	9.7 million	Completed 2009	Conversion to 40 apartments and first floor mixed use space
The Global Vascular Institute	291 million	Completed 2012	Kaleida's merged cardiac, stroke, and vascular operations plus expanded emergency room
Other Development			
297-305 Niagara Street	3.8 million	Announced 2012	Apartments, farmers market
363 East Ferry	1.35 million	Completed 2012	Six townhouses have been completed
945 West Ferry/1526 Main	1 million	Announced 2012	Apartment renovations
766 Elmwood Avenue		Announced 2012	Retail space, covered parking, 24 one and two bedroom apartments
1542 Main Street	2.9 million	Completed 2012	HOME's Headquarters
Bethune Lofts	15.5 million	Under construction	Converting the 4-story, 98,000 s.q. ft. bldg.. to 87 market-rate loft apartments
Buffalo State College Science & Mathematics Complex	110 million	Under construction	224,000 s.f. facility for Science & Math programs, Great Lakes Center and a planetarium
Buffalo State College Technology Bldg.	38 million	Under construction	3-story, 87,000 s.f. facility for technology programming

Central Park Plaza		Announced 2012	An affiliate of Ciminelli Companies purchased this 29-acre property for a complete rebuild
Cloister Site Reuse		Announced 2012	Mixed-use project, medical office space and apartments
Colvin Estates		Under construction	127 single-story and two story homes with prices starting at $215,000
Community Action Organization Headquarters		Announced 2012	Former Deaconess Center at 1001 Humboldt will become CAO headquarters
ECMC Campus Expansion	150 million	Under construction	New long-term care facility, parking ramp, transplant & kidney center, and other major projects
Fairfield Library Bldg.		Announced 2012	Former library will be converted into six apartments and office space
Tishman Building			
Zink Block	3.8 million	Announced 2012	Apartments, farmers market
White's Livery	3.4 million	Under construction	14-unit apartment
Mautner Paper			
East Delavan Property	19.9 million	Completed 2011	Construction of galvanized steel coating facility
305 West Utica	2.7 million	Completed 2011	Apartments
363 East Ferry			
448 Elmwood Avenue	3.4 million	Completed 2011	New Construction of mixed-use building
1040 Delaware	5.5 million	Completed 2011	Apartments
Buffalo State College	48.0 million	Completed 2011	Dormitory
Casa Shelby	1.1 million	Completed 2011	Apartments
St Martin Village	16.2 million	Completed 2011	Renovation and new construction into 60 residential apartments
St Vincent's Orphanage	5.7 million	Completed 2011	Health science charter school
Tapestry Charter School	14.0 million	Completed 2011	Charter school
WNY Immediate Care	1.3 million	Completed 2011	Urgent care center
Annunciation School	3.0 million	Completed 2010	Conversion/Renovation into residential units
East Village Lofts	4.0 million	Completed 2010	Conversion into 43 studio apartments
Allentown Lofts	2.0 million	Completed 2010	Conversion into 10 residential/commercial space
Delaware Linden Retail Plaza	5.5 million	Completed 2008	Construction of plaza anchored by Tim Horton's, IHOP and credit union
Curtiss Wright	2.7 million	Completed 2008	Redevelopment of aircraft factory into Sodexho laundry facility
Kohl's Department Store	3.4 million	Completed 2008	Construction of new department store Delaware/Linden Plaza
Pano's Restaurant Expansion	1.3 million	Completed 2008	Restaurant expansion and renovation

Source: City of Buffalo, Mayor's Office of Strategic Planning.

Transportation

Buffalo is located in the center of a complex transportation network of truck, rail, highway, water and air facilities. The Peace Bridge Authority has begun a full EIS (Environmental Impact Statement) process to study location, size and design of one or two bridges and an associated plaza.

The Port of Buffalo is eighth in size of the 54 Great Lakes ports and twenty-ninth in size of the 40 major U.S. ports. The Port's terminal facilities encompass 185,000 square feet of enclosed storage space for marine cargo and approximately 200 acres of open storage space. On May 28, 1976 a Foreign Trade Zone (the "FTZ") began operation at the Port of Buffalo. Imported goods may be processed in the FTZ, sorted, stored and repackaged without payment of any duties until the goods are actually sold to importers in the United States or elsewhere. A total of 153 acres at the former Bethlehem Steel Plant has been designated as the FTZ and approximately 31 companies occupy the FTZ at the relocated Port of Buffalo.

Truck service is provided in the Buffalo area by various transcontinental, international and common carriers. Several freight and passenger lines, including Conrail, Amtrak and Canadian National Railways, provide rail service.

The Niagara Frontier Transportation Authority (NFTA) was created by an act of the New York State Legislature in 1967 and is a multi-modal transportation authority responsible for air and surface transportation in Erie and Niagara Counties. NFTA businesses include a bus, light rail, MetroLink and Paratransit system, two international airports, the Buffalo Niagara International and Niagara Falls International Airports, a boat harbor, transportation centers in Buffalo and Niagara Falls and property management of 2,000 acres of real estate and industrial warehouse distribution and associated office space.

The NFTA Metro Bus and Rail is the Authority's largest business center with over 1,100 employees. Metros' fleet includes 332 buses, 62 small buses for fixed route and Paratransit service, five MetroLink Trolleys, and 27 rail cars. The 78 bus routes, traveling 11.7 million miles per year, and the 6.2-mile rail line provide transportation service across the 1,575 square mile service area in Erie and Niagara counties.

As the second largest transit provider in New York State, behind the Metropolitan Transportation Authority in New York City, and the only upstate transportation agency to operate a light rail system. NFTA Metro Bus and Rail serves over 28.0 million passengers per year. Every weekday, 74,000 bus passengers, 1,200 Paratransit/MetroLink passengers, and 24,000 rail passengers ride Metro.

The Buffalo Niagara International Airport (BNIA) is the NFTA's second largest business center. The following table sets forth the trend in passenger volume at the Buffalo Niagara International Airport from 2002 through 2011.

Buffalo-Niagara International Airport
Passenger Volume Trend

Year	Passenger Volume	% Change from Prior Year
2002	$4,150,140	-5.4%
2003	4,083,368	-1.6%
2004	4,441,382	8.8%
2005	4,868,890	9.6%
2006	5,063,884	4.0%
2007	5,335,394	5.4%
2008	5,526,301	3.6%
2009	5,334,232	-3.4%
2010	5,203,104	-2.3%
2011	5,194,162	-1.8%

Source: Niagara Frontier Transportation Authority, July 2012.

Educational, Cultural, and Medical Institutions

Educational

There are approximately 100,000 students attending 30 colleges and universities in the Buffalo area. Such institutions include, among others, the State University of New York at Buffalo (the largest unit in the State system), the State University College at Buffalo, Niagara University, Canisius College, D'Youville College, Daemen College, Erie County Community College and Niagara County Community College.

Cultural

The City of Buffalo is the home of numerous institutions devoted to the arts, including the world famous Albright-Knox Art Gallery and Kleinhans Music Hall, the home of the Buffalo Philharmonic Orchestra.

Buffalo's historic theater district provides the stage for legitimate theater with the largest concentration of theaters in New York State outside of New York City. Shea's Buffalo Theater, Alleyway Theatre, and The Irish Classical Theatre anchor the City's downtown theatre district.

The City is also the location of the Buffalo Museum of Science, the Buffalo and Erie County Historical Museum, the Buffalo Zoo, and the Botanical Gardens of Buffalo and Erie County.

Library services are provided through the Buffalo and Erie County Public Library Systems with 218 employees, circulating over 7.6 million items at 37 branches located throughout Erie County.

Medical

In the two-county Buffalo metropolitan area, there are twenty-four general or special hospitals, including: Buffalo General, Millard Fillmore, Sisters of Charity, and the Erie County Medical Center.

Of the hospitals serving the area, most are general hospitals offering standard medical care and treatment facilities, but many also provide specialized or unique services. Two Buffalo medical institutions have earned international reputations for their accomplishments: Women's and Children's Hospital, in heart surgery, and Roswell Park Cancer Institute, in the field of cancer research and treatment.

BUFFALO CSD SCHOOL FACILITIES RECONSTRUCTION PROJECT

Pursuant to special State legislation enacted as Chapter 605 of the Laws of 2000, as amended (the "Buffalo School Act"), the Buffalo CSD has undertaken a multi-phase comprehensive redevelopment program to finance the renovation and building of public school buildings in the City (the "Program").

The Joint Schools Construction Board, or the JSCB, was created by resolutions of the Buffalo CSD Board of Education and the City Common Council and by amendment of the City Charter, and was granted additional powers with respect to construction of new school buildings by the Buffalo Schools Act, as well as certain limited functions with respect to the reconstruction of existing school buildings. The JSCB has been authorized under the Buffalo Schools Act to manage the acquisition, design, construction, reconstruction, renovation and financing of new public educational facilities in the City, and to create, coordinate efforts to enable compliance with, monitor and report on, a program-wide diversity plan for the Program. The JSCB has been authorized, by resolution of the Board of Education, to assist in the acquisition, renovation, reconstruction, improvement, equipping and furnishing of public educational facilities in the City.

The JSCB comprises the Mayor, the Comptroller, the Buffalo CSD Superintendent of Schools, a designee of the Common Council of the City, the New York State Regent for the Eighth District of the City and two designees of the Board of Education of the Buffalo CSD. The Regent voluntarily resigned to prevent the appearance of a conflict of interest and the JSCB has appointed him as an ex-officio, non-voting member.

The Ciminelli Construction Companies, including LP Ciminelli, Inc. and its affiliated companies (the "Program Provider") are the largest construction group in Western New York and consist of a team of specialists versed in all aspects of the construction industry. The Program Provider was selected by the JSCB to implement the Program through provision of program management, construction management, general contracting, design/build, consulting and related services. Such selection has been ratified by the Buffalo CSD by its entering into master construction agreements with the Program Provider.

Pursuant to agreement with the JSCB, the Program Provider is obligated to prepare and submit all necessary or appropriate reports to the State Department of Education including all filings to maximize State Building Aid reimbursement to the Buffalo CSD with regard to the Program.

Pursuant to the Buffalo Schools Act and commencing in September 2003, the ECIDA has issued several series of its School Facility Revenue Bonds (City School District of the City of Buffalo Project) to fund five phases of the Program. As of June 1, 2012, the aggregate outstanding principal amount of such bonds totals $1,075.5 million. These bonds are special limited obligations of the ECIDA secured by annual payments of State aid to education appropriated and made available to the Buffalo CSD.

The ECIDA has issued refunding bonds in July 2011 and April 2012 to refund the outstanding School Facility Revenue Bonds, Series 2003 and 2004 respectively.

LITIGATION

The City and the Buffalo CSD, and their respective officers and employees, are defendants in a number of lawsuits. The City, in common with other municipalities, receives numerous notices of claims for money damages deriving generally from sidewalk falls, park accidents, school accidents, City vehicle accidents, police arrests and various other negligence and personal injury claims. The City (as well as the Buffalo CSD) self insures for tort claims. Budgetary reserves for such claims and payouts for such claims over the last few years are as set forth at the end of this section below.

The Department of Law of the City, headed by the Corporation Counsel, has determined that there are no pending lawsuits which will have the potential for an expenditure or exposure of more than $5,000,000 in excess of any amounts provided for in budgetary or self insurance reserves, except as noted immediately below.

1. There is litigation by collective bargaining units which could impact the Buffalo CSD and the City deriving from a dispute over a wage freeze instituted by the BFSA back in the year 2004. While a number of collective bargaining units have settled their potential claims, there remain potential claims by the collective bargaining units representing teachers, firefighters and police officers (as well as a few other somewhat smaller collective bargaining units). The collective bargaining units had initially commenced an action in federal court to seek reversal of the imposition by BFSA of the wage freeze but were unsuccessful. Thereafter, in 2007, the BFSA lifted the wage freeze and simultaneously resolved in favor of a one-step wage increase on employees' salaries as of July 1, 2007. A dispute arose in which the collective bargaining units claimed that they were entitled to up to three additional wage step increases which but for the imposition of the wage freeze would have been paid to members of collective bargaining units. This dispute was litigated in New York State Courts over the course of several years until the New York State Court of Appeals in March of 2011 ultimately ruled in favor of the Buffalo CSD, the City and the BFSA (In the Matter of Robert P. Meegan, Jr., &c., et al., Respondents, v. Byron W. Brown, &c., et al, Appellants).

   In May of 2011, the Buffalo Teachers Federation et al filed a motion in the U.S. Court of Appeals for the Second Circuit "to recall the [U.S. Court of Appeals for the Second Circuit] mandate affirming dismissal of their contract clause claims" relating to the initial federal court action recited above. In early June of 2011, the U.S. Court of Appeals for the Second Circuit denied the motion. In late June of 2011, the Buffalo Teachers Federation, et al filed a motion in the U.S. District Court for the Western District of New York again seeking relief from the final judgment rendered against the Buffalo Teachers Federation in the initial federal court action (recited above) and seeking to reopen the initial federal court case for the purpose of adjudicating certain "Contract Clause" claims asserted in the initial federal court action. The City and the Buffalo CSD were not parties to the June 2011 motion since only the BFSA/BFSA directors/members were named defendants in the June 2011 motion. Given the possible impact of an adverse decision in the June 2011 motion, the City and the Buffalo CSD did formally seek to intervene to respond to the June 2011 motion. In early February 2012, the U.S. District Court for the Western District of New York denied the June 2011 motion of the Buffalo Teachers Federation, et al to reopen the initial federal court case. The Buffalo Teachers Federation, et al filed a Notice of Appeal in March of 2012 and thereafter in June 2012 submitted appeal briefs. The City and the Buffalo CSD expect to continue to formally oppose the Buffalo Teachers Federation, et al in this litigation and are scheduled to file responsive appeal briefs in September 2012. Oral argument on the appeal is expected to be scheduled for no earlier than the end of 2012 in the U.S. Court of Appeals for the Second Circuit. The total possible exposure in this matter if imposition of the wage freeze is overturned would be in the range of up to approximately $111,000,000 for the Buffalo CSD and up to approximately $20,000,000 for the City.

In late July 2011, Robert P. Meegan, Jr., Individually and as President of the Buffalo Police Benevolent Association ("PBA") commenced an action seeking a Declaratory Judgment in the United States District Court for the Western District of New York against the City, the BFSA and the State of New York in which the PBA sought to have the BFSA Act adjudged unconstitutional and further specifically sought to overturn or nullify both the 2004 imposition by BFSA of the wage freeze and the implementation by BFSA of the lifting of the wage freeze in 2007. The PBA's lawsuit alleged violations of the United States Constitution's taking clause and contract clause. The City and the BFSA formally moved to dismiss the PBA lawsuit in the fall of 2011. The PBA formally opposed the City/BFSA motions to dismiss. In late May 2012, the Court granted the City's and the BFSA's motions to dismiss the PBA lawsuit.

2. There is imminent litigation against both the City and the BFSA arising from a labor contract impasse and resultant arbitration opinion and award. This matter is expected to result in a New York State Court action against the City in which the Buffalo Professional Firefighters Association, Inc. Local 282 IAFF, AFL-CIO ("BPF") seeks a judgment confirming the award and has resulted in a New York State Court action against the City and the BFSA in which the BPF seeks a Declaratory Judgment and Order pursuant to Article 78 of the New York State Civil Practice Laws and Rules to the effect that the BFSA's order regarding applicability of a wage freeze to the arbitration award is in excess of BFSA's authority and is therefore invalid. The BFSA and City's motion to dismiss this proceeding was granted and a notice of appeal was filed by the BPF. The City will formally oppose the appeal. The total exposure in these matters, while difficult to pinpoint and certainly in dispute, if these matters are ultimately adversely determined, could be in the range of $10,000,000 to $14,000,000.

3. There is a pending "tort claim" lawsuit commenced against the Buffalo CSD and the City by the estate of an individual who allegedly died as a result of injuries sustained from a fall at a City-owned facility. The total exposure of the case, while difficult to pinpoint and certainly in dispute, is generally thought to be in the range of $5,000,000 to $9,000,000. In this particular case there are also non-governmental defendants as well as possible access/recourse to certain general liability insurance coverage.

4. There is pending litigation between the Buffalo CSD and Charter School for Applied Technology ("CSAT"). The dispute derives from the Buffalo CSD's decision to cease providing bus transportation to CSAT students as CSA is situated outside the geographical boundaries of the City of Buffalo. After trial in State Supreme Court the week of March 19, 2012 on the issue of damages for breach of contract, the trial Court issued a bench decision awarding CSAT $6.85 million in damages. The Buffalo CSD is appealing the damages award decision and CSAT is appealing certain elements of the March 2012 damages award decision. It is noted there are several elements to this case and that as a result of decisions made by the Court after hearing pre trial motions, several of the pre trial motion decisions (i.e., the Court's decision that the Buffalo CSD breached its contract with CSAT) were already positioned for or actually were on appeal at the time of the March 2012 damages trial and continue to now be on appeal along with elements of the March 2012 damages award decision. Appeal briefs and responsive briefs are being submitted and it is expected that oral arguments in front of the New York State Supreme Court Appellate Division – Fourth Department will take place no earlier than November 2012.

Tax Certiorari Proceedings

In common with other municipalities, the City receives numerous real property tax certiorari petitions contesting the validity of tax assessments.

The City's 2009-10 adopted budget included $400,000 for tax certiorari-related claims or judgments, of which $111,580 was paid out as of June 30, 2010. The City's 2010-11 budget included $400,000 for tax certiorari-related claims or judgments of which $83,972 had been paid out as of June 30, 2011. The City's 2011-12 adopted budget included $275,000 for tax certiorari-related claims and judgments with $24,749 having been paid out as of June 30, 2012. The City's 2012-13 adopted budget includes $200,000 for tax certiorari-related claims.

Provision for Judgments and Claims

The City's 2009-10 budget, as revised, included $6.7 million for judgments and claims and $2.2 million for workers compensation claims, of which $6.0 million and $2.0 million respectively had been paid out as of June 30, 2010. The City's 2010-11 budget, as revised, included $5.1 million for judgments and claims and $2.4 million for workers compensation claims, of which $4.4 million and $2.4 million respectively had been paid out as of June 30, 2011. The City's 2011-12 budget, as revised, included $1.8 million for judgments and claims and $3.1 million for workers compensation claims, of which $1.5 million and $2.8 million respectively had been paid out as of June 30, 2012. The City's 2012-13 budget appropriated $2.1 million for judgments and claims and $2.4 million for workers compensation claims.

APPENDIX B

CITY OF BUFFALO, NEW YORK
BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2011 AND INDEPENDENT AUDITOR'S REPORT

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CITY OF BUFFALO, NEW YORK

Basic Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Year Ended June 30, 2011 and Independent Auditors Reports

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Supplemental Schedules:

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Comptroller of
the City of Buffalo, New York:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these respective financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority, which represents 6% and 1%, respectively, of the assets and revenues of the governmental activities, and 11% and 1%, respectively, of the assets and revenues of the governmental funds within the fund financial statements. We also did not audit the financial statements of the City of Buffalo Urban Renewal Agency and the Buffalo Board of Education, which are shown as a discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Buffalo Fiscal Stability Authority, City of Buffalo Urban Renewal Agency, and the Buffalo Board of Education, is based solely on the reports of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the basic financial statements, the Solid Waste and Recycling Fund reported a net deficit.

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information is the responsibility of the City's management. 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 supplemental schedules listed in the foregoing table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This additional information is also the responsibility of the City's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

Drescher & Malecki LLP

December 13, 2011

As management of the City of Buffalo, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. This document should be read in conjunction with additional information that we have furnished in the City's financial statements which follow this narrative. For comparative purposes, certain items relating to the year ended June 30, 2010 presentation has been reclassified. All amounts are expressed in thousands of dollars, unless otherwise indicated.

Financial Highlights

- During the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to change its fund balance classifications. The new classifications are explained in the Overview of the Fund Statements, below.
- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2011 by $165,057 (net assets). This consists of $298,779 invested in capital assets, net of related debt, $59,740 restricted for specific purposes, and deficit unrestricted net assets of $193,461.
- The City's total net assets decreased by $78,837 for the year ended June 30, 2011. Net assets decreased $77,946 for governmental activities and decreased $891 for business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $228,307.
- At the end of the current fiscal year, the committed, assigned and unassigned fund balance for the general fund was $92,707, or 20.1%, of total general fund expenditures and transfers out. Committed fund balance for the City's Rainy Day Fund is $35,497 or 7.7% of total general fund expenditures and transfers out, assigned fund balance is $51,557 or 11.2% of total general fund expenditures and transfers out, and unassigned fund balance is $5,653 or 1.2% of total general fund expenditures and transfers out.
- The City's total general obligation bonded debt outstanding, excluding notes that have been refinanced but have not yet matured and bonds issued by the Buffalo Fiscal Stability Authority's ("BFSA"), is $234,927 ($215,238 net governmental activities general obligation bonds issued by the City and $19,689 business-type activities general obligation bonds). The City issued $26,885 of general obligation bonds and $34,650 of refunding bonds during the year ended June 30, 2011.
- The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were $155,565.
- BFSA total bonded debt outstanding is $106,760.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net asset*s. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flow*s. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activitie*s) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activitie*s). The governmental activities of the City include general government, public safety, streets and sanitation, economic assistance and opportunity, culture and recreation, and health and community services. The business-type activities of the City include a water utility, refuse collection services, and parking ramps.

The government-wide financial statements include not only the City itself (known as the *primary governmen*t), but also a legally separate school district for which the City is financially accountable and the Buffalo Urban Renewal Agency, a public benefit corporation through which Federal urban renewal grants for the City are channeled. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages immediately following this section as the first two pages of the basic financial statements.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. During the year ended June 30, 2011, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which requires the City to change its fund balance classifications for governmental funds. The new classifications are nonspendable, restricted, committed, assigned and unassigned. Additional information on the City's fund balance classifications can be found in Notes 1 and 14 of this report.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus *on near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources,* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activitie*s.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund which are considered major funds. Additionally, the general fund of the BFSA is reported as a major fund of the City. The City's special revenue and permanent funds, as well as the debt service fund of the BFSA, are considered to be non-major funds and the data from these funds are combined into a single, aggregated presentation.

The financial statements for governmental funds can be found in the fund financial statements, following the government-wide financial statements.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water system, parking, and refuse collection operations. The *internal service fund* is used to account for the central print shop. Because the print shop predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements. The City has elected to present its solid waste and recycling fund as a major fund on the Proprietary Funds Statement of Net Assets and Statement of Revenues, Expenditures, and Changes in Net Assets. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water system, parking, and refuse collection operations. In addition, the internal service fund is presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found in the Basic Financial Statements section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found in the Basic Financial Statements section of this report.

Notes to the financial statement*s.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the Basic Financial Statement section of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceed liabilities by $165,057 at the close of the most recent fiscal year.

Table 1—Condensed Statement of Net Assets—Primary Government (000s omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 700,354	$ 675,496	$ 77,686	$ 82,288	$ 778,040	$ 757,784
Capital assets	406,231	404,245	176,649	177,202	582,880	581,447
Total assets	$ 1,106,585	$ 1,079,741	$ 254,335	$ 259,490	$ 1,360,920	$ 1,339,231
Current and other liabilities	$ 344,843	$ 307,060	$ 10,306	$ 9,354	$ 355,149	$ 316,414
Long-term liabilities	649,183	582,176	191,530	196,746	840,713	778,922
Total liabilities	994,026	889,236	201,836	206,100	1,195,862	1,095,336
Net assets (deficit):						
Invested in capital assets, net of related debt	$ 249,347	$ 236,923	$ 49,432	$ 46,962	$ 298,779	$ 283,885
Restricted	59,740	48,409	-	-	59,740	48,409
Unrestricted	(196,529)	(94,827)	3,067	6,428	(193,462)	(88,399)
Total net assets	$ 112,558	$ 190,505	$ 52,499	$ 53,390	$ 165,057	$ 243,895

The largest portion of the City's net assets reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 36.2% of total net assets, represents resources that are subject to external restrictions on how they may be used.

The remaining component of the City's net assets, a deficit of $193,462, represents unrestricted net assets which reflect liabilities not related to the City's capital assets and are not expected to be repaid from current resources. Long-term liabilities are funded annually within the funds. The long-term liability associated with other postemployment benefits ("OPEB") as a result of adopting GASB Statement No. 45, totals $256,500 and is greater than this deficit. As the revenue recognition criteria for the future funding of this liability has not been met, no asset has been recorded to offset this liability.

Total net assets decreased $78,837 as a result of current year activities. Significant changes from 2010 to 2011 in the Statement of Net Assets and reasons for such changes are:

- Current and other assets increased by $20,256. The primary reason for the increase is the overall increase in cash and cash equivalents of $28,021 offset by decreases in accounts receivable and due from component units. The cash increase is largely attributed to the increase in cash held for the Board of Education as a result of their positive operations for the fiscal year. The decrease in due from component units correlates to the net change in outstanding debt for the Board of Education.

- ♦ Capital assets increased by $1,433. A significant portion of the increase was due to additions to infrastructure and building improvements.

- ♦ Current and other liabilities increased $38,735 from June 30, 2010 to June 30, 2011. There are two major fluctuations that account for this difference. Firstly, accounts payable and accrued liabilities increased $13,834 primarily due to the accrual for unpaid union salary increases. Secondly, the amount due to component units, primarily cash held for the Board of Education, increased by $25,377 due to favorable results in operations for the fiscal year.

- ♦ Long-term liabilities increased by $61,791. There were two debt issuances during fiscal year 2011, $26,885 of general obligation bonds and $34,650 of refunding bonds. Additionally, there was a $65,573 increase in postemployment benefit liabilities. This was offset by payment of principal on debt outstanding.

Governmental activities. Governmental activities decreased the City's net assets by $77,946 thereby accounting for the majority of the decrease in the net assets of the City. Key elements of this decrease are as shown in Table 2 on the following page.

Table 2—Changes in Net Assets—Primary Government (000s omitted)

	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
Revenues:	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	$ 24,169	$ 25,061	$ 62,674	$ 63,188	$ 86,843	$ 88,249
Operating grants and contributions	12,910	13,059	-	-	12,910	13,059
Capital grants and contributions	17,753	34,053	-	-	17,753	34,053
General revenues:						
Property taxes	127,779	125,431	-	-	127,779	125,431
Other taxes	25,312	23,359	-	-	25,312	23,359
State aid	164,788	174,479	-	-	164,788	174,479
Intergovernmental	95,344	92,742	241	-	95,585	92,742
Grants and contributions	243	382	-	-	243	382
Unrestricted investment earnings	3,671	4,190	1,302	411	4,973	4,601
Miscellaneous	4,350	3,257	-	-	4,350	3,257
Total revenues	476,319	496,013	64,217	63,599	540,536	559,612
Expenses:						
General government support	112,279	87,044	-	-	112,279	87,044
Public safety	298,733	281,944	-	-	298,733	281,944
Streets and sanitation	33,951	31,328	-	-	33,951	31,328
Economic assist. and opportunity	8,505	14,921	-	-	8,505	14,921
Culture and recreation	14,511	8,450	-	-	14,511	8,450
Health and community services	5,685	2,645	-	-	5,685	2,645
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	16,458	18,179	-	-	16,458	18,179
Solid Waste and Recycling	-	-	23,759	22,283	23,759	22,283
Parking	-	-	2,656	2,932	2,656	2,932
Water System	-	-	32,514	36,839	32,514	36,839
Total expenses	560,445	514,834	58,929	62,054	619,374	576,888
Excess (deficiency) of revenues over (under) expenses	(84,126)	(18,821)	5,288	1,545	(78,838)	(17,276)
Transfers	6,179	3,754	(6,179)	(3,754)	-	-
Increase (decrease) in net assets	(77,947)	(15,067)	(891)	(2,209)	(78,838)	(17,276)
Net assets — beginning	190,505	205,572	53,390	55,599	243,895	261,171
Net assets — ending	$ 112,558	$ 190,505	$ 52,499	$ 53,390	$ 165,057	$ 243,895

The largest funding sources for the City's governmental activities, as a percent of total revenues, are state aid (34.6%), property taxes (26.8%), and intergovernmental (20.0%).

The largest expense categories for the City's governmental activities are public safety (53.3%), general government (20.0%) and education (12.5%). The education category represents the City allocation to the Board**.**

Significant changes from 2010 to 2011 in revenues and expenses for the City include the following:

- Capital grants and contributions decreased $16,300 due primarily to less federal and state aid related to funding of road construction and demolitions received in 2011 as opposed to 2010.
- The net decline in state aid revenue was $9,691 primarily due to decreased state funding for operations. However, intergovernmental revenue increased $2,843 as a result of increases in sales tax revenues and miscellaneous grants.
- General government expenses increased $25,235 primarily due to the increase in the accrual for OPEB liabilities. Public safety expenses increased $16,789 due to increases in fringe benefit costs. Economic assistance expenses decreased $6,416 due to less federal and state aid for demolitions. Cultural expenses increased $6,061 due to a full year of operations of the parks that reverted back to the City in January 2010.

Business-type activities. Business-type activities decreased the City's net assets by $891. Overall, revenues and expenses remained relatively consistent from 2010 to 2011. The overall decrease in net assets is due to the following:

- The water system's net assets decreased by $1,260. This is largely attributable to recognition of an unrealized gain in the fair value of the derivative liability in accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. Additionally, as a result of no new debt issuance during the year, long-term debt decreased. Also, the new operator agreement for the system resulted in savings on expenses.
- The net assets of the parking fund increased $629. Operating revenues were greater than budget; however, the transfer of excess revenues to the general fund increased $2,000 over prior year.
- The solid waste and recycling fund recorded a decrease in net assets of $2,780 which was the result of a decline in service charges as well as an increase in OPEB expenses.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $228,307 a decrease of $8,603 in comparison with the prior year. Unassigned fund balance is $5,653 or 1.2% of total general fund expenditures and transfers out. It should be noted that committed fund balance for the City's Rainy Day Fund is $35,497 or 7.7% of total general fund expenditures and transfers out. Additionally, the City's assigned fund balances total $53,284. Together, unassigned, committed, and assigned fund balance represents $94,434 or 20.5% of general fund expenditures and transfers out.

committed, and assigned fund balance represents $94,434 or 20.5% of general fund expenditures and transfers out.

Nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance totaling $22,371 consists of $7,519 of land held for resale, $30 for permanent fund principal, $30 for prepaid items, and $14,792 to cover the deficit in the solid waste fund.

Restricted fund balance in the amount of $111,503 are amounts constrained to specific purposes and consists of $55,680 to finance specific capital projects, $3,656 for future capital outlay, $2,169 for federal and state programs, $30,717 to pay debt service, $109 for compliance with the permanent fund, $17,993 for state mandated initiatives, and $1,179 for emergency medical services.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. $35,497 of fund balance is committed for the City's "Rainy Day" fund. Assigned fund balance consists of $4,935 to liquidate contracts and purchase orders, $33,896 for judgments and claims, $12,329 for the subsequent year's budget, $397 for motor vehicle self-insurance, and $1,726 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the stated purposes. Unassigned fund balance totals $5,653.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was $5,653 while total fund balance reached $129,951. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 1.3% of total fund expenditures (excluding other financing uses), while total fund balance represents 30.5% of that same amount. It should be noted that committed fund balance for the City's Rainy Day Fund is $35,497 or 7.7% of general fund expenditures and transfers out. Additionally, assigned fund balances total $51,557. Together, unassigned, committed and assigned fund balance represents $92,707 or 20.0% of general fund expenditures and transfers out. The fund balance of the City's general fund decreased by $12,789 during the current fiscal year. The decrease is attributed to $14,776 of fund balance used as a resource in the current year offset by favorable budget variances related to personnel costs.

Debt service fund. The debt service fund has a total fund balance of $4,129, which is reserved solely for the purpose of payment of debt service. The net decrease in fund balance during the current year in the debt service fund of $1,856 is due to the use of $1,744 of fund balance as a resource in the current year as well as budgetary shortfalls in revenues.

Capital projects fund. The capital projects fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities which are accounted for in the appropriate proprietary fund. At the end of the current fiscal year, the fund balance was $55,695, of which $27,840 was considered encumbered for contracts underway, $27,839 was restricted for future projects and $15 reserved for prepaid items. The increase in fund balance of $5,304 is the result of unexpended bond proceeds from bonds issued in 2011.

BFSA special revenue fund. The BFSA special revenue fund is used to account for the general fund of the BFSA and, therefore, is their chief operating fund. Total fund balance at the end of the current fiscal year was $19,735. Of this amount, $17,993 is reserved by enabling legislation for state aid received on behalf of the City, $15 is reserved for prepaid items and $1,726 represents BFSA's assigned fund balance for operations.

Other governmental funds. Other governmental funds consist of the special revenue fund, the BFSA debt service fund, and the permanent fund. The special revenue fund is used to account for programs and projects primarily funded by grants from the federal and state governments. At the end of the current fiscal year, fund balance of the special revenue fund was $2,169. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the special revenue fund decreased by $314 over the prior year, and is attributed to the expenditures incurred in the current year for revenues that were received and recorded in prior years. The BFSA debt service fund has a total fund balance of $16,490, which is reserved to pay debt service. The positive change of $1,149 is the result of increased set asides for future debt service payments. The permanent fund is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for the purposes for which they were established. The balance at the end of the current fiscal year was $139. The increase of $1 was the result of investment income.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the proprietary funds at the end of the current fiscal year totaled $52,499. The balance includes $46,172 for parking, $26,590 for the water system, and a deficit balance of $20,263 for solid waste and recycling. The underlying reasons for any changes were described under the heading Business-Type Activities.

Internal service fund. The internal service fund is used to account for the central print shop. The total net assets at the end of the fiscal year were $204. This represents an increase of $21, which is primarily from the excess of charges over cost.

Budgetary Highlights

The City annually adopts an operating budget for the general fund as well as the debt service and enterprise funds. The City also adopts a capital improvement budget that determines what multi-year projects will be financed by the sale of bonds or the acquisition of capital grants. These projects are accounted for in the capital projects fund. The multi-year projects of the special revenue fund are established for specific projects as grant funds become available.

After adjustments for the prior year's encumbrances of $6,549 the City's 2010-11 general fund operating budget was increased during the year by approximately $2,582 for renovation of the City Court cell block facility. Actual revenues were $227 greater than the final budget mostly related to a positive variance in the gross utility tax offset by decreases in state aid of $2,299 and decreases in property taxes of $1,301. Actual expenditures were $3,779 less than the final budget. Major positive variances include a total of $13,789 in salaries over multiple functions, as well as $1,578 in judgments and claims. The negative variance in fringe benefits of $11,588 is the result of estimating retroactive wage payments attributable to 2010-11 for unsettled union contracts.

Capital Assets and Debt Administration

Capital Assets. In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's capital assets for its governmental and business-type activities as of June 30, 2011, amounted to $582,880 (net of accumulated depreciation). These capital assets include land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

Table 3—Capital Assets—Primary Government (000s omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Land	$ 12,577	$ 12,579	$ 3,362	$ 3,362	$ 15,939	$ 15,941
Buildings and improvements	169,356	163,418	115,499	115,862	284,855	279,280
Improvements other than buildings	14,129	15,466	135	139	14,264	15,605
Machinery and equipment	17,570	17,860	1,642	1,777	19,212	19,637
Infrastructure	191,578	183,950	55,070	55,349	246,648	239,299
Construction in progress	1,021	10,972	941	713	1,962	11,685
Total	$ 406,231	$ 404,245	$ 176,649	$ 177,202	$ 582,880	$ 581,447

Significant changes from 2010 to 2011 in capital assets include:

- Infrastructure increased $7,349 due to completion of various road projects.
- Construction in progress decreased $9,723 due to completion of two firehouses.

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding for governmental activities of $215,238, excluding bonds issued by BFSA. This entire amount is backed by the full faith and credit of the City. The City issued $26,885 of general obligation bonds for capital projects during the year. The City also issued $34,650 of refunding bonds during the year.

The BFSA's total bonded debt outstanding at the end of the current fiscal year is $106,760.

The bonds outstanding for business-type activities at June 30, 2011 consisted of $19,689 in general obligation bonds issued by the City and $155,565 of revenue bonds issued by the Water Authority reported within the water system. No new debt was issued in the current year.

Table 4—Outstanding Debt—Primary Government (000s omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
General obligation bonds	$ 321,998	$ 333,589	$ 19,689	$ 22,603	$ 341,687	$ 356,192
Revenue bonds	-	-	155,565	161,400	155,565	161,400
Total	$ 321,998	$ 333,589	$ 175,254	$ 184,003	$ 497,252	$ 517,592

The New York State Constitution restricts the annual real property tax levy for operating expenses to two percent of average full value of taxable City property over the last five years. This limitation does not apply to taxes for debt service. The Constitution also provides that the City may not contract indebtedness in an amount greater than 9% of the average full value of taxable real property for the most recent five years. Water debt, self-sustaining debt and revenue anticipation notes are excluded from the debt limit. This limit as of fiscal year end was $584,642. The City had a debt-contracting margin of $329,639 on July 1, 2011.

Additional information on the City's long-term debt can be found in Note 8 of this report.

Next Year's Budget

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2012 budget. The total budgeted appropriations for the City's general fund operations are $356,584. This budget reflects an increase of 0.4% to cover anticipated increased costs. This budget was approved by the BFSA.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York 14202, Buffalo Board of Education, Finance, 708 City Hall, Buffalo, New York 14202 and Buffalo Urban Renewal Agency, 214 City Hall, Buffalo, New York 14202.

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BASIC FINANCIAL STATEMENTS

CITY OF BUFFALO, NEW YORK
Statement of Net Assets (Deficits)
June 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BOE	BURA
ASSETS					
Cash and cash equivalents	$ 471,457,618	$39,954,840	$ 511,412,458	$ 274,904	$ 3,113,950
Investments	18,499,539	-	18,499,539	-	673,874
Receivables (net of allowance for uncollectibles)	2,770,756	9,389,272	12,160,028	1,637,816	12,311,466
Due from other governments/agencies	51,714,569	379,335	52,093,904	76,603,204	575,119
Due from component units/ primary government	116,615,559	-	116,615,559	250,076,297	203,818
Internal balances	15,192,844	(15,192,844)	-	-	-
Prepaid expenses and other assets	30,301	-	30,301	1,580,716	-
Deferred financing costs	6,027,009	2,912,954	8,939,963	26,612,014	-
Real estate acquired for resale	7,518,512	-	7,518,512	-	804,857
Restricted assets:					
Cash and cash equivalents	10,526,964	40,242,009	50,768,973	371,007,482	-
Capital assets:					
Land and construction in progress	13,598,030	4,303,584	17,901,614	166,127,438	627,931
Other capital assets (net of accumulated depreciation)	392,632,949	172,345,903	564,978,852	922,115,868	10,247,893
Total assets	1,106,584,650	254,335,053	1,360,919,703	1,816,035,739	28,558,908
LIABILITIES					
Accounts payable and accrued expenses	86,421,173	9,747,830	96,169,003	59,392,104	3,954,735
Due to component units/primary government	250,280,115	-	250,280,115	116,615,559	-
Due to other governments	115,519	-	115,519	25,244,196	329,238
Unearned revenue	8,026,370	558,584	8,584,954	-	4,016,973
Noncurrent liabilities:					
Due within one year	60,943,562	10,008,155	70,951,717	44,603,332	1,110,000
Due in more than one year	588,239,669	181,521,354	769,761,023	1,695,154,459	15,681,937
Total liabilities	994,026,408	201,835,923	1,195,862,331	1,941,009,650	25,092,883
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	249,347,204	49,431,754	298,778,958	152,526,964	10,628,263
Restricted for:					
Capital projects	3,656,412	-	3,656,412	1,655,950	-
Debt service	26,687,639	-	26,687,639	143,595,544	-
Grants	2,169,421	-	2,169,421	-	-
State mandated initiatives	17,993,004	-	17,993,004	-	-
Real estate	7,518,512	-	7,518,512	-	-
Judgments and claims	397,207	-	397,207	18,000,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	224,350,164	-
Other purposes	1,178,568	-	1,178,568	533,964	-
Perpetual care:					
Expendable	108,762	-	108,762	-	-
Unexpendable	30,000	-	30,000	-	-
Stabilization	-	-	-	8,969,264	-
Unrestricted	(196,528,487)	3,067,376	(193,461,111)	(677,761,805)	(7,162,238)
Total net assets (deficits)	$ 112,558,242	$52,499,130	$ 165,057,372	$(124,973,911)	$ 3,466,025

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Activities
Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets (Deficit)				
			Operating	Capital	Primary Government			Component Unit	
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	BOE	BURA
Primary government:									
Governmental activities:									
General government support	$ 112,278,479	$ 8,426,082	$ 5,516,088	$ 4,372,037	$ (93,964,272)	$ -	$ (93,964,272)	$ -	$ -
Public safety	298,733,158	9,701,627	6,477,719	262,596	(282,291,216)	-	(282,291,216)	-	-
Streets and sanitation	33,950,745	1,057,585	-	10,866,063	(22,027,097)	-	(22,027,097)	-	-
Economic assistance and opportunity	8,505,286	4,437,000	326,799	762,711	(2,978,776)	-	(2,978,776)	-	-
Culture and recreation	14,510,435	112,074	-	1,489,720	(12,908,641)	-	(12,908,641)	-	-
Home and community services	5,685,469	434,080	589,158	-	(4,662,231)	-	(4,662,231)	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	16,458,395	-	-	-	(16,458,395)	-	(16,458,395)	-	-
Total governmental activities	560,444,725	24,168,448	12,909,764	17,753,127	(505,613,386)	-	(505,613,386)	-	-
Business-type activities:									
Solid Waste and Recycling	23,759,060	18,118,832	-	-	-	(5,640,228)	(5,640,228)	-	-
Parking	2,656,179	7,612,172	-	-	-	4,955,993	4,955,993	-	-
Water System	32,513,867	36,943,085	-	-	-	4,429,218	4,429,218	-	-
Total business-type activities	58,929,106	62,674,089	-	-	-	3,744,983	3,744,983	-	-
Total primary government	$ 619,373,831	$ 86,842,537	$ 12,909,764	$ 17,753,127	(505,613,386)	3,744,983	(501,868,403)	-	-
Component Units:									
BOE	$ 942,554,644	$ 3,409,844	$ 148,882,032	$ -				(790,262,768)	-
BURA	65,642,499	-	64,424,356	-				-	(1,218,143)
Total component units	$ 1,008,197,143	$ 3,409,844	$ 213,306,388	$ -				(790,262,768)	(1,218,143)
General revenues:									
Taxes:									
Property taxes					127,779,276	-	127,779,276	-	-
Other tax items					13,961,925	-	13,961,925	-	-
Gross utility tax					11,350,134	-	11,350,134	-	-
State aid (unrestricted)					164,787,593	-	164,787,593	594,028,848	-
Intergovernmental (unrestricted)					95,344,245	241,442	95,585,687	34,296,667	-
Grants and contributions not restricted to specific programs					243,308	-	243,308	-	-
Investment earnings					3,671,145	1,301,840	4,972,985	7,197,411	-
Contribution from City of Buffalo					-	-	-	70,322,758	-
Miscellaneous					4,350,146	-	4,350,146	13,481,544	-
Total general revenues					421,487,772	1,543,282	423,031,054	719,327,228	-
Transfers					6,179,178	(6,179,178)	-	-	-
Change in net assets (deficit)					(77,946,436)	(890,913)	(78,837,349)	(70,935,540)	(1,218,143)
Net assets (deficit)—beginning, as previously stated					190,504,678	53,390,043	243,894,721	(35,061,619)	4,684,168
Prior period adjustment					-	-	-	(18,976,752)	-
Net assets (deficit)—beginning, as restated					190,504,678	53,390,043	243,894,721	(54,038,371)	4,684,168
Net assets (deficit)—ending					$ 112,558,242	$ 52,499,130	$ 165,057,372	$ (124,973,911)	$ 3,466,025

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Balance Sheet—Governmental Funds
June 30, 2011

	General	Debt Service	Capital Projects	BFSA Special Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 373,423,908	$ 3,798,159	$ 73,208,351	$ 18,143,306	$ 2,695,985	$ 471,269,709
Investments	-	-	-	-	18,499,539	18,499,539
Receivables:						
Delinquent taxes and assessments	18,289,139	-	-	-	-	18,289,139
Accounts receivable	9,417,061	-	-	-	-	9,417,061
Other receivables	50	1,005	-	-	18,161	19,216
Due from other agencies	2,955,417	-	-	-	-	2,955,417
Due from other funds	48,595,625	209,489	94,831	-	13,959	48,913,904
Due from other governments	12,495,931	-	3,073,454	30,792,606	2,397,161	48,759,152
Allowance for uncollectibles	(24,972,851)	-	-	-	-	(24,972,851)
Net receivables	66,780,372	210,494	3,168,285	30,792,606	2,429,281	103,381,038
Real estate acquired for resale	7,518,512	-	-	-	-	7,518,512
Prepaid items	-	-	15,155	15,146	-	30,301
Restricted cash and cash equivalents	9,769,264	211,700	546,000	-	-	10,526,964
Total assets	$ 457,492,056	$ 4,220,353	$ 76,937,791	$ 48,951,058	$ 23,624,805	$ 611,226,063
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 9,466,482	$ -	$ 4,159,712	$ 25,827	$ 627,088	$ 14,279,109
Due to other governments and agencies	90,415	-	25,104	-	-	115,519
Due to other funds	77,942	91,080	5,855,780	25,266,630	2,429,506	33,720,938
Due to component units	236,568,327	-	9,786,960	3,906,078	18,750	250,280,115
Accrued liabilities	58,417,247	-	-	17,993	1,742,876	60,178,116
Deferred revenues	16,412,942	-	-	-	-	16,412,942
Retentions payable	9,434	-	869,616	-	8,474	887,524
Accrued pension	6,498,446	-	-	-	-	6,498,446
Deposits	-	-	546,000	-	-	546,000
Total liabilities	327,541,235	91,080	21,243,172	29,216,528	4,826,694	382,918,709
Fund balances:						
Nonspendable	22,310,965	-	15,155	15,146	30,000	22,371,266
Restricted	14,932,960	4,129,273	55,679,464	17,993,004	18,768,111	111,502,812
Committed	35,496,809	-	-	-	-	35,496,809
Assigned	51,557,210	-	-	1,726,380	-	53,283,590
Unassigned	5,652,877	-	-	-	-	5,652,877
Total fund balances	129,950,821	4,129,273	55,694,619	19,734,530	18,798,111	228,307,354
Total liabilities and fund balances	$ 457,492,056	$ 4,220,353	$ 76,937,791	$ 48,951,058	$ 23,624,805	$ 611,226,063

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficits)—Governmental Activities
June 30, 2011

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

Fund balances—total governmental funds		$228,307,354
City capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $725,377,798 and the accumulated depreciation is $319,150,117.		406,227,681
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, not reporting in the funds. The cost of these assets is $81,839 and the accumulated depreciation is $78,541.		3,298
To recognize interest accrual on long-term debt. Accrued interest for general obligation bonds is $4,029,542 at year end.		(4,029,542)
Property taxes are not available to pay for current period expenditures and therefore are deferred in the funds.		8,386,572
Internal service funds are used by management to charge the costs of internal print services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		203,542
Long-term liabilities applicable to the City's governmental fund are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consisted of:		
Bonds payable (net of of BFSA mirror debt and amount due from Board)	(98,622,441)	
Notes payable	(1,558,970)	
Capital leases	(2,236,680)	
Deferred financing costs	4,402,793	
Unamortized premiums	(3,609,968)	
Compensated absences	(25,935,572)	
Workers' compensation	(8,376,975)	
Landfill post-closure monitoring	(1,250,000)	
Other postemployment benefits payable	(244,190,000)	
Judgments and claims	(33,895,500)	(415,273,313)
Long-term liabilities of the Buffalo Fiscal Stability Authority are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consisted of:		
Bonds payable	(106,760,000)	
Deferred financing costs	1,624,216	
Unamortized premiums	(5,817,344)	
Other postemployment benefits payable	(314,222)	(111,267,350)
Net assets of governmental activities		$112,558,242

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended June 30, 2011

	General	Debt Service	Capital Projects	BFSA Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes, assessments, and other tax items	$ 138,368,936	$ -	$ -	$ -	$ -	$ 138,368,936
Utility and other nonproperty tax items	14,464,927	-	-	-	-	14,464,927
Intergovernmental charges	256,222,405	16,721,723	15,962,315	4,010,446	8,257,495	301,174,384
Investment interest	1,917,655	425,260	-	-	854,872	3,197,787
License, permit, rentals, fines, and other service charges	21,931,471	263,011	-	-	-	22,194,482
Miscellaneous	6,146,032	1,157	1,141,221	-	5,005	7,293,415
Total revenues	439,051,426	17,411,151	17,103,536	4,010,446	9,117,372	486,693,931
EXPENDITURES						
Current:						
General government support	57,286,468	-	8,176,755	641,311	1,138,655	67,243,189
Public safety	138,904,449	-	3,306,665	-	4,612,631	146,823,745
Streets and sanitation	13,495,606	-	17,692,655	-	113,049	31,301,310
Economic assistance and opportunity	1,260,616	-	3,468,972	-	2,679,061	7,408,649
Culture and recreation	7,181,689	-	2,452,635	-	-	9,634,324
Health and community services	2,815,580	-	-	-	49,185	2,864,765
Education	70,322,758	-	5,038,423	-	-	75,361,181
Fringe benefits	127,913,375	-	-	90,034	-	128,003,409
Other	5,890,065	-	-	-	-	5,890,065
Debt service:						
Principal	-	23,966,000	-	-	14,360,000	38,326,000
Interest and fiscal charges	891,103	11,294,785	-	-	5,283,500	17,469,388
Total expenditures	425,961,709	35,260,785	40,136,105	731,345	28,236,081	530,326,025
Excess (deficiency) of revenues over (under) expenditures	13,089,717	(17,849,634)	(23,032,569)	3,279,101	(19,118,709)	(43,632,094)
OTHER FINANCING SOURCES (USES)						
Transfers in	9,545,222	32,208,909	400,000	-	19,954,010	62,108,141
Transfers out	(35,424,063)	(16,567,973)	(561,390)	(3,375,537)	-	(55,928,963)
Proceeds of debt issuance	-	34,650,000	26,885,000	-	-	61,535,000
Premium on bonds	-	1,788,678	1,613,027	-	-	3,401,705
Payment to escrow agent	-	(36,086,343)	-	-	-	(36,086,343)
Total other financing sources (uses)	(25,878,841)	15,993,271	28,336,637	(3,375,537)	19,954,010	35,029,540
Net change in fund balances	(12,789,124)	(1,856,363)	5,304,068	(96,436)	835,301	(8,602,554)
Fund balances—beginning	142,739,945	5,985,636	50,390,551	19,830,966	17,962,810	236,909,908
Fund balances—ending	$ 129,950,821	$ 4,129,273	$ 55,694,619	$ 19,734,530	$ 18,798,111	$ 228,307,354

The notes to the financial statements are an integral part of this statement.

City of Buffalo, New York

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities—Governmental Activities

Year Ended June 30, 2011

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances—total governmental funds		$ (8,602,554)
The City's governmental funds report capital outlays as expenditures of $27,201,968. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense of $24,980,356. This is the amount by which capital outlays exceeded depreciation, net of related losses on disposal of capital assets of $236,549.		1,985,063
Buffalo Fiscal Stability Authority governmental funds report capital outlays as expenditures of $2,590. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense of $1,362. This is the amount by which capital outlays exceeded depreciation in the current period.		1,228
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.		257,472
Change in accrual of interest payable on notes and bonds payable.		509,616
Change in net assets of the internal service fund reported in governmental activities.		21,252
Bond proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Bond principal payments	23,966,000	
Note principal payments	242,291	
Lease payments	587,709	
Contribution from Board	(6,282,307)	
Debt issued	(61,535,000)	
Refunded debt	34,800,000	
Premium	(3,263,282)	
Financing costs on issued debt	2,320,000	(9,164,589)
Revenues of the Buffalo Fiscal Stability Authority in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.		(239,805)
The repayment of long-term debt by the Buffalo Fiscal Stability Authority consumes current financial resources of governmental funds. Bond issuance costs are capitalized and bond premium deferred. The net effect of the reduction of long-term liabilities on the statement of net assets consists of following adjustments.		
Bond principal payments	14,360,000	
Amortization of bond premiums	713,163	
Amortization of deferred financing costs	(235,008)	14,838,155
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses include changes in:		
Compensated absences	490,919	
Workers' compensation	3,036,695	
Judgments and claims	(19,908,000)	
Landfill post-closure monitoring	550,000	
Other postemployment benefits	(61,182,325)	
Amortization of debt premium	134,177	
Amortization of deferred financing costs	(673,740)	(77,552,274)
Change in net assets of governmental activities		$ (77,946,436)

The notes to the financial statements are an integral part of this statement.

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CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Budgetary	Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes, assessments, and other tax items	$139,669,653	$139,669,653	$138,368,936	$ (1,300,717)
Utility and other nonproperty tax items	12,350,000	12,350,000	14,464,927	2,114,927
Charges for services	11,205,932	11,205,932	11,327,929	121,997
Investment interest	1,300,000	1,300,000	1,917,655	617,655
Federal aid	771,749	771,749	1,237,109	465,360
State aid	185,916,573	185,916,573	183,617,882	(2,298,691)
Local sources and other	70,464,463	70,464,463	71,367,414	902,951
Licenses and permits	3,322,885	3,322,885	3,591,196	268,311
Fines	6,833,200	6,833,200	7,012,346	179,146
Miscellaneous	6,990,185	6,990,185	6,146,032	(844,153)
Total revenues	438,824,640	438,824,640	439,051,426	226,786
EXPENDITURES				
Current:				
General government support:				
Legislative	4,672,668	4,709,818	4,381,091	328,727
Executive	1,590,926	1,590,490	1,255,948	334,542
Audit and control	2,891,011	2,932,406	2,724,072	208,334
Law	3,194,454	3,737,963	3,730,048	7,915
Assessment	1,938,473	1,962,775	1,763,167	199,608
Public works, parks and streets	5,992,709	8,236,137	7,989,693	246,444
Management information systems	3,199,089	3,384,931	3,159,864	225,067
Administration and finance	10,515,045	10,469,785	9,247,918	1,221,867
Human resources	5,111,308	5,831,051	5,048,486	782,565
Other	20,356,905	20,225,666	19,654,046	571,620
Public safety:				
Administration and finance	1,406,916	1,459,632	1,295,021	164,611
Police	79,543,125	80,421,627	77,364,342	3,057,285
Fire	56,211,530	56,270,642	53,993,748	2,276,894
Public works, parks and streets	1,851,057	1,898,469	1,408,371	490,098
Permit and inspection services	5,597,453	6,015,996	5,880,113	135,883
Streets and sanitation:				
Public works, parks and streets	14,210,631	15,871,232	14,480,073	1,391,159
Health and community services:				
Public works, parks and streets	1,080,120	1,081,079	1,031,063	50,016
Community services	2,044,820	2,059,496	1,853,164	206,332
Other	20,000	20,000	-	20,000
Culture and recreation:				
Public works, parks and streets	5,804,213	7,229,115	5,721,004	1,508,111
Community services	1,739,531	1,853,777	1,615,066	238,711
Other	-	300,000	300,000	-
Economic assistance and opportunity:				
Executive	1,144,183	1,707,596	1,609,931	97,665
Community services	126,584	126,584	113,941	12,643
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	119,146,149	116,386,403	127,974,227	(11,587,824)
Other	4,935,000	7,667,148	6,088,780	1,578,368
Debt service	903,900	903,900	891,103	12,797
Total expenditures	425,550,558	434,676,476	430,897,038	3,779,438
Excess of revenues over expenditures	13,274,082	4,148,164	8,154,388	4,006,224
OTHER FINANCING SOURCES (USES)				
Transfers in	9,545,222	9,545,222	9,545,222	-
Transfers out	(35,013,561)	(35,018,686)	(35,424,063)	(405,377)
Total other financing sources (uses)	(25,468,339)	(25,473,464)	(25,878,841)	(405,377)
Net change in fund balances	(12,194,257)	(21,325,300)	(17,724,453)	3,600,847
Fund balances—beginning	142,739,945	142,739,945	142,739,945	-
Fund balances—ending	$130,545,688	$121,414,645	$125,015,492	$ 3,600,847

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2011

	Business-type Activities—Enterprise Funds				
	Solid Waste and Recycling	Parking	Water System	Combined Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 633,467	$ 9,228,994	$ 30,092,379	$ 39,954,840	$ 187,909
Receivables:					
Accounts receivable	13,414,918	3,871,056	16,510,165	33,796,139	18,191
Other receivables	342,568	31	866,646	1,209,245	-
Due from other agencies	-	-	134,526	134,526	-
Due from other funds	-	-	222,595	222,595	-
Due from other governments	-	-	244,809	244,809	-
Allowance for uncollectibles	(12,409,457)	-	(13,206,655)	(25,616,112)	-
Net receivables	1,348,029	3,871,087	4,772,086	9,991,202	18,191
Total current assets	1,981,496	13,100,081	34,864,465	49,946,042	206,100
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	40,749	40,201,260	40,242,009	-
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	-	941,374	941,374	-
Capital assets being depreciated:					
Buildings and system	4,037,092	73,654,425	175,621,358	253,312,875	-
Improvements other than buildings	175,071	3,320	252,393	430,784	-
Machinery and equipment	7,461,921	109,762	1,275,718	8,847,401	-
Accumulated depreciation	(8,127,796)	(25,819,143)	(56,298,218)	(90,245,157)	-
Total capital assets being depreciated	3,546,288	47,948,364	120,851,251	172,345,903	-
Deferred financing costs, net	-	373,291	2,539,663	2,912,954	-
Total noncurrent assets	3,546,289	51,579,497	164,678,664	219,804,450	-
Total assets	$ 5,527,785	$ 64,679,578	$199,543,129	$ 269,750,492	$ 206,100
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Accounts payable	$ 1,065,508	$ 203,947	$ 2,479,692	$ 3,749,147	2,436
Due to other funds	14,792,453	176,612	446,374	15,415,439	122
Other accrued liabilities	333,970	331,718	4,469,047	5,134,735	-
Retainages payable	-	8,028	345,601	353,629	-
Deferred revenues	179,307	4,437	374,840	558,584	-
Accrued compensated absences	32,682	-	38,295	70,977	-
Accrued workers' compensation	371,124	-	242,118	613,242	-
Due to retirement systems	251,139	-	259,180	510,319	-
Notes, serial bonds, and revenue bonds payable within one year	-	2,425,042	6,898,894	9,323,936	-
Total current liabilities	17,026,183	3,149,784	15,554,041	35,730,008	2,558

(continued)

City of Buffalo, New York
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2011

	Business-type Activities—Enterprise Funds				
	Solid Waste and Recycling	Parking	Water System	Combined Total	Internal Service Funds
Noncurrent liabilities:					
Accrued compensated absences	1,023,643	-	791,122	1,814,765	-
Accrued workers' compensation	1,168,802	-	156,252	1,325,054	-
Accrued post employment benefits	6,572,000	26,000	5,712,000	12,310,000	-
Accrued derivative liability	-	-	3,897,514	3,897,514	-
General obligation bonds payable	-	15,331,459	1,571,614	16,903,073	-
Revenue bonds payable	-	-	145,270,948	145,270,948	-
Total noncurrent liabilities	8,764,445	15,357,459	157,399,450	181,521,354	-
Total liabilities	25,790,628	18,507,243	172,953,491	217,251,362	2,558
Net assets (deficit):					
Invested in capital assets, net of related debt	3,546,289	33,822,996	12,062,469	49,431,754	-
Unrestricted	(23,809,132)	12,349,339	14,527,169	3,067,376	203,542
Total net assets (deficit)	(20,262,843)	46,172,335	26,589,638	52,499,130	203,542
Total liabilities and net assets (deficit)	$ 5,527,785	$ 64,679,578	$199,543,129	$ 269,750,492	$ 206,100

(concluded)

The notes to the financial statements are an integral part of this statement.

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CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities—Enterprise Funds				
	Solid Waste and Recycling	Parking	Water System	Combined Total	Internal Service Funds
Operating revenues:					
Charges for services	$ 17,934,874	$ -	$ 36,685,528	$ 54,620,402	$ 76,657
Other	183,958	-	257,557	441,515	-
Rent	-	7,612,172	-	7,612,172	-
Total operating revenues	18,118,832	7,612,172	36,943,085	62,674,089	76,657
Operating expenses:					
Services and supplies	17,597,982	114,375	14,995,601	32,707,958	55,405
Depreciation	366,127	1,595,094	4,164,884	6,126,105	-
Fringe benefits	5,770,152	5,078	5,427,230	11,202,460	-
Other	-	-	851,741	851,741	-
Total operating expenses	23,734,261	1,714,547	25,439,456	50,888,264	55,405
Operating income (loss)	(5,615,429)	5,897,625	11,503,629	11,785,825	21,252
Nonoperating revenues (expenses):					
Interest earnings	1,165	39,147	399,371	439,683	-
Interest expense	-	(941,632)	(7,074,411)	(8,016,043)	-
Unrealized gain on derivative	-	-	862,157	862,157	-
Other	(24,799)	-	241,442	216,643	-
Total nonoperating revenues (expenses)	(23,634)	(902,485)	(5,571,441)	(6,497,560)	-
Income (loss) before transfers	(5,639,063)	4,995,140	5,932,188	5,288,265	21,252
Transfers in	3,531,698	-	-	3,531,698	-
Transfers out	(673,048)	(4,365,654)	(4,672,174)	(9,710,876)	-
Change in net assets (deficit)	(2,780,413)	629,486	1,260,014	(890,913)	21,252
Total net assets (deficit)—beginning	(17,482,430)	45,542,849	25,329,624	53,390,043	182,290
Total net assets (deficit)—ending	$(20,262,843)	$ 46,172,335	$ 26,589,638	$ 52,499,130	$ 203,542

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities—Enterprise Funds				
	Solid Waste and Recycling	Parking	Water System	Combined Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 17,430,132	$ 8,440,886	$ 42,210,126	$ 68,081,144	$ 66,559
Payments to suppliers for goods and services	(10,318,597)	87,758	(14,774,182)	(25,005,021)	(54,732)
Payments to employees for services	(10,520,497)	(4,262)	(9,206,174)	(19,730,933)	-
Net cash provided (used) by operating activities	(3,408,962)	8,524,382	18,229,770	23,345,190	11,827
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	3,531,698	-	625,203	4,156,901	-
Transfers to other funds	(673,048)	(4,365,654)	(4,672,175)	(9,710,877)	-
Advances from other funds	723,527	98,729	255,056	1,077,312	(4,042)
Net cash provided (used) by noncapital financing activities	3,582,177	(4,266,925)	(3,791,916)	(4,476,664)	(4,042)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(299,698)	(175,783)	(5,122,995)	(5,598,476)	-
Principal payments on bonds	-	(2,482,108)	(6,061,902)	(8,544,010)	-
Interest payments	-	(918,932)	(6,790,864)	(7,709,796)	-
Net cash (used) by capital and related financing activities	(299,698)	(3,576,823)	(17,975,761)	(21,852,282)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	1,167	39,198	363,878	404,243	-
Net cash provided by investing activities	1,167	39,198	363,878	404,243	-
Net increase (decrease) in cash and cash equivalents	(125,316)	719,832	(3,174,029)	(2,579,513)	7,785
Cash and cash equivalents—beginning	758,783	8,549,911	73,467,668	82,776,362	180,124
Cash and cash equivalents—ending	$ 633,467	$ 9,269,743	$ 70,293,639	$ 80,196,849	$ 187,909

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities—Enterprise Funds				
	Solid Waste and Recycling	Parking	Water System	Combined Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	$ (5,615,429)	$ 5,897,625	$ 11,503,629	$ 11,785,825	$ 21,252
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	366,127	1,595,094	4,164,884	6,126,105	-
Change in assets and liabilities:					
Receivables	(646,280)	828,714	523,815	706,249	(10,098)
Payables	81,236	202,133	(159,534)	123,835	673
Other accrued liabilities	13,861	-	298,945	312,806	-
Due to retirement systems	59,640	-	69,818	129,458	-
Deferred revenue	(42,421)	-	-	(42,421)	-
Accrued compensated absences	8,384	-	(158,669)	(150,285)	-
Accrued workers' compensation	(120,193)	-	49,339	(70,854)	-
Accrued other postemployment benefits	2,486,113	816	1,937,543	4,424,472	-
Total adjustments	2,206,467	2,626,757	6,726,141	11,559,365	(9,425)
Net cash provided (used) by operating activities	$ (3,408,962)	$ 8,524,382	$ 18,229,770	$ 23,345,190	$ 11,827

(concluded)

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	$ 26,152	$ 1,409,355
Investments	32,912	-
Receivables	4,395	-
Total assets	$ 63,459	$ 1,409,355
LIABILITIES		
Accounts payable	$ -	$ 258
Due to other governments	-	25,117
Amount held in custody for others	-	1,383,980
Total liabilities	-	1,409,355
NET ASSETS		
Unrestricted	63,459	-
Total net assets	63,459	-
Total liabilities and net assets	$ 63,459	$ 1,409,355

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO, NEW YORK
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	Private Purpose Trust
ADDITIONS	
Investment earnings:	
Interest	$ 500
Total additions	500
DEDUCTIONS	
Awards	255
Total deductions	255
Change in net assets	245
Net assets - beginning	63,214
Net assets - ending	$ 63,459

The notes to the financial statements are an integral part of this statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Definition of the City for Financial Reporting Purposes — The City of Buffalo, New York (the "City") is a municipal entity governed by an elected Mayor, Comptroller, and a nine-member elected City Common Council (the "Council"). As required by accounting principles generally accepted in the United States of America ("GAAP"), these financial statements present the City (the "primary government") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship to the City.

Blended Component Units — The Buffalo Municipal Water Finance Authority (the "Authority") and the Buffalo Water Board (the "Water Board") are legally separate from the City; however, the Authority and the Water Board are reported as if they were part of the primary government (the "Water System") because a majority of their Boards of Directors and/or management are City officials. In addition, the sole purpose of the Authority was to facilitate the financing of the City Water System's acquisition by the Water Board and to finance construction improvements. The Water Board purchased the net assets of the Water System and is responsible for generating sufficient revenues to meet the debt service requirements of the City and Authority related to the Water System.

The Buffalo Fiscal Stability Authority ("BFSA") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the "BFSA Act"), Chapter 122 of the State Laws of 2003, as amended from time to time. Nine directors, seven of which are appointed by the Governor, govern the BFSA. Its corporate purpose is to act as a temporary financial intermediary to the City. The BFSA is included as a blended component unit of the City's primary government because their services are provided almost entirely to the City. The BFSA is fiscally dependent on the City, as they cannot issue debt without approval of the City, and cannot levy taxes or set rates that affect revenues. As such, the City is financially accountable for the BFSA.

The Water System and the BFSA are included as blended component units because exclusion would be misleading.

Discretely Presented Component Units — Financial data of the City's component units that are not part of the primary government are reported in the component unit columns within the government-wide financial statements. These component units are reported in a separate column to emphasize that they are legally separate from the City. Such component units are not simply an extension of the primary government. The majority of the governing body of the Buffalo Urban Renewal Agency ("BURA") is composed of City officials. BURA provides services to the general public. The Board of Education, City of Buffalo, New York (the "Board") is governed by the Board of Education whose members are elected by the voters of the City in accordance with State statutes.

- BURA is a public benefit corporation formed by an act of the State Legislature in 1966. Its corporate purpose includes the general planning and operation of various urban renewal programs designed to prevent or eliminate blight and deterioration in the Buffalo urban area. Most of the funding for the various programs conducted by BURA is obtained from the federal government through the City, representing an ongoing relationship with both financial benefit and burden to the City. Additionally, the City has the ability to remove appointed members and to approve the BURA's budget.

- The Board is a unit of local government created under the Constitution of the State. The Board's primary function is to provide education for pupils. Services, such as transportation of pupils, administration, finance, and plant maintenance, support the primary function of the Board. The Board is financially dependent upon the City and has no independent authority to issue debt or levy taxes, with the exception of the Special Revenue Program Bonds issued by the State of New York Municipal Bond Bank Agency (see Note 8). The Board's Joint Schools Construction Board ("JSCB") bonds payable represents bonds issued by the Erie County Industrial Development Agency (the "Issuer") to provide money to finance the renovation and/or equipping of certain public school facilities for use by the Board. The bonds are special limited obligations of the Issuer payable from amounts due from the Board under an installment sale agreement.

Complete financial statements of the individual component units can be obtained from their respective administrative offices as follows:

Buffalo Water Board
502 City Hall
Buffalo, NY 14202

Buffalo Municipal Water Finance Authority
502 City Hall
Buffalo, NY 14202

Buffalo Board of Education
Office of the Chief Financial Officer
708 City Hall
Buffalo, NY 14202

City of Buffalo Urban Renewal Agency
Financial Controls of Agencies
214 City Hall
Buffalo, NY 14202

Buffalo Fiscal Stability Authority
Market Arcade Building, Suite 400
617 Main Street
Buffalo, NY 14202

Related Organizations — The Mayor also appoints the Board of Directors of the Buffalo Sewer Authority (the "Sewer Authority"), but the City's accountability for the Sewer Authority does not extend beyond making these appointments. The Sewer Authority has its own taxing and debt-raising powers. The Mayor also is responsible for appointing five of the seven members of the Board of Directors of the Buffalo Municipal Housing Authority (the "Housing Authority") and funds the operating deficits of the state-sponsored projects. The City's accountability does not extend beyond this point. The Housing Authority was created by the State Legislature as a separate and independent government body not under City control. A 1982 State Supreme Court ruling supported the City's conclusion regarding the independence of the Housing Authority.

Buffalo Fiscal Stability Authority Act — In May 2003, the State declared a state of fiscal crisis with respect to the City and enacted the BFSA Act, pursuant to Chapter 122 of the State Laws of 2003. Pursuant to the BFSA Act, the State currently is controlling the financial affairs of the City and certain "covered organizations" (as defined in the BFSA Act) affiliated with the City through the BFSA. The BFSA Act reserves to the City the ability to determine program and expenditure priorities within available financial resources.

The BFSA Act provides the BFSA different financial control and oversight powers depending upon whether the City's financial condition causes it to be in a control period; thereafter, an advisory period commences, and the BFSA Act permits a control period to be reestablished as determined should conditions warrant. The control period declared pursuant to the BFSA Act began on July 3, 2003, and continues until the date the BFSA determines that (1) for each of the three immediately preceding City fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any BFSA assistance, as provided for under the BFSA Act, when reported in accordance with GAAP and

(2) the City Comptroller and State Comptroller jointly certify that securities were sold by the City during the immediately preceding fiscal year in the general public market and there is a substantial likelihood that such securities can be sold by the City in the general public market from such date through the end of the next succeeding City fiscal year in amounts that will satisfy substantially all of the capital and cash flow requirements of the City during that period in accordance with the financial plan then in existence. An advisory period shall continue after such BFSA determinations until June 30, 2037, unless another control period is imposed.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including statement of net assets, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements — The statement of net assets and the statement of activities display information on all nonfiduciary activities of the primary government and its component units. The activity of the internal service fund is eliminated to avoid "doubling up" of revenues and expenses. It is the City's policy to record transactions between funds as operating transfers. Therefore as a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the financial condition of the governmental and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements — During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Nonmajor funds, where applicable, are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. BFSA special revenue fund nonexchange transactions, in which the BFSA receives value directly without giving equal value in exchange, include State aid and sales taxes and are recognized in the fiscal year for which stated aid and taxes are earned or designated.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include the State Revenue Sharing and Assistance, sales taxes, and various categorical grants. Long-term historical payment patterns of the State Revenue Sharing and Assistance are considered in determining whether such payments are susceptible to accrual.

The City reports the following major governmental funds:

General Fund — The general fund is used to account for all financial resources of the primary government, except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received, unless prohibited by the purpose and object of such funds.

Debt Service Fund — The debt service fund was established to receive and account for resources restricted for the payment of interest and principal on City and Board general improvement bonds, notes, and capital leases. The City has elected to always report the debt service fund as a major fund to enhance consistency even though it did not meet the criteria for mandatory reporting in the current year.

Capital Projects Fund — The capital projects fund is used to account for financial resources, such as proceeds from the sale of bonds, bond anticipation notes, capital notes, transfers from governmental funds, and federal and state grants, all provided for the specific purpose of constructing, reconstructing, or acquiring permanent or semipermanent capital improvements. Capital improvements intended for use of any of the Enterprise Funds are not included in the capital projects funds.

BFSA Special Revenue Fund — This fund represents the general fund of the BFSA and is used to account for all of their financial resources, except those required to be accounted for in another fund. This fund finances the operations of the BFSA, whereby they intercept state aid and sales tax from the City and transfer to the debt service account to pay debt issued on behalf of the City. The City has elected to report the BFSA special revenue fund as a major fund to enhance consistency even though it did not meet the criteria for mandatory reporting in the current year.

The City reports the following major proprietary funds:

Solid Waste and Recycling Fund — The solid waste and recycling fund is used to account for the City's solid waste removal system.

Parking Fund — The parking fund is used to account for public parking facilities operated by the City.

Water System — This fund accounts for the City's water treatment and distribution system and is responsible for water delivery to the residents of the City.

Additionally, the City reports the following fund types:

Internal Service Fund — The internal service fund accounts for operations in which amounts expended for the print shop are reimbursed by charges to the operations of other funds.

Other Governmental Fund — The other governmental fund includes the special revenue fund, the BFSA debt service fund, and permanent fund:

Special Revenue Fund — The special revenue fund is used to account for the proceeds of specific federal and state grants that are legally restricted to expenditures for specified purposes.

BFSA Debt Service Fund — This fund accounts for the state aid and sales tax resources that the BFSA intercepts from the City to pay principal and interest on general obligations bonds issued by the BFSA on behalf of the City.

Permanent Fund — The permanent fund is used to account for assets held by the City in a trustee capacity that are legally restricted to the extent that only earnings, and not principal, may be used for purposes stipulated in the bequests and trust agreements.

Fiduciary Funds — These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. These include private-purpose trust and agency funds. Activities reported in the fiduciary funds include monies held in trust for prisoners, deposits that are to be returned, and payroll withholding due other entities.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private sector guidance for their business-type and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private sector guidance.

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: refuse collection charges for the solid waste and recycling fund, parking fees for the parking fund and sale of water for the water system. Operating expenses for the enterprise funds, and the internal service fund, include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

Accounting for Property Taxes and Special Assessments — Real property taxes are levied as of July 1, on which date they become liens on real property. The first half may be paid on or before July 31 without interest and the second half on or before December 31 without interest. Interest on delinquent property taxes is charged at the rate of 18% per annum. The lien date is June 1 of the year following the levy of the taxes.

The City is permitted by the Constitution of the State to levy taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt services and capital expenditures. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended June 30, 2011, the City had a legal tax margin of approximately $35.7 million.

Deposits and Investments — Deposits include demand deposits and certificates of deposit. Cash equivalents include U.S. government securities and U.S. government securities purchased through repurchase agreements. Repurchase agreement securities are valued monthly to confirm that the fair value of the securities is equal to or greater than the value of the investment. The City did not have any repurchase agreements included within cash equivalents at June 30, 2011. All highly liquid investments with an original maturity date of approximately three months or less are considered to be cash equivalents. Investments are stated at fair value which approximates cost.

Restricted Assets — Certain assets are classified in the balance sheet as restricted because their use is limited. The proceeds of bond and note sales can only be used for the stated purpose of the borrowing. Property taxes collected for debt service payments are legally restricted for that purpose.

Capital Assets — Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, as well as within each individual proprietary fund. Capital assets are defined by the City as assets with an initial, individual cost of more than $10,000, and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Additions are recorded at cost and donated fixed assets are recorded at their estimated fair value as of the date donated.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Class	Life in Years
Buildings	50
Building improvements	20
Improvements other than buildings	10 - 30
Infrastructure	20 - 50
Water system	20 - 40
Machinery and equipment	4 - 30

The capitalization threshold for the Board is $5,000. Capital assets of the Board are depreciated using the straight-line method over the following estimated useful lives:

Assets	Life in Years
Buildings	50
Building improvements	20
Land improvements	20
General equipment	10
Computer, business machine, and audit visual equipment	5
Automotive	7

Deferred Financing Costs – Costs associated with the issuance of refunding bonds have been capitalized and are being amortized on the straight line basis over the life of the bonds.

Compensated Absences — The City's policy is to pay employees for unused vacation, compensatory time, and sick time based on union agreements when there is separation from service. For governmental activities, the amount is accrued in the government-wide statement of net assets as long-term liabilities. For business-type activities, the full liability is recognized in both the government-wide statement of net assets and the proprietary fund financial statements.

Long-Term Liabilities — In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, if any, are deposited in the debt service fund and used to retire debt. Bond issuance costs related to governmental activities or business-type activities are reported as deferred charges within the government-wide financial statements and proprietary fund financial statements, respectively, and are amortized into interest expense over the term of related debt.

In the fund financial statements, governmental fund types report bond premiums and discounts, as well as bond issuance costs, as revenues/other financing sources and expenditures/other financing uses during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as interest and fiscal charges.

Fund Equity —The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets — Net of Related Debt — This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets — This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $59,739,525 of restricted net assets, of which $26,687,639 is restricted for debt service and $17,993,004 is restricted for state mandated initiatives.

Unrestricted Net Assets (Deficit) — This category represents net assets of the City not restricted for any project or other purpose.

In the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. Management has evaluated, classified and reported amounts in the appropriate fund balance classifications by applying accounting policies that determine whether funds are nonspendable, restricted, committed, assigned or unassigned. These policies have been disclosed in Note 14.

Encumbrances — Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded, is employed as part of the City's budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year end.

The City, for budgetary control purposes, accounts for encumbrances as a charge against appropriations and does not distinguish the portion of encumbrances that represent liabilities for goods or services received but not paid for at the balance sheet date. For financial statement purposes, these encumbrances are segregated into the portion that represents an outstanding liability for goods or services received versus a commitment for goods and services not received. The amounts representing goods or services received are shown in the financial statements as accounts payable and included in expenditures, while the amounts representing commitments are shown as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year do not lapse.

Accrued Pension — Amounts owed to the State Retirement Systems for wages paid to employees of the City but not yet billed are reported as liabilities in the financial statements.

Estimates — The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses/expenditures, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

Reclassifications — Certain amounts were reclassified from the Board's, BURA's, and BFSA's financial statements to conform to the City's reporting presentation. In the BFSA's statement of net assets, $3,906,078 was reclassified from due to City of Buffalo to due to component units for sales tax that was a receivable from Erie County on behalf of the Board. And, in the BFSA's statement of revenue, expenditures, and change in net assets, $270,700,378 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSA on behalf of the City.

Adoption of New Accounting Pronouncement — During the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which requires the City to change its fund balance classifications for governmental funds. The new classifications are explained below.

Nonspendable fund balance—Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted fund balance—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

Committed fund balance—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended June 30, 2011, the City completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending June 30, 2011. GASB Statement No. 59 did not have a material impact on the City's financial position or results from operations.

Future Impacts of Accounting Pronouncements — The City has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* effective for the year ending June 30, 2012; GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61*, The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34,* GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for the year ending June 30, 2013. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 57, 60, 61, 62, 63 and 64 will have on its financial position and results of operations.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information — The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Formal annual operating budgets are adopted by the Council for the general fund and the debt service fund. Annual budgets for proprietary funds serve only as financial plans. The budgets are prepared on a non-GAAP budgetary basis; encumbrances are charged against appropriations in the year the commitment is incurred. Formal budgetary integration is employed during the year as a management control device. The Common Council adopts long-term budgets covering the anticipated life of the project, grant, or program for the capital project and the special revenue fund.

- Prior to May 1, for the fiscal year beginning July 1, the Mayor submits to the Common Council a complete operating plan of proposed expenditures and estimated revenues for the City's general fund and the debt service fund.

- The Council considers the operating budgets at the first meeting following their submission by the Mayor and has the power to delete, reduce, or add items to the budgets. If no additions are made by the Council, the budgets as passed by the Council are adopted without any Mayoral action. Any additions to the proposed executive budgets require Mayoral approval.

- ♦ The appropriation for every function of each City department, division, agency, or other purpose is fixed. The total expenditures for each function may not exceed the original appropriation during the fiscal year without Council approval. Increases over budget appropriations as originally adopted require a two-thirds vote of approval by the Council after certification by both the Mayor and the Comptroller, demonstrating that the increase is necessary to meet a contingency which could not have been reasonably foreseen when the budget was adopted.

The City reports its budgetary status with the actual data, including outstanding encumbrances as charges against budget appropriations. Following is a reconciliation of the budgetary-basis (i.e., non-GAAP) and the GAAP-basis operating results:

Excess of revenues and other financing sources over expenditures and other financial uses — GAAP basis	$ (12,789,124)
Less encumbrances	(4,935,329)
Excess of revenues and other financing sources over expenditures and other financial uses — basis of budgeting	$ (17,724,453)

Budget columns presented in the accompanying financial statements reflect deficiencies of revenues and other financing sources over expenditures and other financing uses. These deficiencies are caused by the anticipated use of prior-year's fund balance, which had been designated for fiscal year 2011 expenditures during the budget process.

Excess of Expenditures Over Appropriations — For the year ended June 30, 2011, expenditures exceeded appropriations in fringe benefits. The unfavorable variance of $11,587,824 for fringe benefits is the result of an estimate for the cost of retroactive wages from July 1, 2009 for unsettled union contracts which were not included in the budget. Additionally, an unfavorable variance of $405,377 for transfers out was noted due to budgeted amounts for capital outlay included within other expenses and the actual expense included within transfers out.

3. DEPOSITS AND INVESTMENTS

The City's available cash is deposited and invested in accordance with the State General Municipal Law (Article 2, Section 11), which governs the City's investment policies. The City has its own written investment guidelines, which have been established by the Comptroller's Office pursuant to Section 114A of the City Charter. The City is authorized to deposit or invest funds in banks or trust companies located in, and authorized to do business in, the State. The City's investment policy governs the investment of excess funds. Funds generally may be invested in time deposits, certificates of deposit, obligations of the U.S. government and its agencies, and the State and its municipalities. Cash in banks was fully collateralized at June 30, 2011, of which the bank carrying balance at June 30, 2011, was $529,435,866.

At June 30, 2011, cash and cash equivalents and investments consisted of the following:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash on hand (uncollateralized)	$ 12,700	$ -	$ -	$ 12,700
Deposits	481,971,882	80,196,849	1,435,507	563,604,238
Investments	18,499,539	-	32,912	18,532,451
Total	$ 500,484,121	$ 80,196,849	$ 1,468,419	$ 582,149,389

Investments — At June 30, 2011, total investments of $18,532,451 consisted of investments held by the BFSA of $18,438,067, held by the City of $61,472 and maintained in fiduciary funds of $32,912. Investments at June 30, 2011, consist of the following:

	Carrying Value	Fair Value
Governmental activities:		
Certificates of deposit	$ 94,384	$ 94,384
U.S. Treasury slugs	3,005,697	3,028,559
U.S. Treasury bills	138,950	138,950
Federal Home Loan Mortgage corporate discount paper	5,450,003	5,455,737
Federal National Mortgage Association discount notes	9,633,152	9,646,554
Accrued interest	210,265	210,265
Total	$ 18,532,451	$ 18,574,449

Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2011.

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities related to the BFSA's investments are generally short term with certifications of deposits issued with 30-day maturities and U.S. Treasuries and commercial paper due within 45 days. The credit rating of Federal Home Loan Mortgage corporate discount paper and Federal National Mortgage Association discount notes as reported in November 2008 by Standard & Poor's for short-term debt is A-1+.

Interest Rate Risk — The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are generally limited to 180 days or less.

Credit Risk — In compliance with the State law, City investments are limited to obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America, obligations of the State, time deposit accounts and certificates of deposit issued by a bank or trust company located in, and authorized to do business in, the State, and certain joint or cooperative investment programs.

Custodial Credit Risk — For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the City's name. For deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Banks can satisfy collateral requirements by furnishing a letter of credit, a surety bond, or by pledging eligible securities as specified in Section 10 of the State General Municipal Law. If collateral is required, it can be in the form of a surety bond or obligations of the United States, the State, or any municipality or college of the State. Certain balances for accounts held in trust are collateralized by the State.

Deposits are collateralized with eligible securities of an aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). Securities that may be pledged as collateral are limited to obligations of the United States or any obligation fully insured as to interest and principal by the United States acting through an agency, and obligations of the State or obligations of any municipal corporation, school district, or district corporation of the State.

Concentration of Credit Risk — To promote competition in rates and service cost, and to limit the risk of institutional failure, City deposits and investments are placed with multiple institutions. The general rule is not to place more than $100 million or 50% of the City's total investment portfolio, whichever is less, in overnight investments with any one institution.

Deposits — The City deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC-insured commercial banks or trust companies located within the State. Some of the City's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for City operating cash and for investment purposes. There are no deposits which are uninsured or not collateralized.

Governmental Activities Restricted Cash and Cash Equivalents — General fund restricted assets represent monies set aside as part of the funding requirements of the State for the settlement of the dispute between the Board and the Buffalo Teachers Federation. At June 30, 2011, the restricted cash amounted to $9,769,264 and consisted of cash and cash equivalents held in a bank custodial account. The initial settlement was bonded and such restricted cash is being used to pay the debt service requirements. In addition, debt service fund restricted assets of $211,700 are held by a trustee for future debt service payments and capital projects fund restricted assets of $546,000 represent a good faith deposit for future bonds.

Business-Type Activities Restricted Cash and Cash Equivalents — Business-type restricted assets represent monies raised from the issuance of debt to fund additions to enterprise plant assets and may only be used for this purpose.

The restricted cash consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2011, $720,958 of the water system's restricted cash consisted of U.S. government securities recorded in the water system's name and held in a bank custodial account. The water system also maintains money market accounts with fair values totaling $39,480,302 at June 30, 2011. Restricted cash in the parking fund of $40,749 consisted of cash and cash equivalents and is held in a bank account.

Board of Education — At June 30, 2011, cash in banks was $274,904. This amount was fully collateralized.

Restricted Cash — The Board has restricted cash of $371,007,482 at June 30, 2011, for various purposes as follows:

- Pursuant to the issuance of State of New York Municipal Bond Bank Agency Revenue Bonds, the Board is to maintain a Debt Service Reserve held with a fiscal agent of $1,800,000. Such cash is held with a fiscal agent.

- $549,813 is restricted for the joint account held in trust with the Buffalo Teachers Federation in relation to a teacher's settlement. Such cash is held with a fiscal agent.

- $132,561,351 is restricted for the local share contribution held in trust which can only be disbursed in accordance with the Indenture Trust Agreement, and represents an amount of the Series 2003 bond proceeds to be deposited and maintained by a trustee. Such cash is held with a fiscal agent.

- Bond proceeds of $224,220,002 at June 30, 2011, are held in trust and can only be utilized for approved project costs.

- $11,034,193 represents a local share contribution to be held in trust and can only be disbursed in accordance with the Local Share Trust and Depository Agreement.

- $345,310 represents endowment funds and can be used in accordance with the respective endowment document.

- $496,813 is restricted to support obligations related to workers' compensation claims.

Buffalo Urban Renewal Agency

Buffalo Urban Renewal Agency — Bank balances totaled $3,787,824 of which $673,874 was fully collateralized at June 30, 2011.

4. RECEIVABLES

Receivables at June 30, 2011, for the City's individual funds and related allowance for uncollectible accounts are as follows:

Receivables:	Receivable	Allowance	Net
Governmental Funds:			
General Fund:			
Taxes	$ 18,289,139	$ (8,635,384)	$ 9,653,755
Accounts receivable	9,417,061	(5,127,878)	4,289,183
Other receivables	50	-	50
Due from other agencies	2,955,417	(1,507,740)	1,447,677
Due from other funds	48,595,625	-	48,595,625
Due from other governments	12,495,931	(9,701,849)	2,794,082
	$ 91,753,223	$ (24,972,851)	$ 66,780,372
Debt Service Fund:			
Other receivables	$ 1,005	$ -	$ 1,005
Due from other funds	209,489	-	209,489
	$ 210,494	$ -	$ 210,494
Capital Projects Fund:			
Due from other funds	$ 94,831	$ -	$ 94,831
Due from other governments	3,073,454	-	3,073,454
	$ 3,168,285	$ -	$ 3,168,285
BFSA Special Revenue Fund:			
Due from other governments	$ 30,792,606	$ -	$ 30,792,606
Other governmental funds:			
Other receivables	$ 18,161	$ -	$ 18,161
Due from other funds	13,959	-	13,959
Due from other governments	2,397,161	-	2,397,161
	$ 2,429,281	$ -	$ 2,429,281

(continued)

Receivables:	Receivable	Allowance	Net
Proprietary Funds:			
Solid Waste and Recycling Fund:			
Accounts receivable	$ 13,414,918	$ (12,367,071)	$ 1,047,847
Other receivables	342,568	(42,386)	300,182
	$ 13,757,486	$ (12,409,457)	$ 1,348,029
Parking Fund:			
Accounts receivable	$ 3,871,056	$ -	$ 3,871,056
Other receivables	31	-	31
	$ 3,871,087	$ -	$ 3,871,087
Water System Fund:			
Accounts receivable	$ 16,510,165	$ (13,206,655)	$ 3,303,510
Other receivables	866,646	-	866,646
Due from other agencies	134,526	-	134,526
Due from other governments	244,809	-	244,809
Due from other funds	222,595	-	222,595
	$ 17,978,741	$ (13,206,655)	$ 4,772,086
Internal Service Fund:			
Accounts receivable	$ 18,191	$ -	$ 18,191

Due from other governments at June 30, 2011, consists of the following:

Due from other governments:	
Governmental Funds:	
General Fund:	
Due from Erie County	$ 10,009,011
Due from New York State	1,974,421
Due from federal government	512,499
	$ 12,495,931
Capital Projects Fund:	
Due from New York State	$ 3,073,454
BFSA Special Revenue Fund:	
Due from New York State	$ 30,792,606
Other Governmental Funds:	
Special Revenue Fund:	
Due from New York State	$ 2,259,041
Due from federal government	138,120
	$ 2,397,161
Proprietary Funds:	
Water System:	
Due from New York State	$ 244,809

Board of Education

Accounts Receivable — Accounts receivable represents amounts due for tuition and health services provided to other districts and other various items.

Major revenues consist of the following at June 30, 2011:

General Fund:	
Health Services	$ 570,630
Tuition billing	312,460
Miscellaneous revenues	584,750
School Food Service Fund	163,510
Special Aid Fund	6,466
Total	$ 1,637,816

Due from other governments and agencies consists of the following at June 30, 2011:

General Fund:	
State aid - basic	$ 11,482,761
State aid - excess	14,652,122
State aid - ARRA	944,697
State aid - Medicaid	1,329,334
Federal and state grants	45,715,016
Federal and state aid - Food Service Fund	1,544,972
Miscellaneous	934,302
Total	$ 76,603,204

Buffalo Urban Renewal Agency

Accounts receivable for BURA consist of program loans receivable, notes receivable, and advances to subgrantees. Additionally, BURA reports due from other governments.

Program Loans — Program loans receivable consist of several economic development loans made directly by BURA or indirectly through Buffalo Economic Renaissance Corporation (BERC) to qualifying developers. As of June 30, 2011, program loans receivable consist of Community Development Block Grant ("CDBG") funds advanced by BURA to BERC for Section 108 program loans due within the year in the amount of $300,000.

Notes Receivable — Various notes from individuals, businesses, and other organizations were outstanding at June 30, 2011, representing funds advanced by BURA for projects designed to stimulate economic development and housing improvements in the City. These notes are secured by mortgages with varying repayment terms.

Advances to Subgrantees — In the course of conducting various projects funded through the CDBG and other grant programs, BURA contracts with numerous subgrantees to perform program services at the community level. In connection with those subgrant contracts, BURA has advanced CDBG and other funds to provide working capital for the subgrantees which are reported as advances receivable.

Due From Federal Government — $282,500 of the amount presented as due from the federal government represents a 10% guarantee on loans issued under the Department of Housing and Urban Development's Section 108 program prior to October 30, 1986. This amount will become available for use in the CDBG grant program as Section 108 loan principal balances are reduced through repayments from the individual borrowers. The remaining amount represents amounts not yet received by BURA from the federal government for expenses incurred under federal grant programs.

5. CAPITAL ASSETS

Governmental-Type Activities

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets — not being depreciated:				
Land	$ 12,579,280	$ -	$ 1,900	$ 12,577,380
Construction in progress	10,972,265	1,020,649	10,972,264	1,020,650
Total capital assets — not being depreciated	23,551,545	1,020,649	10,974,164	13,598,030
Capital assets — being depreciated:				
Buildings and building improvements	255,483,751	11,267,988	426,717	266,325,022
Improvements other than buildings	40,688,995	342,503	49,095	40,982,403
Machinery and equipment	52,212,130	4,605,947	2,241,810	54,576,267
Infrastructure	329,037,642	20,940,273	-	349,977,915
Total capital assets — being depreciated	677,422,518	37,156,711	2,717,622	711,861,607
Less accumulated depreciation for:				
Buildings and building improvements	92,065,037	5,168,288	264,758	96,968,567
Improvements other than buildings	25,223,260	1,662,900	32,836	26,853,324
Machinery and equipment	34,352,737	4,836,262	2,183,479	37,005,520
Infrastructure	145,088,341	13,312,906	-	158,401,247
Total accumulated depreciation	296,729,375	24,980,356	2,481,073	319,228,658
Total capital assets being depreciated — net	380,693,143	12,176,355	236,549	392,632,949
Governmental activities' capital assets — net	$ 404,244,688	$ 13,197,004	$ 11,210,713	$ 406,230,979

Business-Type Activities

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets —not being depreciated:				
Land	$ 3,362,210	$ -	$ -	$ 3,362,210
Construction in progress	713,135	5,553,105	5,324,866	941,374
Total capital assets — not being depreciated	4,075,345	5,553,105	5,324,866	4,303,584
Capital assets — being depreciated:				
Buildings and building improvements	156,685,567	2,890,912	-	159,576,479
Improvements other than buildings	415,137	15,647	-	430,784
Machinery and equipment	9,077,953	361,448	592,000	8,847,401
Infrastructure	91,634,166	2,102,230	-	93,736,396
Total capital assets — being depreciated	257,812,823	5,370,237	592,000	262,591,060
Less accumulated depreciation for:				
Buildings and building improvements	40,823,954	3,254,321	-	44,078,275
Improvements other than buildings	276,331	19,395	-	295,726
Machinery and equipment	7,300,736	471,773	567,200	7,205,309
Infrastructure	36,285,231	2,380,616	-	38,665,847
Total accumulated depreciation	84,686,252	6,126,105	567,200	90,245,157
Total capital assets being depreciated — net	173,126,571	(755,868)	24,800	172,345,903
Business-type activities' capital assets — net	$ 177,201,916	$ 4,797,237	$ 5,349,666	$ 176,649,487

Depreciation expense was charged to City functions and programs as follows:

Governmental activities:	
General government	$ 2,713,492
Public safety	5,796,615
Streets and sanitation	12,937,369
Economic assistance and opportunity	10,467
Culture and recreation	3,038,146
Health and community services	484,267
Total depreciation expense — governmental activities	$ 24,980,356
Business-type activities:	
Water	$ 4,164,884
Parking	1,595,094
Solid waste and recycling	366,127
Total depreciation expense — business-type activities	$ 6,126,105

The carrying value of idle impaired assets at June 30, 2011, totaling $546,531, in accordance with GASB 42 *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, represents two impaired firehouses, a library and a community center building.

Board of Education — Capital asset activity of the Board for fiscal year ended June 30, 2011, was as follows:

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets —not being depreciated:				
Land	$ 3,725,598	$ -	$ 104,056	$ 3,621,542
Construction in progress	103,760,429	105,025,737	46,280,270	162,505,896
Total capital assets — not being depreciated	107,486,027	105,025,737	46,384,326	166,127,438
Capital assets — being depreciated:				
Land improvements	4,730,785	10,000	139,395	4,601,390
Buildings and building improvement	1,209,075,535	98,098,715	3,769,076	1,303,405,174
Equipment	22,638,282	3,397,725	8,430,989	17,605,018
Total capital assets — being depreciated	1,236,444,602	101,506,440	12,339,460	1,325,611,582
Less accumulated depreciation for:				
Land improvements	4,337,620	35,592	137,699	4,235,513
Buildings and building improvement	338,694,183	52,516,218	3,227,484	387,982,917
Equipment	18,276,181	1,885,793	8,884,690	11,277,284
Total accumulated depreciation	361,307,984	54,437,603	12,249,873	403,495,714
Total capital assets being depreciated — net	875,136,618	47,068,837	89,587	922,115,868
Government activities' capital assets — net	$ 982,622,645	$ 152,094,574	$ 46,473,913	$1,088,243,306

Buffalo Urban Renewal Agency — BURA's governmental capital assets, recorded at cost, as of June 30, 2011, are summarized as follows:

Function and Activity	Land	Construction In Progress	Building	Equipment	Vehicles	Total
Economic development administration	$ 380,370	$ 247,561	$ 14,706,007	$ 787,938	$ 105,558	$ 16,227,434
General administration	-	-	-	24,866	-	24,866
Subtotal	380,370	247,561	14,706,007	812,804	105,558	16,252,300
Accumulated depreciation	-	-	4,590,796	680,122	105,558	5,376,476
Capital assets — net	$ 380,370	$ 247,561	$ 10,115,211	$ 132,682	$ -	$ 10,875,824

For the year ended June 30, 2011, depreciation in the amount of $337,068 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 39 years.

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reasons why interfund receivables and payables exist. These receivables and payables are short term in nature and are typically repaid in less than one year.

At June 30, 2011, a schedule summarizing individual fund interfund receivables and payables is as follows:

	Interfund Receivable	Interfund Payable
Governmental Activities:		
General Fund	$ 48,595,625	$ 77,942
Debt Service Fund	209,489	91,080
Capital Projects Fund	94,831	5,855,780
BFSA Special Revenue Fund	-	25,266,630
Other governmental funds	13,959	2,429,506
	48,913,904	33,720,938
Business-type Activities:		
Solid Waste and Recycling Fund	-	14,792,453
Parking Fund	-	176,612
Water System	222,595	446,374
Internal Service Fund	-	122
	222,595	15,415,561
Total government-wide	$ 49,136,499	$ 49,136,499

The long-term portion in the amount of $14,792,453 included within the general fund's due from other funds totaling $48,595,625 has been set aside as nonspendable fund balance.

The City records the receipt of all property taxes levied as revenue in the general fund and records a transfer to the debt service fund where the payment on long-term debt is reported. Based on the financing and operation agreements of the Water Board, revenues collected are transferred to the Water Authority and water enterprise fund to cover their operational costs. Other transfers are the result of indirect costs.

A schedule summarizing interfund transfers during the year ended June 30, 2011 is as follows:

	Transfer In					
Transfer out	General	Debt Service	Capital Projects	Other Governmental	Solid Waste & Recycling	Total
General	$ -	$ 31,781,563	$ 400,000	$ 10,500	$ 3,232,000	$ 35,424,063
Debt Service	-	-	-	16,567,973	-	16,567,973
Capital Projects	-	261,692	-	-	299,698	561,390
BFSA	-	-	-	3,375,537	-	3,375,537
Solid Waste & Recycling	673,048	-	-	-	-	673,048
Parking	4,200,000	165,654	-	-	-	4,365,654
Water System	4,672,174	-	-	-	-	4,672,174
Total	$ 9,545,222	$ 32,208,909	$ 400,000	$ 19,954,010	$ 3,531,698	$ 65,639,839

7. CAPITAL LEASES

The City has entered into lease agreements as a lessee for financing the acquisition of various capital assets (computer equipment and traffic signals). Lease principal payments for governmental activities are recorded as expenditures in the appropriate fund. In the government-wide financial statements, no principal payments are reflected as expenditures.

The City's future minimum lease payments under capital leases as of June 30, 2011, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2012	$ 690,324
2013	690,324
2014	537,519
2015	486,584
Total minimum lease payments	2,404,751
Less: amount representing interest	(168,071)
Present value of minimum lease payments	$ 2,236,680

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Building improvements	$ 4,094,136
Infrastructure	3,926,320
	8,020,456
Less: accumulated depreciation	(1,255,699)
	$ 6,764,757

8. LONG-TERM DEBT

Governmental and business-type activities' long-term bonded debt consists of either general obligation bonds backed by the full faith and credit of the City or revenue bonds. The revenue bondholder's recourse is secured solely by the City's Water System revenues. Bonds issued by the BFSA are secured by sales tax and state aid. The debt issued by the City to the BFSA has been eliminated in the government-wide financial statements to eliminate the duplicative reporting of total outstanding debt.

In July 2010, the City issued $26,885,000 of general obligation bonds, consisting of $21,985,000 City general improvement serial bonds and $4,900,000 of Board of Education serial bonds. Principal payments begin on April 1, 2011 and mature in 2025. These bonds bear an interest rate ranging between 2.0% and 5.0%.

In February 2011, the City issued $34,650,000 of refunding bonds, consisting of $12,825,000 of City general improvement refunding bonds and $21,825,000 of Board of Education refunding bonds. Collectively, these bonds refund the previously issued Series 1999A, Series 2001A, Series 2001B, Series 2001D and Series 2002B serial bonds, originally issued for various capital improvements. The 2011 bonds bear an interest rate ranging between 3.0% and 5.0%. The payment to an escrow agent ($36,068,343) was used to purchase direct obligations of the United States of America and fund transaction costs, with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust fund to pay for all future debt service payments of the original bonds. As a result, the original bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2011 refinancing totaled $34,800,000, has been removed from the financial statements. The 2011 refinancing resulted in an economic gain of $1,874,648.

Principal and interest are paid semiannually, generally in equal installments. Noncurrent liabilities at June 30, 2011, are as follows:

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities general obligations bonds issued by City Buffalo:								
1974	$ 4,200,000	5.6	2014	$ 500,000	$ -	$ 125,000	$ 375,000	$ 125,000
1998	14,000,000	3.6-5.25	2025	2,507,500	-	730,000	1,777,500	530,000
1999	45,758,000	2.84-3.9	2019	12,860,000	-	9,990,000	2,870,000	2,870,000
1999	36,996,000	5.0	2014	5,870,000	-	1,905,000	3,965,000	1,960,000
2001	28,686,000	4.0-5.38	2021	8,490,000	-	7,370,000	1,120,000	1,120,000
2001	5,605,000	4-5.25	2020	3,815,000	-	-	3,815,000	-
2002	23,825,000	2.5-5	2022	9,935,000	-	1,610,000	8,325,000	1,680,000
2004	10,285,000	1.5-5.6	2025	8,230,000	-	385,000	7,845,000	400,000
2004	15,245,000	2-4.2	2016	9,010,000	-	1,365,000	7,645,000	1,415,000
2005	26,167,250	5.0	2025	17,264,027	-	1,944,542	15,319,485	1,983,770
2005	34,346,833	5.0	2019	23,525,764	-	6,230,916	17,294,848	4,825,826
2006	25,275,917	5.0	2022	19,748,211	-	1,572,640	18,175,571	1,650,571
2007	22,226,126	5.0	2023	19,176,784	-	1,001,261	18,175,523	1,142,824
2008	22,000,000	3.0-5.25	2023	19,490,000	-	1,110,000	18,380,000	1,165,000
2009	21,500,000	1.35-6.0	2024	20,195,000	-	1,105,000	19,090,000	1,150,000
2010	21,985,000	2.0-5.0	2025	-	21,985,000	1,330,000	20,655,000	1,065,000
2011	12,825,000	3.0-5.0	2021	-	12,825,000	-	12,825,000	100,000
Total				180,617,286	34,810,000	37,774,359	177,652,927	23,182,991

(continued)

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities – issued on behalf of Discretely Presented Component Unit – Board – General Obligations Bonds:								
1998	$ 10,950,000	3.60-5.25	2025	$ 7,877,500	$ -	$ 415,000	$ 7,462,500	$ 785,000
1999	7,034,135	3.25-4.50	2011	565,000	-	565,000	-	-
2001	11,100,000	4.0-5.1	2021	5,670,000	-	5,235,000	435,000	435,000
2001	14,105,000	4.0-5.0	2012	3,000,000	-	1,000,000	2,000,000	1,000,000
2001	34,000,000	4.0-5.5	2016	19,875,000	-	17,335,000	2,540,000	2,540,000
2002	34,250,000	2.5-5.375	2020	23,840,000	-	3,940,000	19,900,000	1,765,000
2003	3,725,000	2.75-5.5	2014	1,411,000	-	331,000	1,080,000	344,000
2003	5,344,000	2.75-5.5	2018	3,805,000	-	214,000	3,591,000	223,000
2003	26,691,000	2.75-5.5	2019	19,541,000	-	995,000	18,546,000	1,034,000
2003	17,239,000	2.75-5.5	2019	12,707,000	-	636,000	12,071,000	662,000
2004	2,700,000	2.0-4.875	2022	2,070,000	-	135,000	1,935,000	140,000
2005	7,258,477	5.0	2016	4,681,366	-	710,307	3,971,059	740,239
2006	2,483,000	5.0	2020	1,941,000	-	154,000	1,787,000	162,000
2007	5,889,000	5.0	2019	4,709,000	-	402,000	4,307,000	451,000
2008	8,920,000	3.0-5.25	2023	7,890,000	-	450,000	7,440,000	465,000
2009	3,530,000	2.5-5.0	2024	3,315,000	-	185,000	3,130,000	190,000
2010	4,900,000	2.5-4.0	2025	-	4,900,000	305,000	4,595,000	265,000
2011	21,825,000	3.0-4.0	2021	-	21,825,000	-	21,825,000	105,000
Total				122,897,866	26,725,000	33,007,307	116,615,559	11,306,239
Less bonds issued by City to BFSA:								
2005A	$ 26,167,250	4.0-5.0	2025	(17,264,027)	-	(1,944,542)	(15,319,485)	(1,983,770)
2005BC	41,605,310	5.0	2019	(28,207,130)	-	(6,941,223)	(21,265,907)	(5,566,065)
2006A	27,758,917	4.0-5.0	2020	(21,689,211)	-	(1,726,639)	(19,962,572)	(1,812,572)
2007A	28,115,126	4.0-5.0	2023	(23,885,783)	-	(1,403,261)	(22,482,522)	(1,593,824)
Total mirror bonds				(91,046,151)	-	(12,015,665)	(79,030,486)	(10,956,231)
Net governmental activities general obligation bonds issued by the City of Buffalo				212,469,001	61,535,000	58,766,001	215,238,000	23,533,000
Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:								
2004	$ 25,745,000	4.0-5.25	2015	$ 14,525,000	$ -	$ 2,610,000	$ 11,915,000	$ 2,750,000
2005A	28,030,000	4.0-5.0	2025	20,465,000	-	3,030,000	17,435,000	1,960,000
2005BC	47,065,000	5.0	2019	36,655,000	-	5,710,000	30,945,000	7,565,000
2006A	27,270,000	4.0-5.0	2020	23,315,000	-	1,575,000	21,740,000	1,760,000
2007A	28,470,000	4.0-5.0	2023	26,160,000	-	1,435,000	24,725,000	1,490,000
Total				121,120,000	-	14,360,000	106,760,000	15,525,000
Total governmental activities bonds				333,589,001	61,535,000	73,126,001	321,998,000	39,058,000
Unamortized premium - City				480,863	3,263,282	134,177	3,609,968	-
Unamortized premium - BFSA				6,530,507	-	713,163	5,817,344	-
Total governmental activities bonds - net				340,600,371	64,798,282	73,973,341	331,425,312	39,058,000

(continued)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Other noncurrent liabilities:					
Nittec loan	$ 1,801,261	$ -	$ 242,291	$ 1,558,970	$ 247,137
Capital leases	2,824,389	-	587,709	2,236,680	612,691
Compensated absences	26,426,491	24,664,688	25,155,607	25,935,572	962,129
Workers' compensation	11,413,670	2,281,141	5,317,836	8,376,975	3,390,605
Landfill post-closure monitoring	1,800,000	-	550,000	1,250,000	100,000
Other postemployment benefits	183,042,270	61,147,730	-	244,190,000	-
Other postemployment benefits-BFSA	279,627	34,595	-	314,222	-
Judgments and claims	13,987,500	22,702,500	2,794,500	33,895,500	16,573,000
Total	241,575,208	110,830,654	34,647,943	317,757,919	21,885,562
Total noncurrent liabilities—governmental activities	$ 582,175,578	$ 175,628,936	$ 108,621,284	$ 649,183,231	$ 60,943,562

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Business-type activities — General Obligation Bonds:								
1998	2,385,000	3.6-5.0	2012	$ 470,000	$ -	$ 270,000	$ 200,000	$ 200,000
2001	11,660,000	4.0-5.3	2017	5,280,000	-	840,000	4,440,000	820,000
2002	21,310,000	2.5-5.375	2022	14,115,000	-	1,180,000	12,935,000	1,225,000
2005	6,552,147	5.0	2018	2,737,870	-	623,777	2,114,093	573,936
Total				22,602,870	-	2,913,777	19,689,093	2,818,936
Business-type activities — Water System Revenue Bonds:								
1998	$ 16,325,000	4.0-4.75	2013	$ 830,000	$ -	$ 265,000	$ 565,000	$ 275,000
1998	49,715,000	4.0-5.0	2013	8,900,000	-	2,720,000	6,180,000	2,850,000
2002	11,785,000	2.5-4.75	2018	2,375,000	-	255,000	2,120,000	265,000
2002	4,379,279	1.53-5.12	2022	2,925,000	-	205,000	2,720,000	210,000
2003	3,901,741	5.6-6.31	2031	3,240,000	-	100,000	3,140,000	105,000
2006	19,917,236	3.6-4.84	2028	17,000,000	-	735,000	16,265,000	750,000
2007	13,010,000	3.6-4.375	2038	12,545,000	-	245,000	12,300,000	255,000
2007	29,220,000	5	2027	28,900,000	-	-	28,900,000	-
2008	62,020,000	3.7-5.07	2036	60,710,000	-	1,310,000	59,400,000	1,335,000
2010	23,975,000	2.0-6.89	2040	23,975,000	-	-	23,975,000	460,000
Total				161,400,000	-	5,835,000	155,565,000	6,505,000
Total business-type activities bonds				184,002,870	-	8,748,777	175,254,093	9,323,936

(continued)

	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011	Due Within One Year
Unamortized bond premium	$ 1,635,727	$ -	$ 242,258	$ 1,393,469	$ -
Unamortized bond discount	(169,172)	-	(6,266)	(162,906)	-
Unamortized refunding costs	(5,413,759)	-	(427,060)	(4,986,699)	-
Total business-type activities bonds—net	180,055,666	-	8,557,709	171,497,957	9,323,936
Other noncurrent liabilities:					
Compensated absences	2,036,027	1,676,651	1,826,936	1,885,742	70,977
Workers' compensation	2,009,150	306,982	377,836	1,938,296	613,242
Other postemployment benefits	7,885,528	4,424,472	-	12,310,000	-
Accrued derivative liability	4,759,671	-	862,157	3,897,514	-
Total	16,690,376	6,408,105	3,066,929	20,031,552	684,219
Total noncurrent liabilities—business-type activities	$ 196,746,042	$ 6,408,105	$ 11,624,638	$191,529,509	$10,008,155

The City’s debt service requirements for bonds in the aggregate and for each of the five succeeding fiscal years are as follows:

Governmental Activities — City of Buffalo, New York

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 23,182,991	$ 8,223,672	$ 31,406,663
2013	21,961,916	7,057,520	29,019,436
2014	20,710,149	6,109,248	26,819,397
2015	17,395,504	5,176,529	22,572,033
2016	15,060,554	4,406,577	19,467,131
2017-2021	54,785,641	13,210,602	67,996,243
2022-2025	24,556,172	2,391,324	26,947,496
Total	$ 177,652,927	$ 46,575,472	$ 224,228,399

Governmental Activities — Buffalo Fiscal Stability Authority

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 15,525,000	$ 5,007,552	$ 20,532,552
2013	14,535,000	4,244,397	18,779,397
2014	13,540,000	3,513,517	17,053,517
2015	14,265,000	2,814,503	17,079,503
2016	8,780,000	2,175,244	10,955,244
2017-2021	33,020,000	5,297,544	38,317,544
2022-2026	7,095,000	492,084	7,587,084
Total	$ 106,760,000	$ 23,544,841	$ 130,304,841

Issued by City on behalf of Component Unit — Board of Education

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 11,306,239	$ 5,549,006	$ 16,855,245
2013	11,578,006	5,045,877	16,623,883
2014	11,134,371	4,532,994	15,667,365
2015	11,168,083	3,971,431	15,139,514
2016	11,280,360	3,400,234	14,680,594
2017-2021	44,133,500	9,674,147	53,807,647
2022-2025	16,015,000	1,470,898	17,485,898
Total	$ 116,615,559	$ 33,644,587	$ 150,260,146

Business-Type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 9,323,936	$ 7,823,133	$ 17,147,069
2013	9,086,753	7,414,247	16,501,000
2014	9,341,137	7,019,182	16,360,319
2015	9,985,852	6,588,734	16,574,586
2016	10,226,797	6,149,243	16,376,040
2017-2021	45,564,618	24,054,530	69,619,148
2022-2026	32,560,000	15,586,921	48,146,921
2027-2031	30,030,000	8,380,997	38,410,997
2032-2036	11,330,000	4,000,235	15,330,235
2037-2041	7,805,000	1,194,952	8,999,952
Total	$ 175,254,093	$ 88,212,174	$ 263,466,267

Water Authority — On May 9, 2008, the water system issued $62,020,000 par revenue bonds to currently refund $62,300,000 of existing debt. The water system refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit

Of the $62,020,000 variable bonds issued, $61,500,000 are hedged by an interest rate swap agreement between the water system and Citibank, N.A, NY ("Swap Provider") that converts the water system's variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008-A Bonds. Under the terms of the Swap Agreement, the water system will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the water system a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the system under the Swap Agreement does not affect the water system's obligation to pay, when due, the principal and interest on the Series 2008-A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005-B Bonds on July 1, 2035. The water system entered into this swap agreement to hedge its interest rate exposure over the life of the bonds.

Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the water system or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The water system shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2011, the notional amount of the bonds is $58,900,000. The amount that the water system received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), $106,906, was exceeded by the variable rate paid by the water system (variable rate demand obligation) to the Swap Provider, $127,816, by $20,910. The fair value of the SWAP at June 30, 2011 based on quoted market prices is negative $3,897,514 and is recorded as a derivative liability within the noncurrent liabilities on the Statement of Assets.

Nittec Loan — The Niagara International Transportation Technology Coalition and Management Council (NITTEC) provided a $2,500,000 loan at 2% for 10 years to the City toward the installation of controllers to standardize the signal system and improve traffic flow on designated corridors. The outstanding balance at June 30, 2011, was $1,558,970. The loan repayment schedule at June 30, 2011, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 247,137	$ 31,179	$ 278,316
2013	252,080	26,237	278,317
2014	257,121	21,195	278,316
2015	262,264	16,053	278,317
2016	267,509	10,807	278,316
2017	272,859	5,457	278,316
Total	$ 1,558,970	$ 110,928	$ 1,669,898

Capital Leases — Refer to Note 7 for information related to the City's capital leases.

Compensated Absences — As described in Note 1, the liability for compensated absences, which totals $25,935,572 for governmental activities and $1,885,742 for business-type activities, represents amounts relating to sick and personal leave for employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and, therefore, payments of such are not readily determinable. The City has estimated that $962,129 and $70,977 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

Workers' Compensation — Accrued workers' compensation, which totals $8,376,975 and $1,938,296 for governmental activities and business-type activities, respectively, represents the City's best estimate of both asserted and unasserted workers' compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, payments are not readily determinable. The City has estimated that $3,390,605 and $613,242 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 10 for information related to workers' compensation.

Landfill Postclosure Monitoring Costs – In accordance with the Environmental Conservation Law of the State of New York, the City is complying with postclosure monitoring of Squaw Island. The cost of postclosure is based on the percentage of the landfill's total capacity used to date, which is 100%. The City is still required to monitor the site for another 17 years, with an estimated annual cost of $70,000 - $100,000 per year. The estimate, which is subject to various changes resulting from inflation, deflation, technology or changes in the applicable laws or regulations, for the outstanding liability at June 30, 2011 was $1,250,000.

Other Postemployment Benefits — Liabilities related to other postemployment benefits include the accrued liability for both medical and firefighters' disability, as discussed in Note 12.

Judgments and Claims — The City's judgments and claims liability, which totals $33,895,500 at June 30, 2011, represent estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation). The City has estimated that $16,573,000 will be paid in the next fiscal year.

Debt Contracting Limitation and Unissued Bonds — The City's debt contracting limitation under its legal debt margin at July 1, 2011, was approximately $584.6 million. The effective borrowing capacity is $323.5 million.

The list of the City's authorized and unissued bonds at June 30, 2011, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds —City of Buffalo	$ 5,350,000
General Improvement Bonds —Board of Education	820,000
Total	$ 6,170,000

Board of Education — A summary of changes in Board's long-term liabilities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	New issues/ Additions	Maturities/ Reductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Due to other governments	$ 14,546,667	$ -	$ 713,335	$ 13,833,332	$ 713,332
Revenue bonds payable	27,060,000	-	4,475,000	22,585,000	615,000
JSCB bonds payable	1,050,660,000	165,315,000	32,805,000	1,183,170,000	37,180,000
Deferred bond premium	89,694,940	15,247,401	5,528,344	99,413,997	-
Compensated absences	21,674,579	10,198,931	10,609,135	21,264,375	5,260,000
Workers' compensation	18,976,752	6,763,973	5,886,562	19,854,163	-
Other long-term debt EPC	3,299,929	-	800,834	2,499,095	835,000
Other postemployment benefits	281,185,000	153,898,000	58,256,000	376,827,000	-
Judgments, claims and contingencies	1,677,056	-	1,366,227	310,829	-
Total	$ 1,508,774,923	$ 351,423,305	$ 120,440,437	$ 1,739,757,791	$ 44,603,332

In the current year, a prior period adjustment was recorded to the governmental activities beginning net assets. In prior years, the Board had not reported its liabilities for its self-funded workers' compensation plan. This resulted in a decrease in the beginning net assets of $18,976,752.

Source of Funding — Amounts due to other governments, revenue bonds payable, other long-term debt — Energy Performance Contracts ("EPC"), and judgments, claims, and contingencies are repaid through annual appropriation of the Board's general fund. Payments to the retirement systems for early retirement incentives and other related items and payments for compensated absences are charged to the fund where employees' normal payroll is charged, except for grant funded employees, whose payments would be charged to the Board's general fund.

Due to Other Governments — In June 2000, the State Legislature passed special legislation to advance the Board $20,000,000 in lottery aid to help pay for litigation settlement with the Buffalo Teachers Federation. In June 2006, the Board received an additional lottery advance of $1,400,000. The advances are recorded as long-term interest-free loans with annual maturities as follows:

Fiscal Year Ending June 30,	Principal
2012	$ 713,332
2013	713,334
2014	713,334
2015	713,332
2016	713,334
2017-2021	3,566,666
2022-2026	3,566,668
2027-2031	2,899,999
2032-2036	233,333
	$ 13,833,332

Revenue Bonds Payable—Represents amounts due for Municipal Bond Agency Revenue Bonds issued pursuant to the State of New York Municipal Bond Agency (the "Agency") Act and a

General Resolution and a Series Resolution to provide funds to (i) finance a portion of the cost of settling litigation involving the Board and the Buffalo Teachers Federation (ii) fund the Debt Service Reserve Fund to at least the Debt Service Reserve Fund Requirement and (iii) pay legal, accounting, financing, and other fees and expenses relating to the issuance of the Bonds.

The Bonds are special revenue obligations of the Agency and are secured by Annual Payments payable by the City from all monies legally available (which availability is, in general, dependent upon annual appropriations by the City), and amounts received by the Agency pursuant to the Agency's statutory right to intercept State School Aid payable to the City and all funds and accounts established by the General Resolution described in the Official Statement.

In May 2011, the remaining $2,830,000 in the 2003, series D bonds were paid in full pursuant to a mandatory redemption provision in the original bond agreement.

The remaining annual maturities of revenue bonds payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 615,000	$ 1,178,569	$ 1,793,569
2013	650,000	1,146,281	1,796,281
2014	680,000	1,112,156	1,792,156
2015	715,000	1,076,456	1,791,456
2016	755,000	1,038,919	1,793,919
2017 - 2021	4,380,000	4,583,394	8,963,394
2022 - 2026	5,645,000	3,320,363	8,965,363
2027 - 2031	9,145,000	1,673,963	10,818,963
Total	$ 22,585,000	$ 15,130,101	$ 37,715,101

Joint Schools Construction Board Bonds Payable — The Board's Joint Schools Construction Board ("JSCB") bonds payable represents bonds issued by the Erie County Industrial Development Agency (the "Issuer") to provide money to finance the renovation and/or equipping of certain public school facilities for use by the Board. The bonds are special limited obligations of the Issuer payable from amounts due from the Board under an installment sale agreement.

Remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 37,180,000	$ 63,329,214	$ 100,509,214
2013	50,320,000	62,504,975	112,824,975
2014	46,280,000	59,988,975	106,268,975
2015	48,765,000	57,618,538	106,383,538
2016	51,420,000	55,027,625	106,447,625
2017-2021	303,245,000	230,468,638	533,713,638
2022-2026	403,770,000	136,131,275	539,901,275
2027-2031	235,885,000	33,939,975	269,824,975
2032	6,305,000	331,013	6,636,013
Total	$1,183,170,000	$ 699,340,228	$ 1,882,510,228

Compensated Absences — Compensated absences, which totaled $21,264,375 at June 30, 2011, represent amounts relating to sick and personal leave for employees. Payment of these liabilities is dependent upon many factors (including retirement, termination, or employees leaving service), and, therefore, payment of such is not readily determinable. The Board has estimated that $5,260,000 will be paid in the next fiscal year.

Other Long-Term Debt — EPC — The other long-term debt represents amounts due for equipment installed at school facilities to improve energy efficiency. Payments totaled $800,834 during the year leaving a balance of $2,499,095 at year-end. The remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 835,000	$ 42,516	$ 877,516
2013	839,380	26,567	865,947
2014	824,715	10,423	835,138
Total	$ 2,499,095	$ 79,506	$ 2,578,601

Judgments, Claims, and Contingencies — Judgments, claims, and contingencies, which totaled $310,829 at June 30, 2011, represent estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation).

Other Postemployment Benefits — Refer to Note 12.

Buffalo Urban Renewal Agency — The summary of changes in long-term liabilities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Section 108 loans	$ 11,215,000	$ -	$ 1,550,000	$ 9,665,000	$ 1,110,000
Other postemployment benefits	4,710,599	2,416,338	-	7,126,937	-
Fannie Mae	1,200,000	-	1,200,000	-	-
Total	$ 17,125,599	$ 2,416,338	$ 2,750,000	$ 16,791,937	$ 1,110,000

Section 108 Loans — BURA is indebted to the Federal Financing Bank under promissory notes for advances received under HUD Section 108 Loan Guarantee Program. There are two types of HUD Section 108 programs. Under the first type, promissory notes are payable in 20 annual installments of principal and interest beginning in August 1983. Under the second type, effective on October 30, 1986, interest on promissory notes is payable in 12 semiannual installments, starting with the first February and August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semiannual interest payment is due. Interest rates vary on each loan and are determined by HUD based on prevailing market rates at the time of loan issuance.

As of June 30, 2011, future maturities of the Section 108 loans are as follows:

Fiscal Year Ending June 30,	
2012	$ 1,110,000
2013	1,265,000
2014	1,265,000
2015	2,155,000
2016	1,085,000
Thereafter	2,785,000
	9,665,000
Less current portion	(1,110,000)
Total long-term obligations	$ 8,555,000

Fannie Mae — During the year ended June 30, 2006, BURA established a nonrevolving line of credit in the amount of $6 million with Fannie Mae. Interest is at LIBOR rate, plus 150 basis points. The agreement, along with other stipulations, requires a cash collateral account of $600,000 and includes a covenant requiring an annual line item with the CDBG program budget in the amount of $1.2 million for the past four and this year. The annual budget allocations totaling $6,000,000 are intended to be used to repay the line of credit. The funds have been designated for various revitalization projects in downtown Buffalo and other specified areas of the City. BURA borrowed a total of $6 million from Fannie Mae, with draws of $2,000,000 on March 31, 2006 and $2,000,000 on March 23, 2007. This $4 million was loaned to private developers. BURA borrowed another $2 million from Fannie Mae during the fiscal year ended June 30, 2008. These funds are being used for construction financing for a new 24-unit housing development known as Sycamore Village. The first and second annual principal amount of $1,200,000, plus interest was paid on June 26, 2007 and June 30, 2008, respectively. BURA made a third, fourth and fifth annual principal repayment of $1,200,000 on March 30, 2009, 2010 and 2011. These funds have been repaid from a combination of proceeds from the sales of the homes and BURA general funds. As of June 30, 2011, eleven market rate homes were completed; and all of the homes were sold. Construction costs in the amount of $247,561 for the remaining units are reported as Construction in Progress in the general fund.

The Fannie Mae loan has been closed as follows:

June 30,	Amount
2011	$ 1,200,000
Paid during the year	(1,200,000)
Loan balance	$ -

Other Postemployment Benefits — Refer to Note 12.

9. OPERATING LEASES

Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/ expenses for the year were approximately $328,832. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2012	$ 316,072
2013	279,847
2014	208,490
2015	87,802
Total	$ 892,211

Buffalo Fiscal Stability Authority — The BFSA leases its office space from a City-related entity under the terms of an operating lease which expired as of May 31, 2011, and continues under a month to month arrangement. Rental expense amounted to $41,035 for the year ended June 30, 2011.

Board of Education — Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately $5,181,161. The future minimum rental payments required for noncancelable leases are as follows:

Fiscal Year Ending June 30,	
2012	$ 4,229,678
2013	3,643,073
2014	2,754,877
2015	2,047,200
2016	1,928,575
2017-2021	8,131,166
2022-2025	379,511
Total	$ 23,114,080

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance coverage for Coca Cola Field, public employee liability, and data processing equipment. There have been no significant reduction in the levels of this commercial insurance from the prior year, nor have there been any settlements which exceeded insurance coverage for each of the past three fiscal years.

The City is self-insured for general liability risk. The City is self-insured for workers' compensation and has accrued its best estimate of both asserted and unasserted workers' compensation losses. The reserve for workers' compensation is recorded at an estimated percent value using a discount rate of 5%. For the fiscal years ended June 30, 2009, 2010, and 2011, the City incurred expenditures of, $7,536,421, $6,163,280 and $4,505,275 respectively, for property damage and personal injury claims. For the fiscal years ended June 30, 2009, 2010, and 2011, the City expensed $6,343,330, $6,194,389 and $6,211,642, respectively, for workers' compensation claims, including medical payments for fire fighters and police officers. The estimated liabilities for business-type activities are recorded as liabilities of the individual enterprise funds, whereas general liabilities are only recorded in the government-wide financial statements. At June 30, 2011, the City estimated the following general liabilities:

	Governmental Activities	Business-type Activities
Workers' compensation —fire and police medical	$ 4,113,007	$ -
Workers' compensation — other employees	4,263,968	1,938,296
	$ 8,376,975	$ 1,938,296

The proprietary-type funds claims and judgments applicable to self-insurance claims are recorded as expenses and liabilities in the appropriate enterprise fund.

Changes in the reported liability in the proprietary fund since June 30, 2009, are shown in the following chart:

	Workers' Compensation	General Liability	Total
Estimated claims —June 30, 2009	$ 1,915,219	$ -	$ 1,915,219
Claims incurred	401,394	-	401,394
Payments 2009-2010	(307,463)	-	(307,462)
Estimated claims —June 30, 2010	2,009,150	-	2,009,150
Claims incurred	306,982	-	306,982
Payments 2010-2011	(377,836)	-	(377,836)
Estimated claims —June 30, 2011	$ 1,938,296	$ -	$ 1,938,296

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total $33,895,500 and has been included within the City's liabilities. Additionally, management has identified claims judged to be reasonably possible of a negative impact which are not included within the City's liabilities. Such claims have been estimated to total $48,873,000.

Board of Education:

Judgments, Claims, and Contingencies — Various types of claims have been asserted against the Board by various claimants. Claims probable of resulting in an unfavorable outcome to the Board have been reasonably estimated and recorded as a liability. The claims are in various stages of processing and some may ultimately be brought to trial. Claims are paid and ultimately funded by the fund associated with the loss. For claims not accrued, the ultimate outcome of the suits cannot presently be determined and no provision for loss, if any, has been made in the accompanying financial statements. It is the opinion of management that there will not be any material adverse effects on the Board's financial statements as a result of these actions.

State Aid — The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2011, are subject to potential revision.

Health Insurance Litigation — On September 1, 2005, following a competitive bid process, the Board selected one insurance carrier to provide four health care plans to Board employees — three HMO plans and one traditional indemnity plan. Prior to September 1, 2005, the Board paid three insurance carriers to provide the same four plans. Some of the Board's unions, including the Buffalo Teachers' Federation ("BTF"), challenged the Board's decision to go to a single carrier in arbitration. On October 21, 2006, the arbitrator in the BTF arbitration ruled that the Board must return to multiple carriers effective January 1, 2007, and reinstate all teachers laid off effective September 1, 2005, with "make whole" monetary damages, including back pay and benefits with interest at the statutory judgment rate. The arbitrator also retained jurisdiction to decide any unresolved claims for reimbursement of out-of-pocket expenses incurred by individual teachers under the signed carrier arrangement. The Board appealed the decision and the Appellate Division ruled that while the Board violated the contract in moving to a single carrier for health care, the Board is not required to reinstate all laid off teachers. The BTF moved and the Board cross-moved to appear to the Court of Appeals. The leave to appeal was denied. Subsequently, BTF commenced a contempt proceeding in the Supreme Court, which remains pending. The Court has agreed to several continuances of the return date with the expectation that negotiation of a successor collective bargaining agreement may resolve the health insurance issue. Contract negotiations are continuing.

Construction Commitment — As of June 30, 2011, the Board has approximately $7,812,863 committed to various renovations.

Grants — The Board has received grants, which are subject to audit by agencies of the State and federal governments. Such audits may result in disallowances and request for a return of funds. Based on prior years' experience, the Board's administration believes disallowances, if any, will be immaterial.

Buffalo Urban Renewal Agency — BURA owns the land immediately east of the Waterfront School in the City. BURA fully investigated the land to the satisfaction of the New York State Department of Environmental Conservation ("NYSDEC") at the cost of approximately $250,000. Although the discussions were fruitful, there is not a formal agreement with the NYSDEC to accept BURA's investigation of the sight as full settlement of any obligations it has for this site.

BURA is a defendant to litigation commenced by a contractor. This matter is in the dispositive motion stage. It involves a claim for contract breach by BURA related to a contract for services for lead testing by the plaintiff. BURA has taken the position that the quantity of work referred to ETC was in BURA's sole discretion and so no damages under the contract have resulted.

BURA is a defendant to litigation commenced by a contractor of the City and BURA related to demolition of structures. This matter is in the early stages of litigation. It involves a claim of contract breach for claimed additional costs incurred by the contractor but not paid by BURA. BURA will take the position that the additional work was not authorized, not documented or included in the base price of the original agreement and, therefore, no damages under the contract have resulted.

BURA has been named as a defendant in a personal injury matter in which the claimant/infant alleges injury from lead paint at a residence where BURA provided lead paint remediation funds to the owner. The outcome cannot be determined at this early stage of litigation.

11. LABOR RELATIONS

Approximately 2,499 of the City's employees are covered by a total of eight collective bargaining agreements. The building inspectors negotiated a contract through June 30, 2012. The white-collar, blue collar and crossing guards unions have negotiated contracts through June 30, 2011. The agreements for the firefighters and pipe caulkers expired on June 30, 2004. The operating engineers' agreement expired on June 30, 2002. The police agreement expired on June 30, 2007. All unsettled union contracts are currently being negotiated.

12. OTHER POSTEMPLOYMENT BENEFITS

In adopting the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the City has opted to implement this statement prospectively. GASB Statement No. 45 states that postemployment benefits are part of an exchange of salaries and benefits for employee services rendered, and from an accrual perspective, the cost of OPEB should be recognized when the related services are received by the employer. In conjunction with the implementation of GASB Statement No. 45, the City recognizes the cost of postemployment health care in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the health insurance liability accumulated prior to July 1, 2007 will be amortized over 30 years, commencing with the 2008 liability, while the entire liability for firefighters' disability has been recognized.

Plan Description — The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least 10 years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive health care coverage for the life of the retiree. The retiree's share of premium costs depends on the employee group and length of service. Health care benefits for nonunion employees are similar to those of union employees pursuant to City Charter. Additionally, under requirements of state and local law, the City compensates firefighters that retire due to disability before the mandatory retirement age of 70. This compensation is equal to the differential between the retiree's pension and the salary that he/she would receive if still in active service. There is no separate audited GAAP-basis postemployment benefit plan report available. There are currently 172 firefighters that receive such compensation.

The number of participants as of July 1, 2010, the effective date of the biannual OPEB valuation, is as follows. There have been no significant changes in the number of employees covered.

Active employees	2,780
Retired employees	2,778
Spouses of retirees	1,819
Total	7,377

Funding Policy — Postemployment benefits are financed on a pay-as-you-go basis.

Annual OPEB Benefit Cost — For the year ended June 30, 2011, the City's annual OPEB cost (expense) is $108,211,730 while the Annual Required Contribution (ARC) is $108,011,500. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately $42,640,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately $65,572,000 for the year ended June 30, 2011.

	Governmental Activities Medical	Governmental Activities Disability	Business-Type Activities	Primary Government
		(000s omitted)		
Annual OPEB Cost and Net OPEB Obligation				
Actuarial accrued liability (AAL)	$ 1,461,668	$ 87,105	$ 88,386	$ 1,637,159
Unfunded actuarial accrued liability (UAAL)	$ 1,461,668	$ 87,105	$ 88,386	$ 1,637,159
Normal cost — beginning of the year	$ 40,139	$ 383	$ 2,812	$ 43,334
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	$ 169,335	$ 2,611	$ 13,174	$ 185,120
UAAL as a percentage of covered payroll	863.2%	3336.1%	670.9%	884.4%
Level Dollar Amortization				
Calculation of ARC Under Projected Unit Credit Method				
ARC normal cost with interest — end of year	$ 40,139	$ 383	$ 2,812	$ 43,334
UAAL over 30 years with interest — end of year	55,854	3,329	3,377	62,560
Interest	1,920	74	124	2,118
Annual required contribution (ARC)	97,913	3,786	6,313	108,012
Interest on net OPEB obligation	3,700	3,600	300	7,600
Adjustment to ARC	(3,600)	(3,500)	(300)	(7,400)
Annual OPEB cost (expense)	98,013	3,886	6,313	108,212
Contribution for the year ended June 30, 2011	(34,637)	(6,114)	(1,889)	(42,640)
Increase in net OPEB obligation	63,376	(2,228)	4,424	65,572
Net OPEB obligation — June 30, 2010	92,147	90,895	7,886	190,928
Net OPEB obligation — June 30, 2011	$ 155,523	$ 88,667	$ 12,310	$ 256,500
Percent of annual OPEB cost contributed	35.3%	157.3%	29.9%	39.4%

Funded Status and Funding Progress — As of July 1, 2010, the most recent actuarial valuation date, the OPEB plan was unfunded, resulting in an unfunded accrued liability of $1,637,158,900.

The City's schedule of funding progress for the most recent three actuarial valuations is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
		(000s omitted)				
As of July 1, 2006	$ -	$ 945,599	$ 945,599	-	$ 171,120	5.53
As of July 1, 2008	-	1,227,967	1,227,967	-	179,288	6.85
As of July 1, 2010	-	1,637,159	1,637,159	-	185,120	8.84

The schedule of the City's contributions for the three most recent fiscal years is shown below:

Year Ended June 30,	Annual Required Contribution	Contributions Made	Percentage Contributed
		(000s omitted)	
2009	$ 167,650	$ 40,956	24.4%
2010	79,868	43,971	55.1%
2011	108,012	42,640	39.5%

Actuarial Methods and Assumptions — Projections of benefits for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumption 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. Included coverage plans are "experience-rated" and annual premiums for experience-rated coverage plans were used as a proxy for claims costs with age adjustment for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized on a closed amortization basis over 30 years on a level percentage of pay. Retiree contributions were assumed to increase in the future in accordance with the assumed increases in pre-65 medical costs.

In the July 1, 2010, actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4% investment rate of return for both governmental and business-type activities. The rate is based on the projected long-term earning rate of the assets expected to be available-to-pay benefits. The payroll growth for total payroll is assumed to be 3%, for fire base salary, 2.25%. The valuation assumes health care cost trends as follows: both pre-65 and post-65 medical and prescriptions, 8.0%; all reduced by decrements to reach a rate of 4.7% in 2082.

Medical Reimbursements — The City's Medicare Part D prescription drug subsidy, which reduces the cost of retiree health care premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liabilities.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Buffalo Fiscal Stability Authority:

Postemployment Healthcare Benefits — The BFSA Maintains a single-employer defined benefit healthcare plan (the "Plan") providing for lifetime cost sharing of medical, dental, and vision premiums to eligible retirees and spouses.

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the BFSA over age 55 and with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended June 30, 2011 there were no retirees of the BFSA receiving benefits.

The BFSA's annual other postemployment benefit ("OPEB") expense is calculated based on the annual required contribution of the BFSA ("ARC"). The BFSA has elected to calculate the ARC and related information using the projected unit credit cost method permitted by GASB. The ARC represents a level funding that, if paid on an ongoing basis, is protected to cover the normal cost each year and to amortize the unfunded actuarial liability over 30 years.

The following table summarizes the BFSA's annual OPEB for the year ended June 30, 2011.

	(000s omitted)
ARC normal cost with interest — end of year	$ 28
UAAL over 30 years with interest — end of year	3
Interest	14
Annual required contribution (ARC)	45
ARC adjustment	(11)
Contribution for the year ended June 30, 2010	-
Increase in net OPEB obligation	34
Net OPEB obligation —June 30, 2010	280
Net OPEB obligation —June 30, 2011	$ 314

The BFSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for the past three years are as follows:

Year Ended June 30,	Annual Required Contribuition	Contributions Made	Percentage Contributed
	(000s omitted)		
2011	$ 35	$ -	0.0%
2010	98	-	0.0%
2009	93	-	0.0%

As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for future benefits was $83,458, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was $228,327, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37%.

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 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 ARC of the BFSA are subject to continual revision as actual results compared with past expectations and new estimates are made about the future.

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

Retirement age for active employees – assumed employees will not retire before age 55 and ten years of service.

Marital status – Assumed 67% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

Mortality – RP2000, mortality table for males and females projected 10 years.

Turnover – Standard turnover assumptions – GASB 45 Paragraph 35b.

Payroll growth – A 4% growth rate was used.

Healthcare cost trend rate – The expected rate of increase in healthcare premiums was based on projections developed by the actuary's healthcare specialists. An initial inflation rate of 8%, reduced to an ultimate rate of 4.7% after ten years was used. Vision and dental plans were based on a 3.5% rate reduced to 3% after year 2, and the dental plan was based on a rate of 3%.

Health insurance premiums – 2011 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the BFSA's general assets, a discount rate of 5.0% was used. The level percentage of projected payroll of active plan member's method is used to amortize the unfunded actuarial liability. The amortization period is 30 years.

Board of Education:

Plan Description —The Board administers the Board of Education, City of Buffalo, New York's Retiree Medical and Prescriptions Drug (the "Board's Plan") as a single-employer defined benefit other postemployment benefits plan ("OPEB"). The Board's Plan provides for the continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the Board subject to applicable collective bargaining and employment agreements. The Board's Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose for paying benefits under the Board's Plan.

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

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, and paid by a willing buyer or a willing seller.

Annual OPEB Costs and Net OPEB Obligation — The Board's OPEB cost (expense) is calculated based on the annual required contribution of the employer. The Board 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 100 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 30 years. The components of the Board's annual OPEB cost for the year, the amount actually contributed to the Board's Plan, and the Board's net OPEB obligation to the Board's Plan at June 30, 2011, are as follows:

Annual OPEB Cost	(000's omitted)
Normal cost	$ 61,678
Amortization of UAL	97,234
Interest	-
Annual required contribution (ARC)	158,912
Interest on net OPEB obligation	11,247
Adjustment to ARC	(16,261)
Annual OPEB cost (expense)	153,898
Contribution for the year ended June 30, 2011	(58,256)
Increase in net OPEB obligation	95,642
Net OPEB obligation — June 30, 2010	281,185
Net OPEB obligation — June 30, 2011	$ 376,827
Percent of annual OPEB cost contributed	37.9%

Funded Status and Funding Progress — As of June 30, 2011, the accrued liability for benefits was $1,681,374,000, 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 actuarial accrued liability to the covered payroll was not available. The total post employment health insurance cost to the Board was $58,256,000 for the year ended June 30, 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 health care cost trend. Amounts determined regarding the funded status of the plan and the ARCs 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 on the following page, 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.

	Actuarial Valuation Date (000's omitted)		
	June 30, 2011	June 30, 2009	June 30, 2007
Schedule of Funding Progress			
Actuarial accrued liability	$ 1,681,374	$ 1,206,245	$ 1,081,714
Actuarial value of assets	-	-	-
Unfunded actuarial accrued liability	$ 1,681,374	$ 1,206,245	$ 1,081,714
Funded ratio	0%	0%	0%

The Board's contributions for the three most recent fiscal years are shown below:

Year Ended June 30,	Contributions Made
2011	$ 58,256
2010	51,422
2009	48,257

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 and the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members up to that point. 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 June 30, 2011 actuarial valuation utilized the projected unit cost method. The actuarial assumptions include a 4% investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the Board's own assets since currently the plan has no assets at the valuation date in order to establish a plan investment rate. The assumed rate for all pre-65 healthcare benefits is initially at 10.0% and decreases to a 5% long-term trend rate after ten years. For all post-65 healthcare benefits this rate initially is at 8.5% and decreases to a 5% long-term trend rate after seven years. Both rates include a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The amortization period at June 30, 2011 was 28 years.

Buffalo Urban Renewal Agency:

Plan Description — BURA provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to BURA. Based on the collective bargaining agreement, the retiree and his or her beneficiaries receive this coverage for the life of the retiree. Healthcare benefits for nonunion employees are similar to those of union employees. The retiree's share of premium cost range from 0% to 25%, depending on the employee length of service.
The number of participants as of June 30, 2011, was as follows:

Active employees	60
Retired employees	36
Spouses of retired employees	16
	112

Funding Policy — BURA currently pays for postemployment health insurance care benefits on a pay-as-you-go basis. Although BURA is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Annual Other Postemployment Benefit Cost — For the fiscal year ended June 30, 2011, BURA's annual OPEB cost of $2,735,088 was equal to the Annual Required Contribution. The payment of current health insurance premiums, which totaled $376,850 for retirees and their beneficiaries, resulted in a net OPEB cost of $7,126,937 for the year ended June 30, 2011.

Annual OPEB Cost and Net OPEB Obligation — BURA's annual OPEB cost is calculated based on the ARC of the employer. BURA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 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 (of funding excess) over a period not to exceed 30 years. The components of BURA's annual OPEB cost for the year, the amount actually contributed to the plan and changes in BURA's net OPEB obligation to the Retiree Health Plan at June 30, 2011, are as follows:

	(000's omitted)
Annual required contribution —including interest	$ 2,799
Contributions made	(383)
Increase in net OPEB obligation	2,416
Net OPEB obligation — beginning of year	4,711
Net OPEB obligation — end of year	$ 7,127

BURA is required to report the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year June 30, 2011 and the two preceding fiscal years.

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$2,028,394	17.48%	$2,997,941
2010	2,028,394	18.89%	4,710,599
2011	2,735,088	14.00%	7,126,937

Funded Status and Funding Progress — As of June 30, 2011, the actuarial accrued liability for benefits was $28,717,970, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $2,820,508, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1018.18%.

The projection of future benefit payments for an ongoing plan involves estimated 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 health care 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 following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

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 includes 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 to that point. 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 simplifying assumptions were made:

Retirement Age for Active Employees — Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

Marital Status — Marital status of members at the calculation date were assumed to continue throughout retirement

Mortality — Life expectancies were based on the RP 2000 Mortality Life Tables for males and for females

Turnover — Nongroup-specific-age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employees until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Health Care Cost Trend Rate — The expected rate of increase in healthcare insurance premiums was based on projections of the Health and Human Services Office of the Actuary. A rate of 9 percent initially, reduced to an ultimate rate of 4.7 percent after six years, was used.

Health Insurance Premiums — The June 30, 2011, health insurance premiums for retirees were used as the basis for the calculation of the present value of total benefits to be paid.

Inflation Rate — The expected long-term inflation assumption of 3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability insurance Trust Funds for an intermediate growth scenario.

Payroll Growth Rate — The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of BURA’s short-term investment portfolio, a discount rate of 4.9% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 28 years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2009	$ -	$ 25,032,240	$ 25,032,240	0.0%	$ 2,421,778	1033.63%
June 30, 2010	-	25,032,240	25,032,240	0.0%	2,285,350	1095.34%
June 30, 2011	-	28,717,970	28,717,970	0.0%	2,820,508	1018.18%

13. EMPLOYEE RETIREMENT BENEFITS

Plan Description — The City participates in the Employee Retirement System ("ERS"), the State and Local Police and Fire Retirement System ("PFRS"), and the Public Employees' Group Life Insurance Plan (the "Systems"). These are cost-sharing multiple-employer 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 and 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 State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy — The Systems are noncontributory except for employees who joined the ERS after July 27, 1976, who contribute 3% of their salary. The State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have 10 years or more of credited service. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund.

The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were as follows:

	ERS	PFRS
2011	$ 6,862,458	$ 21,030,167
2010	4,473,359	19,155,816
2009	4,252,841	17,635,667

The City's contributions made to the Systems were equal to 100% of the contributions required for each year.

The BFSA made 100% of its required contributions for the year ended June 30, 2011, which amounted to $37,579, and is not included in the table above.

Board of Education:

The Board participates in the ERS and the Teachers' Retirement System ("TRS").

The Board's required contributions to ERS for the current and preceding two years are as follows:

2011	$ 4,483,867
2010	2,391,143
2009	3,676,006

The Board's contributions made to the ERS were equal to 100% of the contributions required for each year.

Teachers' Retirement System:

Plan Description — The Board makes contributions to the TRS, a cost-sharing, multiple employer-defined benefit pension plan administered by the State Teachers' Retirement Board. The TRS provides retirement, disability, withdrawal, and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State. The TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Funding Policy — Plan members who joined the System before July 27, 1976, are not required to make contributions. Those joining after July 27, 1976 are required to contribute 3.0% to 3.5% of their annual salary. With the exception of TRS tier V employees, employees in the system more than ten years are no longer required to contribute. Employers are required to contribute at an actuarially determined rate.

The required contributions for the current year and two preceding years were as follows:

2011	$ 17,683,274
2010	21,196,134
2009	21,303,123

The Board's contribution made to the TRS was equal to 100% of the contributions required for each year.

Buffalo Urban Renewal Agency:

BURA also participates in the ERS. The payroll for all employees covered by the System for the year ended June 30, 2011, was $2,820,508. All full-time BURA employees at June 30, 2011, were covered by the pension plan.

BURA's required contributions for the current and preceding two years are as follows:

	ERS
2011	$ 250,946
2010	250,946
2009	168,263

14. FUND BALANCE

During the year ended June 30, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* ("GASB 54"). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance to be properly reported within one of the fund balance categories listed below.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the City at June 30, 2011 includes:

Real Estate Held for Sale – This amount represents $7,518,512 of real estate acquired for resale.

Long-term Receivable – Represents a long-term receivable of $14,792,453 from the Solid Waste and Refuse Fund for operating losses incurred in the fund since its inception.

Prepaid Items – Represents amounts, $30,301, prepaid to vendors and employees that are applicable to future accounting periods.

Permanent Fund – Corpus – Represents the amount of principal, $30,000, that is nonspendable due to specific purposes stipulated in the respective bequest and trust agreements.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

Restrictions of the City at June 30, 2011 include:

Restricted for:	
Capital projects	$ 55,679,464
Federal and State Programs	2,169,421
Debt service	30,717,181
Permanent fund - interest	108,762
Capital outlay	3,656,412
State mandated initiatives	17,993,004
Emergency medical services	1,178,568
Total	$ 111,502,812

Capital Projects – Represents funds that have been reserved to fund future capital projects and the purchase of capital assets. This amount includes commitments for the expenditures of monies within the capital projects fund.

Within the fund balance restricted for capital projects, certain funds ($27,839,996) have been restricted to fund future contractually obligated capital projects and the purchase of certain capital assets (encumbrances). The City considers encumbrances to be significant for amounts that are encumbered in excess of $500,000.

As of June 30, 2011, the capital projects fund reported the following significant encumbrances:

Description	Amount
Reconstruction of streets	$ 4,643,419
Purchase of fire fighting apparatus	3,689,287
Construction recreational basin	2,845,807
Emergency radio system upgrade	2,467,082
Total	$ 13,645,595

Federal and State Programs – This category includes federal and state monies that have been restricted as they can only be used for specific purposes as authorized by grantor agencies. This amount includes $2,169,421 which is restricted by commitments for the expenditure of money within the special revenue fund.

Debt Service – Represents funds to be used toward the future repayment of bonded debt.

Permanent Fund – Interest - Represents the amount of interest earnings on the nonspendable principal, that is reserved to be used for specific purposes stipulated in the respective bequest and trust agreements.

Capital Outlay – This category represents amounts set aside for future departmental capital expenditures.

State Mandated Initiatives – Represents money provided by the State through aid and incentives for municipality that is held by the BFSA on behalf of the City. At June 30, 2011, $17,993,004 of fund balance was restricted for state aid that did not meet the BFSA special revenue fund revenue recognition criteria.

Emergency Medical Services – Represents funds that have been restricted as they can only be used for specific purposes as outlined within emergency ambulance service agreement.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. As of June 30, 2011, the City reported the following commitment:

Economic Stabilization – Represents a minimum of 30 days of the prior fiscal year's total general fund operating expenditures. If during a fiscal year, the City has extraordinary operating or capital needs that could not be anticipated and cannot be funded with current budget resources, the City may use its Rainy Day Fund. At June 30, 2011, the City reported $35,496,809 within its Rainy Day Fund.

The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. Assigned funds represent amounts intended to be used for a specific purpose. For example the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. In the fund financial statements, assignments by the City at June 30, 2011 include:

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of monies are recorded, is employed as part of the City's budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year end. The City considers encumbrances of $4,935,329 within the general fund as assignments of fund balance.

The City considers encumbrances to be significant for amounts that are encumbered in excess of $500,000. As of June 30, 2011, the general fund reported no significant encumbrances

Motor Vehicle Self-Insurance – Represents fund balance ($397,207) set aside for motor vehicle self-insurance.

Subsequent Year's Expenditures – Represents available fund balance ($12,329,174) being appropriated to meet expenditure requirements in the 2011-2012 fiscal year.

Judgments and Claims – Represents amounts ($33,895,500) assigned to cover the settlement of various claims and litigation.

BFSA Special Revenue – Represents fund balance ($1,726,380) within the BFSA special revenue fund that is assigned for a specific purpose.

If the City must use funds for emergency expenditures the Common Council shall authorize the Comptroller to expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the City will use unassigned fund balance.

15. NET ASSETS DEFICIT

The solid waste and recycling enterprise fund has a total net deficit of $20,262,843 at June 30, 2011. Although the City anticipates the deficit to be remedied by future rate increase or through general fund subsidies, no formal plan exists.

The Board has a total net deficit of $124,973,911 at June 30, 2011 which is caused primarily by its recognition of long-term liabilities including other postemployment benefits.

16. SUBSEQUENT EVENT

In July 2011, the City issued $27,165,000 of general obligation bonds, consisting of $22,265,000 City general improvement serial bonds and $4,900,000 of Board of Education serial bonds. Principal payments begin on April 1, 2012 and mature in 2025. These bonds bear an interest rate ranging between 2.0% and 4.0%.

In August 2011, the City issued $27,250,000 of refunding bonds, consisting of $3,480,000 of City general improvement refunding bonds, $15,355,000 of Board of Education refunding bonds, and $8,430,000 of Parking refunding bonds. Principal payments begin on December November 15, 2011 and mature in 2021. These bonds bear an interest rate ranging between 2.0% and 5.0%.

In July 2011, the New York State Environmental Facilities Corporation issued $2,720,000 of refunding bonds for the Buffalo Municipal Water Finance Authority. Principal payments begin on April 15, 2012 and mature in 2022. These bonds bear an interest rate ranging between 0.6% and 3.6%.

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SUPPLEMENTAL SCHEDULES

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CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund
Year Ended June 30, 2011

	Budgeted Amounts		Budgetary	Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental charges	$16,916,597	$16,916,597	$ 16,721,723	$ (194,874)
License, permit, rentals, fines, and other service charges	183,525	183,525	263,011	79,486
Investment interest	554,781	554,781	425,260	(129,521)
Miscellaneous	258,825	258,825	1,157	(257,668)
Total revenues	17,913,728	17,913,728	17,411,151	(502,577)
EXPENDITURES				
Debt service:				
Principal	35,926,666	35,926,666	23,966,000	11,960,666
Interest and fiscal charges	15,678,188	15,678,188	11,294,785	4,383,403
Total expenditures	51,604,854	51,604,854	35,260,785	16,344,069
Excess (deficiency) of revenues over (under) expenditures	(33,691,126)	(33,691,126)	(17,849,634)	15,841,492
OTHER FINANCING SOURCES (USES)				
Transfers in	31,947,217	31,947,217	32,208,909	261,692
Transfers out	-	-	(16,567,973)	(16,567,973)
Proceeds of debt issuance	-	-	34,650,000	34,650,000
Premium on bonds	-	-	1,788,678	1,788,678
Payment to escrow agent	-	-	(36,086,343)	(36,421,968)
Total other financing sources (uses)	31,947,217	31,947,217	15,993,271	(15,953,946)
Net change in fund balances	(1,743,909)	(1,743,909)	(1,856,363)	(112,454)
Fund balances—beginning	5,985,636	5,985,636	5,985,636	-
Fund balances—ending	$ 4,241,727	$ 4,241,727	$ 4,129,273	$ (112,454)

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Federal and State Grant Fund—This fund is used to account for all the special Federal and State grants that are restricted for noncapital purposes by the grant award.

BFSA DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Buffalo Fiscal Stability Authority Debt Service Fund—This fund is used to account for debt issued by the BFSA.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Forsyth Park Permanent Fund—This fund is used to purchase objects to enhance the beauty of the Park System in the City of Buffalo.

CITY OF BUFFALO, NEW YORK
Combining Balance Sheet—
Other Governmental Funds
June 30, 2011

	Special Revenue Fund	BFSA Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,616,048	$ 5,001	$ 74,936	$ 2,695,985
Investments	-	18,438,067	61,472	18,499,539
Receivables				
Other receivables	15,807	-	2,354	18,161
Due from other funds	13,959	-	-	13,959
Due from other governments	2,397,161	-	-	2,397,161
Total assets	$ 5,042,975	$18,443,068	$ 138,762	$ 23,624,805
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 627,088	$ -	$ -	$ 627,088
Due to other funds	2,219,242	210,264	-	2,429,506
Due to component units	18,750	-	-	18,750
Accrued liabilities	-	1,742,876	-	1,742,876
Retainages payable	8,474	-	-	8,474
Total liabilities	2,873,554	1,953,140	-	4,826,694
Fund balances:				
Nonspendable	-	-	30,000	30,000
Restricted	2,169,421	16,489,928	108,762	18,768,111
Total fund balances	2,169,421	16,489,928	138,762	18,798,111
Total liabilities and fund balances	$ 5,042,975	$18,443,068	$ 138,762	$ 23,624,805

CITY OF BUFFALO, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—
Other Governmental Funds
Year Ended June 30, 2011

	Special Revenue Fund	BFSA Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	$ 8,257,495	$ -	$ -	$ 8,257,495
Investment interest	5,111	848,825	936	854,872
Miscellaneous	5,005	-	-	5,005
Total revenues	8,267,611	848,825	936	9,117,372
EXPENDITURES				
Current:				
General government support	1,138,655	-	-	1,138,655
Public safety	4,612,631	-	-	4,612,631
Streets and sanitation	113,049	-	-	113,049
Economic assistance and opportunity	2,679,061	-	-	2,679,061
Health and community services	49,185	-	-	49,185
Debt service:				
Principal	-	14,360,000	-	14,360,000
Interest and fiscal charges	-	5,283,500	-	5,283,500
Total expenditures	8,592,581	19,643,500	-	28,236,081
Excess (deficiency) of revenues over (under) expenditures	(324,970)	(18,794,675)	936	(19,118,709)
OTHER FINANCING SOURCES				
Transfers in	10,500	19,943,510	-	19,954,010
Total other financing sources	10,500	19,943,510	-	19,954,010
Net change in fund balances	(314,470)	1,148,835	936	835,301
Fund balances—beginning	2,483,891	15,341,093	137,826	17,962,810
Fund balances—ending	$ 2,169,421	$16,489,928	$ 138,762	$ 18,798,111

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AGENCY FUND

The Agency Fund is used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.

CITY OF BUFFALO, NEW YORK
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011

	Agency Fund						
	Surety Bonds and Deposits	Prisoner Property	Payroll Revolving	Fire Insurance Revolving	Medical Revolving	Miscellaneous Revolving	Total
ASSETS							
Cash and cash equivalents	$ 22,751	$1,148,096	$ 25,117	$ 191,145	$ 3,764	$ 18,482	$1,409,355
Total assets	$ 22,751	$1,148,096	$ 25,117	$ 191,145	$ 3,764	$ 18,482	$1,409,355
LIABILITIES							
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ 258	$ 258
Due to other governments	-	-	25,117	-	-	-	25,117
Amount held in custody for others	22,751	1,148,096	-	191,145	3,764	18,224	1,383,980
Total liabilities	$ 22,751	$1,148,096	$ 25,117	$ 191,145	$ 3,764	$ 18,482	$1,409,355

CITY OF BUFFALO, NEW YORK
Statement of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and cash equivalents	$ 1,437,166	$ 9,305,159	$ (9,332,970)	$ 1,409,355
Total assets	$ 1,437,166	$ 9,305,159	$ (9,332,970)	$ 1,409,355
LIABILITIES				
Accounts payable	$ -	$ 14,877,234	$(14,876,976)	$ 258
Due to other governments	23,031	34,582	(32,496)	25,117
Amount held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,123,164	233,691	(208,759)	1,148,096
Fire insurance proceeds	201,494	175,000	(185,349)	191,145
Medical reimbursements	54,211	477,697	(528,144)	3,764
Miscellaneous - other	12,515	10,502	(4,793)	18,224
Total amount held in custody for others	1,414,135	896,890	(927,045)	1,383,980
Total liabilities	$ 1,437,166	$ 15,808,706	$(15,836,517)	$ 1,409,355

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APPENDIX C

BUFFALO CSD
COMPONENT FINANCIAL STATEMENTS
June 30, 2011

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BOARD OF EDUCATION,
CITY OF BUFFALO, NEW YORK
FINANCIAL STATEMENTS
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BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK

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FINANCIAL SECTION

Freed Maxick & Battaglia, CPAs, PC

Independent Auditor's Report

To the Board of Education of the
City of Buffalo, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education, City of Buffalo, New York (the Board) as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2011 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 2, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of the Board'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, the schedule of funding progress for the retiree health plan and budgetary comparison schedule on pages 1 through 15, A42 and A43 through A44 are not a required part of the basic financial statements but are supplementary information required by 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 Board's basic financial statements. The 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 also 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 is 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, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
October 17, 2011

Management's Discussion and Analysis
Board of Education, City of Buffalo, New York
Fiscal Year ended June 30, 2011

As management of the Board of Education, City of Buffalo, New York (the "Board") we offer readers of the Board's financial statements this narrative discussion and analysis of the Board's financial performance during the fiscal year ended June 30, 2011.

Financial Highlights

The 2010-11 fiscal year ended with the Board dealing with continued reductions in State formula aid due to the ongoing economic crisis and continued increases in certain costs, such as charter school payments and employee and retiree benefits. However, the Board received a positive outcome in the wage freeze litigation.

- The Board, along with the Buffalo Fiscal Stability Authority (the "BFSA") and the City of Buffalo, were notified by the New York State Court of Appeals of a favorable ruling in the four year old wage freeze litigation. This eliminated a potential $74.0 million liability in the current year.
- Total Fund Balance increased $46.9 million to $628.4 million. Unassigned Fund Balance in the general fund was 45.7 million at June 30, 2011.
- There was a $4.1 million mid-year cut in State formula aid.
- Federal stimulus aid under the American Recovery and Reinvestment Act ("ARRA") of $9.4 million was received during 2010-11. This was a reduction of $10.5 million from 2009-10.
- Charter school expenditures continued to grow in 2010-11, increasing $14.7 million to $85.1 million as reductions in State Formula aid to the Board were not carried through to charter schools.
- Benefit expenditures grew by $16.7 million to $172.1 million in 2010-11 as health insurance and pension costs increased.
- Capital assets, net of depreciation, increased $105.6 million. The Board completed reconstruction of five schools from Phase IV of the Joint Schools Construction Board ("JSCB") and began work on another nine schools in Phase V.
- JSCB Phase V debt in the amount of $153.7 million was issued during the fiscal year.
- Net assets decreased $71.0 million to negative ($125.0) million, representing all changes in the assets and liabilities of the Board, including long-term assets and liabilities such as other post employment benefits (OPEB).

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 kinds of statements that present different views of the Board:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Board's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Board, reporting the Board's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the Board 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 Board'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 Board of Education, City of Buffalo, New York's Annual Financial Report

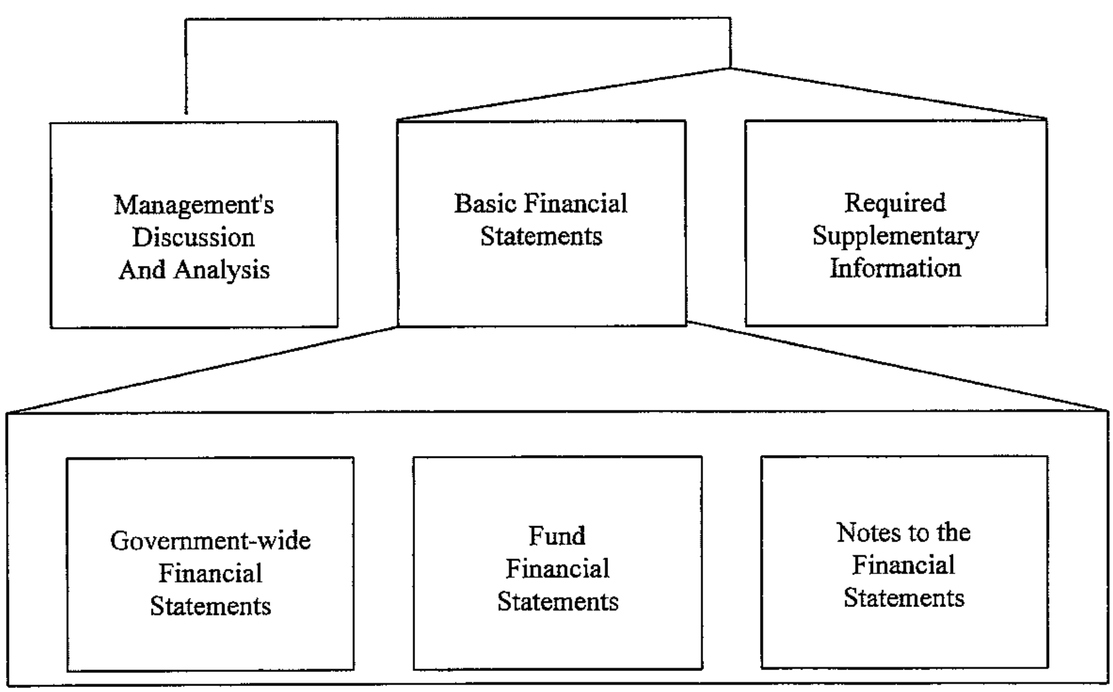


Figure A-2 summarizes the major features of the Board's financial statements, including the portion of the Board's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

		Fund Financial Statements	
	Government-wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire Board (except Fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the Board administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
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 short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out-flow 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 additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Board's assets and liabilities. All of the current year's revenues and expenditures are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the Board's overall health, you need to consider additional non-financial factors such as the financial condition of the State, changes in the City's property tax base, and the condition of school buildings and other facilities.

In the government-wide financial statements, the Board's activities are shown as governmental activities. Most of the Board's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds - not the Board as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.

- The Board establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The Board has two types of funds:

- Governmental Funds: All of the Board'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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information reported on the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets explains the relationship (or differences) between them.

- Fiduciary Funds: The Board is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and the student activities funds. The Board 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 Board excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the Board as a Whole

As previously noted, over time, net assets may serve as a useful indicator of a government's financial position. The Board's liabilities exceeded assets by $125.0 million at the close of the most recent fiscal year, compared to $54.0 million in the prior year, for a decline of $71.0 million in the current year.

The largest portion of the Board's net assets, totaling $224.4 million is restricted for JSCB projects and represents unspent funds at the end of the fiscal year, mainly related to the unspent Phase IV and V debt issuances in 2009-10 and 2010-11, respectively. The second largest portion of the Board's net assets, an amount totaling $152.5 million reflects its investment in capital assets (e.g. land, buildings, building improvements) less any outstanding debt used to acquire those assets. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. $143.6 million of the Board's net assets are restricted for debt service, while an additional $32.3 million are subject to external restrictions or State law. The remaining negative balance for unrestricted net assets of $(677.8) million shows that excess funds are not currently available to meet the Board's ongoing and long term obligations such as OPEB liability.

Figure A-3

Condensed Statement of Net Assets
(in thousands of dollars)

	Governmental Activities and Total District		Total Percentage Change
	2011	2010	2010-2011
Current and other assets	$ 760,953	$ 699,028	8.9%
Capital assets not being depreciated	166,127	107,486	54.6%
Capital assets, net of accumulated depreciation	922,116	875,137	5.4%
Total assets	$ 1,849,196	$ 1,681,651	10.0%
Long-term liabilities	$ 1,756,959	$ 1,541,978	13.9%
Other liabilities	217,210	193,711	12.1%
Total liabilities	1,974,169	1,735,689	13.7%
Invested in capital assets, net of related debt	152,527	152,753	-0.1%
Restricted for:			
Capital development fund	1,656	2,134	-22.4%
Debt service	143,596	135,143	6.3%
Endowments	534	531	0.6%
Joint Schools Construction Board projects	224,350	209,287	7.2%
Judgments and claims	18,000	23,500	-23.4%
Stabilization	8,969	8,924	0.5%
Unemployment Insurance	3,156	3,156	0.0%
Unrestricted (deficit)	(677,761)	(589,466)	-15.0%
Total net assets	(124,973)	(54,038)	-131.3%
Total liabilities and net assets	$ 1,849,196	$ 1,681,651	10.0%

Current and other assets increased $61.9 million. Contributing to this increase was an increase in cash held by the City of Buffalo of $27.6 million due to improved cash balances resulting from an operating surplus for the fiscal year. Additionally, there was an increase in restricted cash for JSCB projects of $12.9 million and an increase in cash restricted for debt service of $10.7 million related to the $153.7 million JSCB Phase V debt issuance.

Capital assets being depreciated increased $47.0 million due to the completion of several projects in JSCB Phase IV, while capital assets not being depreciated increased $58.6 million as several projects in Phase IV and V were part of construction in process at June 30, 2011.

Long term liabilities increased $215.0 million. Serial bonds and other long term obligations increased by $119.3 million due to the $153.7 million JSCB Phase V debt issuance, offset by regularly scheduled debt service payments of $47.0 million. Additionally, the Board issued $21.8 million in refunding bonds which redeemed $22.0 in principal of higher rate debt. OPEB liabilities increased $95.6 million due to the increasing health care cost trend factored with the number of covered individuals and a decrease in the discount rate used.

Other liabilities increased $23.5 million due to increases in deferred bond premiums of $9.7 million related to for the JSCB Phase V debt issuance offset by amortization, a $5.5 million increase in retirement system contributions due to higher rates in effect, and $6.3 million increase in accounts payable, interest payable and accrued liabilities.

Figure A-4

Changes in Net Assets

(in thousands of dollars)

	Governmental Activities and Total Board		Total Percentage Change
	2011	2010	2010-2011
Revenues:			
Contributions from City of Buffalo	$ 54,833	$ 53,940	1.7%
School tax relief reimbursement	15,489	16,382	-5.5%
Non-property taxes	34,297	32,755	4.7%
Charges for services	3,410	3,569	-4.5%
Operating grants and contributions	148,882	149,128	-0.2%
Use of money and property	7,197	11,757	-38.8%
Miscellaneous	13,482	12,041	12.0%
State aid, unallocated	594,029	583,654	1.8%
Total revenue	871,619	863,226	1.0%
Expenses:			
General support	81,390	85,410	-4.7%
Instruction - regular	660,682	626,726	5.4%
Instruction - charter school payments	85,086	70,403	20.9%
Pupil transportation	49,809	54,939	-9.3%
Community service	124	111	11.7%
Interest on long-term debt and fiscal charges	62,540	55,722	12.2%
Capital outlay	2,923	3,347	-12.7%
Total expenses	942,554	896,658	5.1%
Changes in net assets	(70,935)	(33,432)	112.2%
Net assets-beginning of year, as previously stated	(54,038)	(1,630)	3215.2%
Prior period adjustment	-	(18,976)	-100.0%
Net assets - beginning of year, restated	(54,038)	(20,606)	162.2%
Net assets - end of year	$ (124,973)	$ (54,038)	131.3%

In considering the viability of the Board, it is important to consider that 85% of all revenues come from formula based state aid and operating grants and contributions. Therefore, continued support from these sources is critical to the financial and educational success of the Board. 79% of all expenses are directed to instruction.

Total revenues of $871.6 million increased $8.4 million from 2009-10. Total program revenues of $152.3 million increased $0.4 million from 2009-10. Basic formula state aid declined $1.3 million in 2010-11, while lottery aid increased $11.6 million. Operating grants revenue was flat in 2010-11 as the $10.5 million decline in ARRA revenues in the general fund was offset by an increase in federal aid in special projects grants. Use of money and property decreased $4.6 million due to decreased earnings on lower average JSCB project cash balances in 2010-11.

Total expenses of $942.5 million increased $45.9 million from the prior year. Interest on debt and fiscal charges increased $6.8 million due to additional interest payments for JSCB debt obligations. Charter school payments increased $14.7 million due to increased charter school student enrollment. Regular instruction increased $34.0 million, mainly due to allocated benefits and expenses. Offsetting these increases was a $4.0 million decline in general support.

Figure A-5

Revenues for Fiscal Year 2011

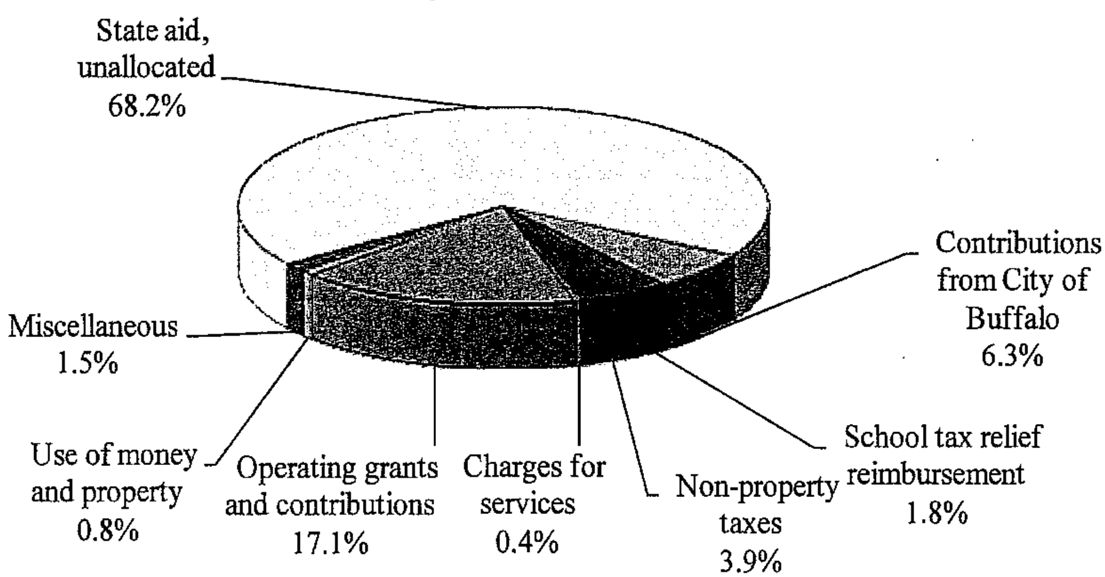
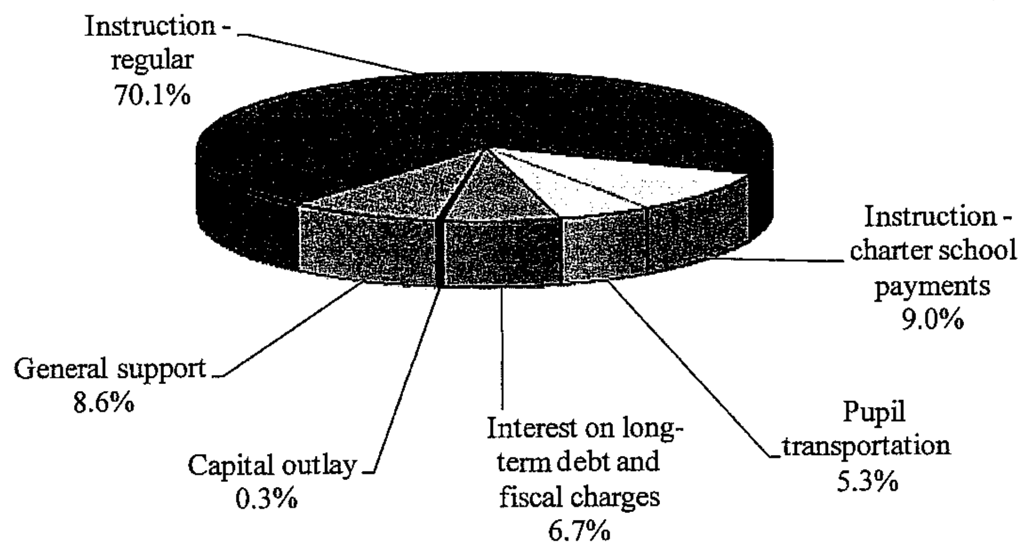


Figure A-6

Expenses for Fiscal Year 2011



Financial Analysis of The Board's Funds

The General Fund is the chief operating fund of the Board. At the end of the current fiscal year, the Board had an unassigned fund balance of \$45.7 million and a total fund balance of \$235.7 million, which was an increase of \$23.6 million. As a measure of liquidity, it may be useful to compare the General Fund fund balances to the total General Fund expenditures. The unassigned portion of fund balance represents 6.5% of the current year expenditures (an increase of 1.2% from the previous year), while the total fund balance is 33.5% of the current year expenditures (an increase of 2.4% from previous year). In 2010-11, the Board had designated \$55.5 million of fund balance for the pending wage freeze litigation. While the Board received a favorable ruling from the highest court in the State, the Buffalo Teachers Federation has initiated a Federal claim. The Board has designated \$80.0 million for prior year claims for this pending litigation or settlements with unions whose contracts have been expired since 2004.

The fund balance in the Joint Schools Construction Board Fund increased \$15.1 million to \$224.2 million due to the JSCB Phase V bond issuance, offset by spend down of bond proceeds on Phase IV and V projects during the fiscal year.

The fund balance in the Debt Service Fund increased $8.5 million due to the increased debt service reserve balances related to the JSCB Phase V issuance. The fund balance in the Capital Funds decreased $2.7 million due to the spend down of the 2009-10 and 2010-11 capital debt issuances. The School Food Service fund balance increased $2.5 million from previous year, while the Special Aid fund balance was unchanged. These fund balances must be used for the specific purpose of the fund, i.e. they cannot be transferred to the General Fund for general use.

Figure A-7

Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
(in thousands of dollars)

2011

	Revenues	Expenditures	Fund Balances
General Fund	$ 728,200	$ 704,628	$ 235,744
Special Aid Fund	118,865	118,865	-
Joint Schools Construction Board Fund	169,236	154,112	224,220
Debt Service Fund	133,113	124,660	143,596
Capital Projects Fund	6,049	8,751	9,412
School Food Service Fund	22,695	20,217	14,880
Special Activities Fund	78	66	189
Permanent Fund	2	11	345

2010

	Revenues	Expenditures	Fund Balances
General Fund	$ 725,235	$ 682,951	$ 212,172
Special Aid Fund	106,555	106,555	-
Joint Schools Construction Board Fund	300,395	142,484	209,096
Debt Service Fund	94,732	83,774	135,143
Capital Projects Fund	3,723	12,098	12,114
School Food Service Fund	23,134	21,121	12,402
Special Activities Fund	113	66	177
Permanent Fund	2	2	354

General Fund Budgetary Highlights

Within the General Fund, there was an overall unfavorable revenue budgetary variance of $83.7 million. The largest variance, appropriated fund balance, appears as a $78.3 million unfavorable budget variance, of which, $55.5 million pertains to the fund balance that was budgeted for the wage freeze litigation while $16.0 million was appropriated for the anticipated budget deficit in 2010-11 and $5.9 million represents the appropriated fund balance for carry over encumbrances. These are not true revenues, but are budgeted with the anticipation of an operating loss; which ultimately would decrease fund balance on the balance sheet. State aid, including formula based aid and lottery aid was $2.1 million under budget. There was an unfavorable variance in the Federal Medicaid reimbursement of $2.5 million as the State did not allow school districts to begin claiming reimbursement immediately following the settlement with the Federal government in 2010-11.

The Board had favorable budgetary variances within the General Fund expenditures of $102.1 million. The most significant variance was the $71.0 million contingency budgeted for the wage freeze litigation, which was unspent as the Board received a favorable judgment at the New York State Court of Appeals in 2010-11 after four years of litigation. Employee benefits had a favorable variance $8.1 million, of which $1.7 million related to employee health insurance and $1.4 million for retirees health insurance. Both of those variances related in part to continued savings on the lower cost single carrier rates and staff vacancies throughout the year. Other favorable variances in employee benefits include $1.0 million in workers comp as anticipated expenditure increases did not materialize; $0.8 million of termination pay, due to the Chapter 105A incentive adopted by the Board which deferred approximately $12.5 million of retirement obligations to the 2011-12 year; and $2.4 million in favorable variances of Social Security and employee retirement system payments due to vacant positions throughout the year.

Regular instruction had a favorable variance of $8.3 million due to the combination of vacant positions during the year and lower actual average salaries than those budgeted due to the aforementioned retirement incentive that was adopted after the 2010-11 budget was adopted. Charter school payments came in at the revised budget, after a $7.0 million transfer was necessary to cover the lifting of the freeze in tuition that occurred during the fiscal year.

Transportation had a favorable variance of $3.5 million as contract transportation expenses came in under budget due to savings in fuel costs and more efficient route scheduling.

Central services had a favorable variance of $4.7 million, of which, $0.7 million was related to lower utility costs resulting from green initiatives and pooled utility rates with the City of Buffalo. Another $0.7 million related to staffing vacancies and less overtime paid than budgeted, and $0.6 million was related to lower custodial costs including a favorable variance for the custodial staff's health insurance plan. The remainder of the favorable variance was due to a spending freeze as the budget crisis worsened in areas such as facilities planning, central data processing and service center operations.

Instruction, Administration and Improvements had a favorable variance of $2.1 million due to a combination of the spending freeze implemented mid-year and lower salaries and vacancies due to the retirement incentive.

Pupil Services had a favorable variance of $1.5 million, much of which was related to vacancies and deferred spending on athletics and equipment.

While the 2010-11 fiscal year ended with a surplus in the General Fund, similar results should not be expected in future years. The Board recalculates revenues and expenditures each budget cycle to bring anticipated amounts in line with actual results.

Capital Asset and Debt Administration

Capital Assets

The Board's investment in capital assets (net of accumulated depreciation) for its governmental funds totaled $1,088.2 million as of June 30, 2011. This investment in capital assets includes land, buildings and building improvements, land improvements and equipment. The net increase from the previous fiscal year was $105.6 million, mainly due to the increase of building improvements of $45.0 million and another $58.7 million in construction in process for Phase IV and V JSCB school reconstruction.

Figure A-8

Capital Assets Net of Depreciation
(in thousands of dollars)

	Governmental Activities and Total District		Percentage Change
	2011	2010	2010-2011
Land	$ 3,622	$ 3,726	-2.8%
Construction work in process	162,506	103,760	56.6%
Land improvements	366	393	-6.9%
Buildings	915,422	870,382	5.2%
Equipment	6,327	4,362	45.0%
Total	$ 1,088,243	$ 982,623	10.7%

Long-Term Debt

Total long-term debt outstanding at June 30, 2011 totaled $1,757.0 million, of which $1,332.4 million pertained to bonded debt. During the year, principal payments on bonded debt totaled $45.5 million and issuances for JSCB Phase IV totaled $153.7 million. Additionally, the Board issued $21.8 million in refunding bonds which redeemed $22.0 million in higher rate debt, while $2.8 million in revenue bonds were repaid when called by the bondholder. General obligation debt is issued by the City on behalf of the Board. School facility revenue bonds for JSCB projects are issued by the Erie County Industrial Development Agency. Other post employment benefits, primarily health insurance, increased $95.6 million, while other long term obligations decreased by $2.4 million.

Figure A-9

Outstanding Long-Term Debt
(in thousands of dollars)

	Governmental Activities and Total District		Percentage Change
	2011	2010	2010-2011
Due to City of Buffalo Debt Service Fund	$ 116,616	$ 122,898	-5.1%
Revenue bonds payable	22,585	27,060	-16.5%
JSCB bonds payable	1,183,170	1,050,660	12.6%
Post employment benefits	376,827	281,185	34.0%
Other long-term obligations	57,761	60,175	-4.0%
Total	$ 1,756,959	$ 1,541,978	13.9%

Additional information on the Board's long-term debt can be found in Note 4 to the financial statements on pages A29-A32 of this report.

Factors Bearing on the Board's Future

The 2011-12 Adopted General Fund Budget totaled $756.8 million which included a reduction of 302 full time equivalent positions as State aid was reduced a further $14.7 million from the steep cuts in 2009-10 and 2010-11. In addition, the Board used $16.0 million of fund balance to balance the budget, along with $7.9 million in Federal Jobs Program allocation.

The Board faces a structural deficit in the coming years as costs such as Charter school enrollment, health care costs and pension costs are all expected to continue to rise, while the Board has little control over revenues, 80% of which comes from the State. As the State's ongoing budget crisis continues, there are no assurances that our aid will not be reduced further. Additionally, Federal stimulus funds expired in 2010-11 and the Federal Jobs Program funds expire in 2011-12. Meanwhile, several labor contracts that expired in 2004 remain unsettled.

Contacting the Board's Financial Management

This financial report is designed to provide the Board's citizens, taxpayers, customers, and investors and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer, Buffalo City School Board, 708 City Hall, Buffalo, New York 14202.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS		
Cash and cash equivalents	$	274,904
Cash held by the City of Buffalo		279,330,364
Cash with fiscal agent		134,911,164
Cash and cash equivalents - restricted		236,096,318
Accounts receivable		1,637,816
State and federal aid receivable		75,668,902
Due from other governments		4,840,380
Inventory		1,580,716
Bond issuance costs, net		26,612,014
Capital assets not being depreciated		166,127,438
Capital assets, net of accumulated depreciation		922,115,868
Total assets	$	1,849,195,884
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$	31,507,897
Interest payable		11,841,574
Accrued liabilities		15,465,127
Due to fiduciary funds		577,506
Due to other governments		892,716
Due to City of Buffalo		33,160,145
Due to retirement systems		24,351,480
Deferred bond premium, net		99,413,997
Long-term liabilities:		
Due and payable within one year		55,909,571
Due and payable after one year		1,701,049,782
Total liabilities		1,974,169,795
NET ASSETS:		
Invested in capital assets, net of related debt		152,526,964
Restricted for:		
Capital development fund		1,655,950
Debt service		143,595,544
Endowments		533,964
Joint Schools Construction Board projects		224,350,164
Judgment and claims		18,000,000
Stabilization		8,969,264
Unemployment insurance		3,156,044
Unrestricted (deficit)		(677,761,805)
Total net assets	$	(124,973,911)

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
General support	$ 81,389,941	$ -	$ -	$ (81,389,941)
Instruction - regular	660,682,184	3,409,844	146,472,733	(510,799,607)
Instruction - charter school payments	85,086,216	-	-	(85,086,216)
Pupil transportation	49,808,984	-	1,306,299	(48,502,685)
Home and community services	123,848	-	-	(123,848)
Interest on long-term debt and fiscal charges	62,539,695	-	1,103,000	(61,436,695)
Capital outlay	2,923,776	-	-	(2,923,776)
Total governmental activities	$ 942,554,644	$ 3,409,844	$ 148,882,032	(790,262,768)
General revenues:				
Contribution from City of Buffalo				54,833,321
School tax relief reimbursement				15,489,437
Non-property taxes				34,296,667
Use of money and property				7,197,411
State aid - basic formula				513,505,869
State aid - lottery				80,522,979
Other miscellaneous revenues				13,481,544
Total general revenues				719,327,228
Change in net assets				(70,935,540)
Net assets - beginning of year, as previously stated				(35,061,619)
Prior period adjustment				(18,976,752)
Net assets - beginning of year, as restated				(54,038,371)
Net assets - end of year				$ (124,973,911)

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Special Aid	Joint Schools Construction Board	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 85,950	$ -	$ -	$ -	$ 188,954	$ 274,904
Cash held by City of Buffalo	256,208,032	-	-	-	23,122,332	279,330,364
Cash with fiscal agent	2,349,813	-	-	132,561,351	-	134,911,164
Cash and cash equivalents - restricted	496,813	-	224,220,002	11,034,193	345,310	236,096,318
Accounts receivable	1,467,840	6,466	-	-	163,510	1,637,816
Due from other funds	6,811	-	-	-	-	6,811
State and federal aid receivable	28,408,914	45,715,016	-	-	1,544,972	75,668,902
Due from other governments	4,840,380	-	-	-	-	4,840,380
Inventory	791,133	-	-	-	789,583	1,580,716
Total assets	$ 294,655,686	$ 45,721,482	$ 224,220,002	$ 143,595,544	$ 26,154,661	$ 734,347,375
LIABILITIES AND FUND BALANCES:						
Accounts payable	$ 22,682,368	$ 7,852,476	$ -	$ -	$ 973,053	$ 31,507,897
Accrued liabilities	10,400,659	4,708,861	-	-	355,607	15,465,127
Due to other funds	584,317	-	-	-	-	584,317
Due to other governments	892,716	-	-	-	-	892,716
Due to City of Buffalo	-	33,160,145	-	-	-	33,160,145
Due to retirement systems	24,351,480	-	-	-	-	24,351,480
Total liabilities	58,911,540	45,721,482	-	-	1,328,660	105,961,682
FUND BALANCES:						
Non-spendable	791,133	-	-	-	1,113,583	1,904,716
Restricted	30,125,308	-	224,220,002	143,595,544	1,996,076	399,936,930
Assigned	159,139,745	2,939,554	-	-	21,716,342	183,795,641
Unassigned	45,687,960	(2,939,554)	-	-	-	42,748,406
Total fund balances	235,744,146	-	224,220,002	143,595,544	24,826,001	628,385,693
Total liabilities and fund balances	$ 294,655,686	$ 45,721,482	$ 224,220,002	$ 143,595,544	$ 26,154,661	$ 734,347,375

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

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

Total fund balances - governmental funds	$	628,385,693
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets are $1,491,739,021 and the accumulated depreciation is $403,495,715.		1,088,243,306
Post employment benefit liability not due and payable in the current period and therefore not reported in the funds.		(376,827,000)
Long-term liabilities, including bonds payable, compensated absences, judgment & claims, and amounts due to the City of Buffalo for debt not due and payable in the current period and therefore are not reported in the funds.		(1,380,132,353)
To recognize interest accrual on long-term debt.		(11,841,574)
Bond issue costs are reported as expenditures in the governmental funds. The cost is $34,849,587 and the accumulated amortization is $8,237,573.		26,612,014
Bond premiums are recorded as revenues in the governmental funds. The premium is $128,572,263 and the accumulated amortization is $29,158,266.		(99,413,997)
Total net assets - governmental activities	$	(124,973,911)

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2011

	General	Special Aid	Joint Schools Construction Board	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:						
Contribution from City of Buffalo	$ 54,833,321	$ -	$ -	$ -	$ -	$ 54,833,321
School tax relief reimbursement	15,489,437	-	-	-	-	15,489,437
Non-property taxes	34,296,667	-	-	-	-	34,296,667
Charges for services	1,698,551	-	-	-	1,711,293	3,409,844
Use of money and property	120,202	-	977,809	6,085,906	13,494	7,197,411
Sale of property and compensation for loss	21,952	-	-	-	-	21,952
Miscellaneous local sources	13,149,135	3,397,605	-	-	414,513	16,961,253
State sources	594,800,529	30,250,012	-	-	826,978	625,877,519
Federal sources	10,776,300	83,051,538	-	-	19,807,918	113,635,756
Total revenues	725,186,094	116,699,155	977,809	6,085,906	22,774,196	871,723,160
EXPENDITURES:						
General support	65,037,963	2,253,921	-	-	1,026,185	68,318,069
Instruction - regular schools	249,926,835	94,069,939	-	-	17,575,375	361,572,149
Instruction - charter school	85,086,216	-	-	-	-	85,086,216
Pupil transportation	42,894,379	2,555,373	-	-	-	45,449,752
Home and community services	24,398	-	-	-	77,400	101,798
Employee benefits	150,592,127	19,985,453	-	-	1,489,763	172,067,343
Debt service:						
Principal and interest	-	-	-	97,617,200	-	97,617,200
Bond issuance costs	-	-	3,039,147	222,237	173,674	3,435,058
Capital outlay	-	-	151,073,005	-	7,550,591	158,623,596
Total expenditures	593,561,918	118,864,686	154,112,152	97,839,437	27,892,988	992,271,181

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2011
(Continued)

	General	Special Aid	Joint Schools Construction Board	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Excess (deficit) of revenues over expenditures	131,624,176	(2,165,531)	(153,134,343)	(91,753,531)	(5,118,792)	(120,548,021)
OTHER FINANCING SOURCES (USES):						
Proceeds from bond issues	-	-	153,698,699	11,616,301	4,900,000	170,215,000
Refunding bond issued	-	-	-	21,825,000	-	21,825,000
Premium on issuance of debt	-	-	13,668,661	-	138,423	13,807,084
Premium on refunding bonds	-	-	-	1,440,316		1,440,316
Payment to refunded bond escrow agent	-	-	-	(23,043,079)	-	(23,043,079)
Transfer to City of Buffalo debt service fund	(16,231,935)	-	-	-	(537,100)	(16,769,035)
Use of reserves	-	-	-	-	(489,705)	(489,705)
Interfund transfers in	3,013,429	2,165,531	890,616	92,145,542	1,012,303	99,227,421
Interfund transfers out	(94,833,671)	-	-	(3,778,124)	(125,921)	(98,737,716)
Total other financing sources (uses)	(108,052,177)	2,165,531	168,257,976	100,205,956	4,898,000	167,475,286
Net change in fund balances	23,571,999	-	15,123,633	8,452,425	(220,792)	46,927,265
Fund balances - beginning of year	212,172,147	-	209,096,369	135,143,119	25,046,793	581,458,428
Fund balances - end of year	$ 235,744,146	$ -	$ 224,220,002	$ 143,595,544	$ 24,826,001	$ 628,385,693

See notes basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS, STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

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

Net change in fund balances - total governmental funds		$ 46,927,265
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than $5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, net of related losses on disposal of capital assets.		
Capital outlays	$ 160,251,907	
Depreciation expense	(54,437,603)	
Loss on disposal of assets	(193,643)	105,620,661
The governmental funds report bond proceeds and other long-term debt as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General obligation bond proceeds	$ (170,215,000)	
Refunding bond proceeds	(21,825,000)	
Bond premium	(15,247,400)	
Bond issuance costs	3,435,058	
Repayment of bond principal (due to City of Buffalo)	33,007,307	
Repayment of due to other governments	713,334	
Repayment of revenue bonds payable	4,475,000	
Repayment of Joint School Construction Board debt	32,805,000	
Repayment of other long-term debt - EPC	800,834	
Interest expense - general obligation bonds	(649,566)	
Amortization of bond issuance costs	(1,568,398)	
Amortization of bond premium	5,528,345	(128,740,486)
In the statement of activities, certain operating expenses - compensated absences (vacation & sick leave), amounts due to retirement systems, judgment and claims and workers' compensation - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences is as follows:		
Workers' compensation	$ (877,411)	
Repayment of judgments and claims	1,366,227	
Compensated absences	410,204	
Net other post employment benefits expense	(95,642,000)	(94,742,980)
Change in net assets of governmental activities		$ (70,935,540)

See notes to basic financial statements

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS
JUNE 30, 2011

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	$ -	$ 7,877
Cash and cash equivalents - restricted	5,956	731,942
Due from other funds	-	584,317
Total assets	$ 5,956	$ 1,324,136
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Employee benefits	$ -	$ 584,318
Extraclassroom activity balances	-	731,942
Due to other funds	-	6,811
Total liabilities	-	1,323,071
NET ASSETS:		
Reserved for agency	-	1,065
Reserved for scholarships	5,956	-
Total net assets	5,956	1,065
Total liabilities and net assets	$ 5,956	$ 1,324,136

See notes to basic financial statements.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF CHANGES IN NET ASSETS -
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
ADDITIONS:	
Interest	$ 16
DEDUCTIONS:	
Scholarships	8,474
Change in net assets	(8,458)
Net assets - beginning of year	14,414
Net assets - end of year	$ 5,956

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Board of Education, City of Buffalo, New York (the Board), a component unit of the City of Buffalo, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. 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 Board's accounting policies are described below.

A. FINANCIAL REPORTING ENTITY

The Board is a unit of local government created under the Constitution of the State. The Board is financially dependent upon the City and other governments and has no independent authority to contract bonded indebtedness or levy taxes, with the exception of the Special Program Revenue Bonds issued by the State of New York Municipal Bond Bank Agency (see Note 4., B., 3).

The Board is governed by the Education Law and other laws of the State of New York. The Board of Education is an independent entity consisting of nine members.

The scope of activities included within the accompanying financial statements are those transactions which comprise Board operations and are governed by, or significantly influenced by, the Board of Education. Essentially, the primary function of the Board is to provide education for pupils. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function. The financial reporting entity includes all funds, account groups, functions and organizations over which Board officials exercise oversight responsibility.

The reporting entity of the Board is based upon criteria set forth by the Governmental Accounting Standards Board. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements present the activities of the Board. The Board is a component unit of the City of Buffalo.

The decision to include a potential component unit in the Board's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the Board's reporting entity.

1. Included in the Reporting Entity

The Extraclassroom Activity Funds of the Board represent funds of the students of the Board. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the Board with respect to financial transactions and designation of student management. The Board accounts for assets held as an agent for various student organizations in the Agency Fund of the Board.

B. BASIS OF PRESENTATION

1. Government-wide statements:

The Statement of Net Assets and the Statement of Activities present financial information about the Board's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through a City contribution, State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include specific operating and discretionary (either operating or capital) grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including the City contribution and all taxes, are presented as general revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund financial statements:

The fund financial statements provide information about the Board's funds, including fiduciary funds each of which is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue and expenditures. Funds are organized into two categories (governmental and fiduciary) as presented. An emphasis is placed on major governmental funds, within the governmental fund category. All remaining governmental funds are aggregated and reported as non-major governmental funds. A fund is considered major if it is the primary operating fund of the Board or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental 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 are at least 5 percent of the corresponding total for all governmental funds combined.

The Board reports the following major governmental funds:

General Fund - This is the Board's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants that are legally restricted to expenditures for a specified purpose. These legal restrictions may be imposed either by governments that provide the funds or by outside parties.

Joint Schools Construction Board (JSCB) Fund - The JSCB fund is used to account for transactions associated with the design, construction, reconstruction, and financing of public educational facilities in the City. The JSCB is authorized to act as an agent to enter into contracts on behalf of the Board and the Common Council of the City of Buffalo, New York (the Council) for the construction of new educational facilities in accordance with applicable state and local laws.

Debt Service Fund - The debt service fund is used to account for payments made on the Board's long-term debt, except for amounts held by the City. Those payments are recorded in the general and capital funds as transfers to the City of Buffalo.

The Board reports the following governmental funds as non-major governmental funds:

Capital Projects Fund - This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School Food Service Fund - This fund is used to record the Board's breakfast, lunch, summer food, and Root Culinary programs.

Special Activities Fund - This fund is used to account for transactions that support the Board's regular programs. The proceeds are legally restricted to expenditures for specified purposes.

Permanent Fund - This fund is used to report resources, that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Board's programs.

The Board reports the following fiduciary funds:

Fiduciary Funds - These funds are used to account for fiduciary activities. Fiduciary activities are those in which the Board acts as trustee or agent for resources that are the property of others. These activities are not included in the government-wide financial statements, because their resources are not the property of the Board, and are not available to be used. There are two classes of fiduciary funds:

Private Purpose Trust Funds: Those funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the Board or representatives of the donors may serve on committees to determine who benefits.

Agency Funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the Board as agent for various student groups or extraclassroom activity funds and for payroll or employee withholdings.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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 Board 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.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, post employment benefits other than pensions 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 and acquisitions under capital leases are reported as other financing sources.

D. BUDGETARY DATA

1. BUDGET POLICIES

Prior to February 1, the Board submits to the Mayor of the City its budget request and financial plan for the fiscal year beginning July 1. Subsequent to February 1 (generally during February or March), a public hearing is held by the Mayor to receive comment from interested parties regarding the Board's budget request. On or before May 1, the Mayor submits to the Council a complete operating plan which includes the Board's estimated revenues and proposed expenditures. The Council then acts upon the Mayor's recommended Board budget and may make additions or deletions within its authority as provided by the City Charter. The Board's budget, as approved by the Council, is limited to total estimated revenues and proposed expenditures.

A formal annual budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America except that the encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Encumbrances outstanding at year-end are accounted for by an assignment of fund balance under GAAP. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified. A reconciliation to convert GAAP basis fund balances to the budgetary basis is provided in Note 3.

Program budgets are adopted for Special Aid Fund related grants and the School Food Service Fund at the program's inception and lapse upon completion of the program. These grant programs do not necessarily coincide with the Board's fiscal year.

Capital projects are subject to project budgets determined primarily by the City's bonding authorization used to fund a particular project rather than annual budgetary appropriations. These budgets do not lapse at year-end; rather, they lapse upon completion of the project.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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.

The General Fund is the only fund with a legally approved budget for the fiscal year ended June 30, 2011, and therefore, is the only fund that is required to be presented on the Budgetary Comparison Schedule.

E. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents consists of cash on hand, demand deposits, and cash held by the City of Buffalo. Cash equivalents include amounts invested in short-term interest bearing accounts with an original maturity of three months or less.

F. RESTRICTED ASSETS

Certain assets are classified on the balance sheet as restricted because their use is limited. Donations to be used towards scholarships in the Private Purpose Trust Fund and funds supporting extraclassroom activities in the Agency Fund, are restricted specifically for those purposes. Certain proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment, are classified as restricted assets in the governmental and government-wide financial statements and their use is limited by applicable bond covenants.

G. ACCOUNTS RECEIVABLE

Accounts receivables are shown at gross with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since management has determined that all accounts receivable will be collectible.

H. INVENTORY

Inventories of food and/or supplies in the General and School Food Service Funds are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase and are considered an immaterial amount.

These assets are classified as non-spendable to signify that portion of fund balance that is not available for other purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. INTERFUND TRANSACTIONS

The operations of the Board include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The Board typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one fiscal year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services. In the government-wide statements eliminations have been made for all interfund receivables and payables between governmental funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the Board's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 4., A., 3 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

J. CAPITAL ASSETS

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2002. For assets acquired prior to June 30, 2002 estimated historical costs were used. Donated assets are reported at estimated fair market value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	$ 5,000	straight-line	50 years
Building improvements	5,000	straight-line	20 years
Land improvements	5,000	straight-line	20 years
General Equipment	5,000	straight-line	10 years
Computer, business machine, and audio visual equipment	5,000	straight-line	5 years
Automotive	5,000	straight-line	7 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. INSURANCE

The Board carries insurance coverage for buildings, equipment and inventory, but self-insures against liability for most other risks including, but not limited to general liabilities, workers' compensation, and personal injury liability. 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.

L. VESTED EMPLOYEE BENEFITS

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Sick leave use is based on a last-in first-out (LIFO) basis. Upon retirement, resignation or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Board employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, an accrual for accumulated sick leave is included in the compensated absences liability at year-end. The compensated absences liability is calculated based on contractual provisions. The Board has accrued a liability for compensated absences which has been calculated at rates in effect as of the balance sheet date.

In the fund statements only, the amount of matured liabilities is accrued within the General Fund based on expendable and available resources. These amounts are expensed on a pay-as-you-go basis.

M. OTHER BENEFITS

Board employees participate in New York State Teachers' Retirement System and the New York State Employees' Retirement System.

In addition to providing retirement benefits, the Board provides post-employment health insurance coverage and survivor benefits to its retired employees and their survivors in accordance with the provisions of various employment contracts in effect at the time of retirement. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Board. Healthcare benefits are provided through plans whose premiums are based on benefits paid during the year. The cost of providing post-retirement benefits is shared between the Board and the retired employee. The Board recognizes the cost of providing health insurance by recording its share of the insurance premium as an expenditure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

Payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as Other Financing Sources – proceeds from bond issues, while premiums on the debt are reported as Other Financing Sources and discounts on debt issuances are reported as Other Financing Uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term obligations represent the Board's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statements of Net Assets.

O. POST EMPLOYMENT BENEFITS

The Board provides post employment benefits in the form of health insurance. The obligation of the Board and its retirees to contribute to the cost of providing these benefits has been established pursuant to Board resolution and various collective bargaining agreements. Payments are budgeted annually without accrual and are based on the pay-as-you go method (see Note 4., B., 2.).

P. FUND EQUITY

Government-wide statements:

In the government-wide statements there are three classes of net assets:

Invested in capital assets, net of related debt - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets - reports net assets when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

Fund statements:

In the fund statements there are five classes of fund balance:

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

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

Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school district's highest level of decision making authority, i.e., the Board of Education.

Assigned - Includes amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances and appropriated fund balances of the General fund are classified as assigned fund balance.

Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the school district.

Q. USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2011, the Board implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 requires the Board to change its fund balance classifications. Details relating to the Board's fund balance classifications are provided at Note 4, C.

NOTE 3 - REPORTING ON BUDGETARY BASIS

The Board 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 for the general fund only.

GAAP BASIS:	
Fund balance - June 30, 2011	$ 235,744,146
Deduct outstanding encumbrances	5,189,745
BUDGETARY BASIS - Fund balance - June 30, 2011	$ 230,554,401

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. CASH

The Board's investment policies are governed by State statutes. In addition, the Board has its own written investment policy. The Board's funds 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 deposits, 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 its municipalities and school districts.

The Board's aggregate bank balances were fully collateralized at June 30, 2011.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

Cash with Fiscal Agent - General Fund
Pursuant to the issuance of State of New York Municipal Bond Bank Agency Revenue Bonds, the Board is to maintain a Debt Service Reserve held with a fiscal agent of $1,800,000. Additionally, $549,813 represents a joint account held in trust with the Buffalo Teachers' Federation in relation to a Teachers' Settlement.

Cash with Fiscal Agent - Debt Service Fund
In accordance with the Indenture Trust Agreement, an amount of the Series 2003, 2004, 2007, 2008, 2009, and 2011 bond proceeds is to be deposited and maintained by the trustee in the Debt Service Fund.

Restricted Cash - General
Cash is restricted to support obligations related to workers' compensation claims.

Restricted Cash - JSCB Fund
Proceeds from Series 2003, 2004, 2007, 2008, 2009, and 2011 bonds, held in trust, and can only be utilized for approved project costs.

Restricted Cash - Debt Service Fund
In accordance with the Local Share Trust and Depository Agreement, the local share contribution is to be held in trust and can only be disbursed as specified by the aforementioned agreement.

Cash held by City of Buffalo
Amounts on deposit with the City on behalf of the Board total $279,330,364. Cash held by the City of Buffalo represents cash held in the City's bank accounts. The cash is an asset of the Board and is specifically designated for Board purposes. These deposits are subject to applicable city and state investment and collateralization policies. The City has also advanced $33,160,145 of certain Board funds, as discussed in Note 8.

Extraclassroom Activity Cash
Deposits totaled $731,942 and were fully collateralized at June 30, 2011.

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

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The Board 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 Finance Department.

Interest Rate Risk
Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Board'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 Board'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 Board's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

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

Custodial Credit Risk
Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Board's investment and deposit policy, all deposits of the Board 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 Board 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.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

2. RECEIVABLES

Major revenues accrued by the Board include the following:

Accounts receivable consist of the following at June 30, 2011:

General Fund:	
Health Services	$ 570,630
Tuition billing	312,460
Miscellaneous revenues	584,750
	1,467,840
School Food Service Fund	163,510
Special Aid Fund	6,466
Total	$ 1,637,816

State and federal aid receivable, consist of the following at June 30, 2011:

General Fund:	
State Aid - basic	$ 11,482,761
State Aid - excess	14,652,122
State Aid - ARRA	944,697
State Aid - Medicaid	1,329,334
	28,408,914
Special Aid Fund:	
Federal and State grants	45,715,016*

*Amount reported net of deferred revenue.

Food Service Fund:	
State Aid	71,334
Federal Aid	1,473,638
	1,544,972
Total	$ 75,668,902

Due from other governments which represents amounts due primarily from Erie County consist of the following at June 30, 2011:

General Fund:	
Erie County Sales Tax	$ 3,906,078
Miscellaneous	934,302
Total	$ 4,840,380

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. INTERFUND ACTIVITY

Interfund activity at June 30, 2011 are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	$ 6,811	$ 584,317	$ 3,013,429	$ 94,833,671
Debt Service Fund	-	-	92,145,542	3,778,124
Special Aid Fund	-	-	2,165,531	-
Capital Projects Fund	-	-	778,578	489,705
Joint Schools Construction Board Fund	-	-	890,616	-
School Food Service Fund	-	-	233,725	125,921
Agency Fund	584,317	6,811	-	-
Total	$ 591,128	$ 591,128	$ 99,227,421	$ 99,227,421

Interfund receivable and payables, other than between governmental activities and fiduciary funds are eliminated on the Statement of Net Assets.

Interfund receivables and payables were incurred primarily due to cash not being transferred prior to fiscal year end. The majority of the interfund revenues and expenses were for debt service expenses.

4. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

	Balance 6/30/10	Additions	Retirements/ Reclassifications	Balance 6/30/11
Governmental activities:				
Capital assets that are not depreciated:				
Land	$ 3,725,598	$ -	$ 104,056	$ 3,621,542
Construction in progress	103,760,429	105,025,737	46,280,270	162,505,896
Capital assets, not being depreciated	107,486,027	105,025,737	46,384,326	166,127,438

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

	Balance 6/30/10	Additions	Retirements/ Reclassifications	Balance 6/30/11
Capital assets that are depreciated:				
Land improvements	4,730,785	10,000	139,395	4,601,390
Buildings and building improvements	1,209,075,535	98,098,715	3,769,076	1,303,405,174
Equipment	22,638,282	3,397,725	8,430,989	17,605,018
Capital assets, being depreciated	1,236,444,602	101,506,440	12,339,460	1,325,611,582
Less accumulated depreciation:				
Land improvement	4,337,620	35,592	137,699	4,235,513
Buildings and building improvements	338,694,183	52,516,218	3,227,484	387,982,917
Equipment	18,276,181	1,885,793	8,884,690	11,277,284
Total accumulated depreciation	361,307,984	54,437,603	12,249,873	403,495,714
Total capital assets being depreciated, net	875,136,618	47,068,837	89,587	922,115,868
Governmental activities capital assets, net	$ 982,622,645	$ 152,094,574	$ 46,473,913	$1,088,243,306

B. LIABILITIES

1. PENSION PLANS

The Board participates in the New York State and Local Employees' Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These are cost-sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

PLAN DESCRIPTIONS

Teachers' Retirement System (TRS)

The New York State Teachers' Retirement System is administered by the New York State Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). The New York State TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides 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). The System issues 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 System, 110 State Street, Albany, NY 12244.

FUNDING POLICIES

The Systems are noncontributory except for employees who joined the Systems after July 27, 1976 who contribute 3.0% to 3.5% of their salary. With the exception of TRS tier V employees, employees in the system more than ten years are no longer required to contribute. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board.

The Board is required to contribute at an actuarially determined rate. While the Board records the retirement expenditures on a full accrual basis, TRS contributions are withheld from aid to education payments in the fall of the fiscal year subsequent to which the contributions were applicable. ERS contributions are paid in December for the states fiscal year beginning the preceding April 1st through March 31st. The retirement contributions withheld or paid during the current year and two preceding years (for previous fiscal year wages) were:

	TRS	ERS
2011	$17,683,274	$4,483,867
2010	21,196,134	2,391,143
2009	21,303,123	3,676,006

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

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

2. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

a. PLAN DESCRIPTION

The Board administers the Board of Education, City of Buffalo, New York's Retiree Medical and Prescription Drug (the Plan) as a single-employer defined benefit Other Post Employment Benefit plan (OPEB). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the Board 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 Board 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 Board 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 Board.

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 Board's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Board 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 Board's annual OPEB cost for the year, the amount actually contributed to the plan, and the Board's net OPEB obligation to the Retiree Health Plan at June 30, 2011:

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Annual OPEB Cost	(in thousands)
Normal Cost	$ 61,678
Amortization of UAL	97,234
ARC	158,912
Interest on OPEB Obligation	11,247
Adjustment to ARC	(16,261)
OPEB Expense	153,898
Net OPEB contributions made during the fiscal year	(58,256)
Net increase in OPEB obligation	95,642
Net OPEB obligation at beginning of year	281,185
Net OPEB obligation at end of year	$ 376,827
Percentage of expense contributed	37.9%

e. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2011, the most recent actuarial report provided, the actuarial accrued liability for benefits was $1,681,374,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $276,561,591, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 608%. The total post employment health insurance cost to the Board was $58,256,000 for the year ended June 30, 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 A42, presents the funded status of the plan.

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 to that point. 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:

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The June 30, 2011 actuarial valuation utilized the projected unit credit 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 Board's own assets since currently the plan has no assets at the valuation date in order to establish a plan investment rate. The assumed rate for all pre-65 healthcare benefits is initially at 10.0% and decreases to a 5% long-term trend rate after ten years. For all post-65 healthcare benefits this rate initially is at 8.5% and decreases to a 5% long-term trend rate after seven years. Both rates included a 3 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The amortization period at June 30, 2011 was twenty-eight years.

3. INDEBTEDNESS

LONG-TERM DEBT

a. Long-term liability balances and activity for the year are summarized below:

	Balance 6/30/10	Issued	Redeemed	Balance 6/30/11	Due Within One Year
Government activities:					
Due to other governments	$ 14,546,666	$ -	$ 713,334	$ 13,833,332	$ 713,332
Due to City of Buffalo Debt Service Fund	122,897,866	26,725,000	33,007,307	116,615,559	11,306,239
Revenue bonds payable	27,060,000	-	4,475,000	22,585,000	615,000
JSCB bonds payable	1,050,660,000	165,315,000	32,805,000	1,183,170,000	37,180,000
Other long-term debt - EPC	3,299,929	-	800,834	2,499,095	835,000
Compensated absences	21,674,579	10,198,931	10,609,135	21,264,375	5,260,000
Post employment benefits	281,185,000	153,898,000	58,256,000	376,827,000	-
Judgments, claims, and Contingencies	1,677,056	-	1,366,227	310,829	-
Workers' Compensation	18,976,752	6,763,973	5,886,562	19,854,163	-
Total	$ 1,541,977,848	$ 362,900,904	$147,919,399	$ 1,756,959,353	$55,909,571

b. Source of Funding - Amounts due to other governments; due to City of Buffalo (bond debt); revenue bonds payable; other long-term debt - EPC; and judgments, claims, and contingencies are repaid through annual appropriation of the General Fund. Payments for compensated absences are charged to the fund where the employee's normal payroll is charged, except for grant funded employees, whose payments would be charged to the General Fund.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

c. Due to Other Governments - In June 2000 the State Legislature passed special legislation to advance the Board $20,000,000 in lottery aid to help pay for litigation settlement with the Buffalo Teachers Federation. In June 2006 the Board received an additional lottery aid advance of $1,400,000. The advances are recorded as long-term interest -free loans with annual maturities as follows:

Fiscal Year Ending June 30	Principal
2012	$ 713,332
2013	713,334
2014	713,334
2015	713,332
2016	713,334
2017-2021	3,566,666
2022-2026	3,566,668
2027-2031	2,899,999
2032-2036	233,333
	$ 13,833,332

d. Due to City of Buffalo Debt Service Fund - Represents payments due to the City for the maturity of serial bonds, which were issued by the City on behalf of the Board. The remaining annual maturities are as follows:

In March 2011, the City issued $21,825,000 refunding bonds on behalf of the Board that mature in 2020. In July 2011 the City issued $4,900,000 of serial bonds on behalf of the Board that mature in 2025.

Fiscal Year Ending June 30	Principal	Interest	Total
2012	$ 11,306,239	$ 5,549,006	$ 16,855,245
2013	11,578,006	5,045,877	16,623,883
2014	11,134,371	4,532,995	15,667,366
2015	11,168,083	3,971,431	15,139,514
2016	11,280,360	3,400,234	14,680,594
2017-2021	44,133,500	9,674,147	53,807,647
2022-2025	16,015,000	1,470,898	17,485,898
	$ 116,615,559	$ 33,644,588	$ 150,260,147

e. Revenue Bonds Payable - Represents amounts due for Municipal Bond Agency Revenue Bonds issued pursuant to the State of New York Municipal Bond Agency (the Agency) Act and a General Resolution and a Series Resolution to provide funds to (i) finance a portion of the cost of settling litigation involving the Board and the Buffalo Teachers Federation; (ii) fund the Debt Service Reserve Fund to at least the Debt Service Reserve Fund Requirement; and (iii) pay legal, accounting, financing, and other fees and expenses relating to the issuance of the Bonds.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The Bonds are special revenue obligations of the Agency and are secured by Annual Payments payable by the City from all monies legally available (which availability is, in general, dependent upon annual appropriations by the City), and amounts received by the Agency pursuant to the Agency's statutory right to intercept State School Aid payable to the City and all funds and accounts established by the General Resolution described in the Official Statement.

In May 2011, the remaining $2,830,000 in the 2003, series D bonds were paid in full pursuant to a mandatory redemption provision in the original bond agreement.

The remaining annual maturities are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	$ 615,000	$ 1,178,569	$ 1,793,569
2013	650,000	1,146,281	1,796,281
2014	680,000	1,112,156	1,792,156
2015	715,000	1,076,456	1,791,456
2016	755,000	1,038,919	1,793,919
2017-2021	4,380,000	4,583,394	8,963,394
2022-2026	5,645,000	3,320,363	8,965,363
2027-2031	9,145,000	1,673,963	10,818,963
	$ 22,585,000	$ 15,130,101	$ 37,715,101

f. JSCB Bonds Payable - Represents bond payments due for the design, construction, and financing of public educational facilities in the City (see Note 6).

The remaining annual maturities are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	$ 37,180,000	$ 63,329,214	$ 100,509,214
2013	50,320,000	62,504,975	112,824,975
2014	46,280,000	59,988,975	106,268,975
2015	48,765,000	57,618,538	106,383,538
2016	51,420,000	55,027,625	106,477,625
2017-2021	303,245,000	230,468,638	533,713,638
2022-2026	403,770,000	136,131,275	539,901,275
2027-2031	235,885,000	33,939,975	269,824,975
2032	6,305,000	331,013	6,636,013
	$ 1,183,170,000	$ 699,340,228	$ 1,882,540,228

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

g. Compensated Absences - As described in Note 1, compensated absences, which total $21,264,375 at June 30, 2011, represent amounts relating to sick, vacation and personal leave for employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service). The Board has estimated that $5,260,000 will be paid in the next fiscal year.

h. Other Long-Term Debt - Energy Performance Contracts (EPC) - Represents amounts due for equipment installed at school facilities to improve energy efficiency. Payments totaled $800,834 during the year leaving a balance of $2,499,095 at year end.

The remaining annual maturities are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	$ 835,000	$ 42,516	$ 877,516
2013	839,380	26,567	865,947
2014	824,715	10,423	835,138
	$ 2,499,095	$ 79,506	$ 2,578,601

i. Judgments, Claims, and Contingencies - Judgments, claims, and contingencies, which total $310,829 at June 30, 2011, represent estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation).

j. Workers' Compensation - Workers' compensation obligations total $19,854,163 at June 30, 1011, represent estimated amounts due for various outstanding claims.

k. Operating Leases - Operating lease obligations are primarily for rental of space and equipment. Lease expenditures and expenses for the year were $5,181,161. The future minimum lease payments required for noncancellable operating leases are as follows:

Fiscal Year	
2012	$ 4,229,678
2013	3,643,073
2014	2,754,877
2015	2,047,200
2016	1,928,575
2017-2021	8,131,166
2022-2025	379,511
Total	$ 23,114,080

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

C. FUND BALANCE

Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact, including prepaid items, inventories, and principal of endowments. Non-spendable fund balance includes the inventory recorded in the General Fund of $791,133 and in the School Lunch Fund of $789,583, and permanently restricted endowments in the Permanent Fund of $324,000.

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Board has established the following restricted fund balances:

a. Reserve for Capital Development - Represents funds which the Board has dedicated for capital improvements to schools.

b. Reserve for Debt Service - This reserve is established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale.

c. Reserve for Endowments - Represents funds set aside for various purposes as accounted for in the Permanent Fund.

d. Reserve for Joint Schools Construction Board Projects - Represents funds that are designated for capital projects authorized by the JSCB.

e. Reserve for Judgments, Property Loss and Claims - Represents funds set aside for payment of legal claims, judgments and contingencies.

e. Reserve for Stabilization - Represents funds set aside as part of the funding requirements of New York State for settlement of the dispute with the Buffalo Teachers Federation.

f. Reserve for Unemployment Insurance - Represents funds set aside to pay the cost of non-insured unemployment claims and losses.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Restricted fund balance includes the following:

General Fund:	
Judgments, Property Loss and Claims	$ 18,000,000
Unemployment Insurance	3,156,044
Stabilization	8,969,264
Joint Schools Construction Board Fund	224,220,002
Debt Service Fund	143,595,544
Capital Projects Fund	1,786,112
Special Activities Fund	188,654
Permanent Fund	21,310
Total restricted funds	$ 399,936,930

Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school districts highest level of decision making authority, i.e., the Board of Education. The Board has no committed fund balances as of June 30, 2011.

Assigned - Includes amounts that are constrained by the Board's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as assigned fund balance. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance in the General Fund is comprised of the following:

Appropriated fund balance	$ 30,200,000
Designated for Joint School Construction Board projects and other capital needs	7,250,000
Designated for prior year claims	86,500,000
Designated for other post employment benefits	30,000,000
Encumbrances	5,189,745
	$ 159,139,745

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 do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year. Encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned are included with in those fund balance classifications.

NOTE 4 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the Board.

When both restricted and unrestricted fund balance are available for expenditure, the Board will expend first from funds classified under GASB Statement No. 54 as unrestricted. When unrestricted funds are used for expenditure, unassigned funds will be used first, followed by assigned, and then committed. The use of restricted funds as classified by GASB Statement No. 54 will occur after the exhaustion of unrestricted funds, unless the expenditure meets the legal purpose of a particular restricted reserve fund and the use of those monies is recommended by the Chief Financial Officer and is approved by a majority vote of the Board of Education.

NOTE 5 - AGENCY FUNDS

An agency fund exists for temporary deposit of funds. The following is a summary of changes in assets and liabilities for the fiscal year ended June 30, 2011.

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Cash	$ 5,767	$ 37,580,411	$ 37,578,301	$ 7,877
Extraclassroom activity cash	729,009	2,247,915	2,244,982	731,942
Due from other funds	629,920	8,076,811	8,122,414	584,317
Total assets	$1,364,696	$ 47,905,137	$ 47,945,697	$1,324,136
Employee liabilities	$ 629,919	$ 31,695,128	$ 31,740,729	$ 584,318
Extraclassroom activity balance	729,009	2,247,915	2,244,982	731,942
Due to other funds	3,433	8,136,046	8,132,668	6,811
Agency reserve	2,335	14,037	15,307	1,065
Total liabilities	$1,364,696	$ 42,093,126	$ 42,133,686	$1,324,136

NOTE 6 - JOINT SCHOOLS CONSTRUCTION BOARD

The Buffalo Joint Schools Construction Board (the JSCB) is an inter-municipal board created as a joint cooperative board by resolutions of the Board and the City of Buffalo Common Council (the Council) and amendment of the City Charter, §18-59 and §18-60, to assist in a comprehensive program to redevelop the Board's school buildings and facilities. The JSCB is comprised of two Board designees, the Superintendent of Schools, the Mayor, the City Comptroller and one Council designee.

Although the Buffalo Schools Act confers extensive powers upon the JSCB in relation to the construction of new educational facilities, it assigns to the JSCB only limited functions in relation to the reconstruction of existing schools, which the act authorizes the Board to finance and implement as projects of the Erie County Industrial Development Agency (the ECIDA). Phase I, II, III, IV and V of the Program have been authorized by amendments to the Buffalo Schools Act as ECIDA reconstruction projects. The JSCB's role in those phases has been principally to assist and advise the Board in developing projects up to the point when plans and specifications have been approved by the State Education Department, financing is completed and available and construction can begin. The JSCB has also been assigned to monitor implementation of the Program's workforce and business diversification plan and to compare the financing of the Project available through ECIDA with financing of the Project available through the Municipal Bond Agency (and to employ the financing that will result in the lowest cost to the taxpayers of the City and the State). For Phase III, the JSCB is also required to submit certain cost reports to state officials and cannot proceed with the projects if estimated costs do not meet certain limits prescribed in the Phase III regulation.

Financing of JSCB

In accordance with Chapter 605 of the Laws of 2000 of the State of New York pursuant to Indenture of Trusts (Series 2003, 2004, 2007, 2008, 2009 and 2011 Projects) between the ECIDA (the Issuer) and M&T Trust Company (the Trustee), School Facility Reserve Bonds, Series 2003, dated September 1, 2003, totaling $180,335,000, Series 2004, dated December 22, 2004, totaling $310,125,000, Series 2007A, dated August 23, 2007, totaling $180,000,000, Series 2008A, dated February 28, 2008, totaling $173,225,000, Series 2009A, dated November 6, 2009, totaling $294,905,000 and Series 2011A, dated May 26, 2011, totaling $165,315,000 were issued by the ECIDA for the purpose of financing a portion of the cost of projects, consisting of the acquisition, renovation, reconstruction, improvement, equipping, and furnishing of certain public school buildings and the acquisition of certain equipment and fixtures all for use by the Board.

Pursuant to the Ground Leases, the City and the Board will lease to the ECIDA those public school buildings, improvements, real property, equipment, fixtures, and machinery related thereto to be improved by the Series 2003, 2004, 2007, 2008, 2009, and 2011 Projects (collectively the Series 2003, 2004, 2007, 2008, 2009, and 2011 Facilities).

NOTE 6 - JOINT SCHOOLS CONSTRUCTION BOARD (Continued)

The Ground Leases will be entered into concurrently with the issuance of the Bonds and will be for a term of approximately 20 years or such later period as the respective bond issuances (or any later series of refunding bonds issued under the Indenture) shall remain~~ing~~ outstanding.

The ECIDA will sell its leasehold interest in the project to the Board pursuant to the Amendatory Installment Sale Agreements.

Base Installment Purchase Payments due under the Installment Sale Agreement will equal principal and interest due on the bonds. The Board's obligation to pay installment purchase payments under the Installment Sale Agreements is executory only to the extent of State Aid appropriated by the State and available to the Board, and apportioned by the Board. In the event State Aid is appropriated by the State to the Board and the Board does not appropriate such State Aid to make installment purchase payments under the Installment Sale Agreements, the Trustee, on behalf of the Issuer, shall direct the State Comptroller to intercept State Aid for the payment of such Installment Purchase Payments.

The Board will be responsible for the maintenance and operation of the facilities.

The proceeds of the bonds were deposited in accordance with the respective Indenture Trust Agreements between the Issuer and M&T Bank. The bond proceeds were recorded as revenues within the fund financial statements and as liabilities within the government-wide financial statements of the Board. Projects costs and debt service payments were recorded as expenditures of the Board.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Judgments, Claims, and Contingencies - Various types of claims have been asserted against the Board by various claimants. Claims probable of resulting in an unfavorable outcome to the Board have been reasonably estimated and recorded in the government-wide financial statements. The claims are in various stages of processing and some may ultimately be brought to trial. Claims are paid and ultimately funded by the fund associated with the loss. For claims not accrued, the ultimate outcome of the suits cannot presently be determined and no provisions for loss if any, has been made in the accompanying financial statements. It is the opinion of management that there will not be any material adverse effects on the Board's financial statements as a result of these actions.

State Aid - The State periodically reviews its distribution of aid to school boards throughout the state. Thus, revenues recorded as of June 30, 2011 are subject to potential revision.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

Health Insurance Litigation - On September 1, 2005, following a competitive bid process, the Board of Education of the City School District of the City of Buffalo selected one insurance carrier to provide four health care plans to School District employees - three HMO plans and one traditional indemnity plan. Prior to September 1, 2005, the Board paid three insurance carriers to provide the same four plans. Some of the Board's unions, including the Buffalo Teachers' Federation (hereinafter, BTF), challenged the Board's decision to go to a single carrier in arbitration. On October 21, 2006, the arbitrator in the BTF arbitration ruled that the Board must return to multiple carriers effective January 1, 2007 and reinstate all teachers laid-off effective September 1, 2005 with "make-whole" monetary damages, including back pay and benefits with interest at the statutory judgment rate. The arbitrator also retained jurisdiction to decide any unresolved claims for reimbursement of out-of-pocket expenses incurred by individual teachers under the single carrier arrangement. The Board appealed the decision and the Appellate Division ruled that while the Board violated the contract in moving to a single carrier for healthcare, the Board is not required to reinstate all laid off teachers. The BTF moved and the Board cross moved to appeal to the Court of Appeals. The leave to appeal was denied. Subsequently, the BTF commenced a contempt proceeding in the Supreme Court, which remains pending. The Court has agreed to several continuances of the return date with the expectation that negotiation of a successor collective bargaining agreement may resolve the health insurance issue. Contract negotiations are continuing.

Construction Commitment - As of June 30, 2011, the Board has approximately $7,812,863 committed to various renovations.

Grants - The Board has received grants, which are subject to audit by agencies of the State and federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior years' experience, the Board's administration believes disallowances, if any, will be immaterial.

NOTE 8 - RISK FINANCING

The Board is self insured for workers' compensation and has accrued its best estimate of workers' compensation losses. The plan establishes reserve liabilities based on the estimated cost of individual claims incurred. Those estimates are determined based on many factors, one of the most significant being past experience. Since the reserve liability is an estimate it may not reflect the plan's ultimate liability.

The schedule below presents the changes in the Board's estimated claims since June 30, 2010. The estimated claims represent claims that have occurred and are open due to an actual or future final determination of benefit payout as prescribed by the New York State Workers' Compensation Board. Estimated claims represents anticipated future payouts based on prior experience with actual payments of claims.

NOTE 8 - RISK FINANCING (Continued)

Estimated claims as of June 30, 2010	$ 18,976,752
Claims incurred during the year	6,763,973
Payments made during the year, net	(5,886,562)
Estimated claims as of June 30, 2011	$ 19,854,163

NOTE 9 - RELATED PARTY TRANSACTIONS

The amounts classified as due to the City of Buffalo, in the Special Aid Fund, represent cash advances made to the Board totaling $33,160,145.

Additionally, the Board transferred $16,231,935 to the City for payment of the Board's portion of principal and interest on long-term debt.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

In the current year, a prior period adjustment was recorded to the governmental activities beginning net assets. In prior years, the Board had not reported its liability for its self funded workers' compensation plan. This resulted in a decrease in the beginning net assets of $18,976,752.

NOTE 11 - FUTURE IMPACT OF ACCOUNTING PRONOUNCEMENTS

A. 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.*

NOTE 11 - FUTURE IMPACT OF ACCOUNTING PRONOUNCEMENTS (Continued)

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 May 31, 2011, however, earlier application of this Statement is encouraged.

B. 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.*

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.

NOTE 11 - FUTURE IMPACT OF ACCOUNTING PRONOUNCEMENTS (Continued)

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

C. 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.

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.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED JUNE 30, 2011

	Actuarial Valuation Date		
Schedule of Funding Progress:	June 30, 2011 (in thousands)	June 30, 2009 (in thousands)	June 30, 2007 (in thousands)
Actuarial accrued liability	$ 1,681,374	$ 1,206,245	$ 1,081,714
Actuarial value of assets	-	-	-
Unfunded actuarial accrued liability	$ 1,681,374	$ 1,206,245	$ 1,081,714
Funded ratio	0%	0%	0%

Schedule of Employer Contributions:	Fiscal Year Ended (in thousands)
June 30, 2008	$ 40,736
June 30, 2009	48,527
June 30, 2010	51,422
June 30, 2011	58,256

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget*	Amended Budget	Actual Revenues	Over (Under) Amended Budget
REVENUES:				
Local sources:				
Contribution from City of Buffalo	$ 53,940,370	$ 53,940,370	$ 54,833,321	$ 892,951
School tax relief reimbursement	16,382,388	16,382,388	15,489,437	(892,951)
Nonproperty tax items	33,500,000	33,500,000	34,296,667	796,667
Charges for services	1,850,000	1,850,000	1,698,551	(151,449)
Use of money and property	245,000	245,000	120,202	(124,798)
Sale of property and compensation for loss	-	-	21,952	21,952
Miscellaneous local sources	14,095,358	14,095,358	13,149,135	(946,223)
State sources:				
Basic formula	539,182,458	529,735,492	508,636,578	(21,098,914)
Lottery aid	60,787,875	60,787,875	80,522,979	19,735,104
Other aid	6,339,411	6,339,411	5,640,972	(698,439)
Federal sources	3,800,000	13,246,966	10,776,300	(2,470,666)
Total revenues	730,122,860	730,122,860	725,186,094	(4,936,766)
Other sources:				
Interfund transfers in	3,450,000	3,450,000	3,013,429	(436,571)
Appropriated fund balance	79,153,344	78,329,252	-	(78,329,252)
Total revenues and other sources	$ 812,726,204	$ 811,902,112	$ 728,199,523	$ (83,702,589)

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)

	Original Budget*	Amended Budget	Actual Expenditures	Encumbrances	Unencumbered Balances
EXPENDITURES:					
General support:					
Board of education	$ 258,069	$ 257,217	$ 214,985	$ 4,100	$ 38,132
Central administration	2,083,845	1,549,287	1,348,490	141	200,656
Finance	2,896,491	2,905,391	2,429,133	10,954	465,304
Staff	3,457,164	3,397,098	2,524,166	97,644	775,288
Central services	65,451,384	64,098,389	56,913,854	2,490,230	4,694,305
Special items	74,968,000	72,718,000	1,607,335	27,690	71,082,975
Instruction:					
Instruction, administration, and improvements	19,399,021	20,750,553	18,676,978	4,759	2,068,816
Teaching - regular school	236,237,080	226,114,909	216,412,036	1,438,346	8,264,527
Charter school payments	78,271,022	85,202,869	85,086,216	-	116,653
Instructional media	5,997,587	5,888,105	4,841,022	494,599	552,484
Pupil services	8,010,781	12,126,422	9,996,799	620,878	1,508,745
Pupil transportation	46,744,867	46,430,036	42,894,379	87	3,535,570
Home and community services	20,281	24,531	24,398	-	133
Employee benefits	159,965,600	158,741,928	150,592,127	317	8,149,484
Total expenditures	703,761,192	700,204,735	593,561,918	5,189,745	101,453,072
Other uses:					
Transfer to City of Buffalo debt service fund	16,231,935	16,231,935	16,231,935	-	-
Interfund transfers out	92,733,077	95,465,442	94,833,671	-	631,771
Total expenditures and other uses	$ 812,726,204	$ 811,902,112	$ 704,627,524	$ 5,189,745	$ 102,084,843
Net change in fund balance			$ 23,571,999		

*** See Schedule of Change from Original Budget to Revised Budget on page B4 for reconciliation of GAAP to budgetary basis.**

SECTION B

SUPPLEMENTAL SCHEDULES

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Capital Projects	School Food Service	Special Activities	Permanent Fund	Total
ASSETS:					
Cash and cash equivalents	$ -	$ 300	$ 188,654	$ -	$ 188,954
Cash held by City of Buffalo	9,786,959	13,335,373	-	-	23,122,332
Cash and cash equivalents - restricted	-	-	-	345,310	345,310
Accounts receivable	-	163,510	-	-	163,510
State and federal aid receivable	-	1,544,972	-	-	1,544,972
Inventory	-	789,583	-	-	789,583
Total assets	$ 9,786,959	$ 15,833,738	$ 188,654	$ 345,310	$ 26,154,661
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	$ 374,513	$ 598,540	$ -	$ -	$ 973,053
Accrued liabilities	-	355,607	-	-	355,607
Total liabilities	374,513	954,147	-	-	1,328,660
Fund balances:					
Non-spendable	-	789,583	-	324,000	1,113,583
Restricted	1,786,112	-	188,654	21,310	1,996,076
Assigned	7,626,334	14,090,008	-	-	21,716,342
Total fund balances	9,412,446	14,879,591	188,654	345,310	24,826,001
Total liabilities and fund balances	$ 9,786,959	$ 15,833,738	$ 188,654	$ 345,310	$ 26,154,661

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Projects	School Food Service	Special Activities	Permanent Fund	Total
REVENUES:					
Charges for services	$ -	$ 1,711,293	$ -	$ -	$ 1,711,293
Use of money and property	11,518	-	-	1,976	13,494
Miscellaneous local sources	221,104	115,240	78,169	-	414,513
State sources	-	826,978	-	-	826,978
Federal sources	-	19,807,918	-	-	19,807,918
Total revenues	232,622	22,461,429	78,169	1,976	22,774,196
EXPENDITURES:					
General support	-	1,026,185	-	-	1,026,185
Instruction - regular schools	-	17,575,375	-	-	17,575,375
Home and community services	-	-	66,824	10,576	77,400
Employee benefits	-	1,489,763	-	-	1,489,763
Debt service:					
Bond issuance costs	173,674	-	-	-	173,674
Capital outlay	7,550,591	-	-	-	7,550,591
Total expenditures	7,724,265	20,091,323	66,824	10,576	27,892,988

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

	Capital Projects	School Food Service	Special Activities	Permanent Fund	Total
Excess (deficit) of revenues over expenditures	(7,491,643)	2,370,106	11,345	(8,600)	(5,118,792)
OTHER FINANCING SOURCES (USES):					
Proceeds from bond issues	4,900,000	-	-	-	4,900,000
Premium on issuance of debt	138,423	-	-	-	138,423
Transfer to City of Buffalo debt service fund	(537,100)	-	-	-	(537,100)
Use of reserves	(489,705)	-	-	-	(489,705)
Interfund transfers in	778,578	233,725	-	-	1,012,303
Interfund transfers out	-	(125,921)	-	-	(125,921)
Total other financing sources (uses)	4,790,196	107,804	-	-	4,898,000
Net change in fund balances	(2,701,447)	2,477,910	11,345	(8,600)	(220,792)
Fund balances - beginning of year	12,113,893	12,401,681	177,309	353,910	25,046,793
Fund balances - end of year	$ 9,412,446	$ 14,879,591	$ 188,654	$ 345,310	$ 24,826,001

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF CHANGE FROM ADOPTED BUDGET
TO FINAL BUDGET - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

Adopted Budget	$ 805,972,860
Additions:	
Prior year encumbrances	6,753,344
Original Budget	812,726,204
Budget Revisions:	
Cancelled encumbrances	(824,092)
Final Budget	$ 811,902,112

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF PROJECT EXPENDITURES -
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2011

			Expenditures/Reclassifications To Date				
Project Title	Original Appropriations	Revised Appropriations	Prior Years	Current Year	Total	Outstanding Encumbrances	Over (Under) Budget
Planning & plan additions 89	3,400,000	1,955,506	1,882,230	62,237	1,944,467	1,076	(9,963)
New library facilities - phase III	2,558,559	2,934,419	2,934,101	-	2,934,101	-	(318)
Consultants for capital reconstruction projects	6,658,954	6,664,057	6,609,538	49,574	6,659,112	4,945	-
Reconstruction of various schools	1,000,630	1,000,630	957,345	-	957,345	-	(43,285)
Oil tank improvements	500,415	602,465	430,655	127,001	557,656	28,920	(15,889)
Site acquisition & improvements east high school	1,004,053	519,915	64,627	324,614	389,241	117,010	(13,664)
Oil tank improvements	751,611	751,611	471,108	240,185	711,293	-	(40,318)
ADA Improvements	1,953,694	1,953,694	78,015	616,218	694,233	40,455	(1,219,006)
Reconstruction of Various Schools	1,465,270	1,553,670	1,272,124	281,546	1,553,670	-	-
New Boilers	1,573,809	1,639,401	1,583,118	56,283	1,639,401	-	-
Computers & Technology	4,158,954	4,158,954	2,773,446	1,336,734	4,110,180	-	(48,774)
Reconstruction of Various Schools	2,025,789	2,025,789	1,562,019	308,246	1,870,265	39,940	(115,584)
Chimney Reconstruction	759,671	759,671	15,618	331,126	346,744	337,704	(75,223)
Mechanical / Electrical Reconstruction	790,058	790,058	721,801	-	721,801	-	(68,257)
Reconstruction of Various Schools	3,290,399	3,290,399	-	1,334,074	1,334,074	655,223	(1,301,102)
Mechanical / Electrical Reconstruction	1,748,024	1,748,024	-	1,019,544	1,019,544	183,647	(544,833)
Bennett High School / All High Parking Lot	598,000	649,150	-	380,950	380,950	268,200	-
Redevelopment of Johnnie B Wiley Sports Complex	2,000,000	2,000,000	1,707,862	221,104	1,928,966	70,578	(456)
Maintenance Garage School 89	190,000	190,895	-	190,895	190,895	-	-
A/E Services for Parking Lot at Bennett / All High	38,960	38,960	-	36,159	36,159	2,801	-
A/E Services for New Boiler at School 89	21,260	25,250	-	23,270	23,270	1,980	-
A/E Services for Interior & Exterior Reconstr Sch 67	105,620	105,620	60,000	38,896	98,896	6,724	-
Transfer of Debt Service Costs	468,434	33,261,844	32,772,139	489,705	33,261,844	-	-
Design / Consultants for Capital Projects	500,000	500,000	4,000	165,004	169,004	211,153	(119,843)
JSCB phase I - county contribution	5,000,000	5,015,551	4,823,251	75,900	4,899,151	116,400	-
JSCB ECIDA funds phase II	612,111	3,529,432	1,419,840	-	1,419,840	-	(2,109,592)
JSCB ECIDA funds phase III	442,106	1,091,010	1,076,009	15,000	1,091,010	-	-
Total	$ 43,616,381	$ 78,755,975	$ 63,218,846	$ 7,724,265	$ 70,943,112	$ 2,086,756	$ (5,726,107)

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2011

Capital assets, net	$ 1,088,243,306
Add:	
Cash held by City of Buffalo	9,786,959
Cash with fiscal agents	132,561,351
Cash – restricted	224,220,002
Total additions	366,568,312
Deduct:	
Due to City of Buffalo debt service fund	116,615,559
Joint School Construction Board bonds payable	1,183,170,000
Other long-term debt - EPC	2,499,095
Total deductions	1,302,284,654
Invested in capital assets, net of related debt	$ 152,526,964

SECTION C

SUPPLEMENTARY INFORMATION - FEDERAL FINANCIAL ASSISTANCE

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal CFDA#	Pass-Through Grantors Numbers	Disbursements/ Expenditures
NATIONAL ENDOWMENT FOR THE HUMANITIES:			
Passed through New York State:			
Grants to States	45.310	0070-11-0063	$ 4,976
U.S. DEPARTMENT OF AGRICULTURE:			
Direct programs:			
Summer Lunch	10.559	N/A	$ 1,201,740
Passed through State Department of Agriculture:			
Fresh Fruits & Vegetables	10.582	N/A	321,483
School Breakfast	10.553	N/A	5,878,886
School Lunch	10.555	N/A	11,637,323
School Snack	10.555	N/A	61,783
USDA Commodity Food Program	10.555	N/A	1,028,303
Total U.S. Department of Agriculture			20,129,518
U.S. DEPARTMENT OF EDUCATION:			
Direct Programs:			
JROTC Program	12.357	N/A	21,912
JROTC Program	12.357	N/A	576,366
Passed through State Department of Education:			
WIA Title II - Literacy Zone	84.002A	2338-10-0926	19,462
WIA Title II - Literacy Zone	84.002A	2338-11-0926	271,197
WIA Title II - ESOL	84.002A	0040-10-1004	3,332
WIA Title II - ESOL	84.002A	0040-11-1004	58,618
WIA Title II, Adult Basic Education	84.002A	2338-10-1006	3,574
WIA Title II, Adult Basic Education	84.002A	2338-11-1006	202,507
WIA Title II - Correction Education	84.002A	0138-10-0060	2,348
WIA Title II - Correction Education	84.002A	0138-11-0060	84,730
Title I - School Improvement	84.010 *	0011-10-2002	1,074,257
Title I - School Improvement	84.010 *	0011-11-2002	4,244
Title I - SIG #204, #205, #301	84.010 *	0011-11-5003	381,937
Title I Parts A & D	84.010A *	0021-08-0740	352
Title I Parts A & D	84.010A *	0021-09-0740	155
Title I Parts A & D	84.010A *	0021-10-0740	5,695,337
Title I Parts A & D	84.010A *	0021-11-0741	23,320,352
ELA Curriculum Audit Corrective Action	84.010 *	0011-10-0002	2,057,449
Title I LEP - ELL	84.010 *	0011-10-3052	96,395

See notes to Schedule of Expenditures of Federal Awards.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal CFDA#	Pass-Through Grantors Numbers	Disbursements/ Expenditures
EHA - PL 94-142 - IDEA Section 611	84.027A *	0032-10-0202	155,296
EHA - PL 94-142 - IDEA Section 611	84.027A *	0032-11-0202	12,203,819
Response to Intervention - IDEA	84.027A *	0031-10-5511	37,631
Response to Intervention - IDEA	84.027A *	0031-11-5511	45,378
S.E.T.R.C. - RSE - TASC	84.027A *	C010307	(673)
S.E.T.R.C. - RSE - TASC	84.027A *	C010307	347,706
Perkins Secondary Project	84.048A	8000-10-0075	24,092
Perkins Secondary Project	84.048A	8000-11-0075	680,193
Perkins VATEA Adult Project	84.048	8000-10-9002	13,421
Perkins VATEA Adult Project	84.048	8000-11-9002	496,031
Native American Project #19	84.060A	S060A091033	(1,253)
Native American Project #19	84.060A	S060A101033	213,532
EHA PL 99-457 - IDEA Section #619	84.173A *	0033-10-0202	16,745
EHA PL 99-457 - IDEA Section #619	84.173A *	0033-11-0202	556,473
Title IV Safe & Drug Free School	84.186A	0180-10-0740	86,604
Title IV Safe & Drug Free School	84.186A	0180-11-0740	25,660
Education of Homeless Children	84.196A	0212-10-0501	2,962
Education of Homeless Children	84.196A	0212-11-0501	41,820
Elementary & Secondary School Counseling	84.215E	Q215E090059	18,813
Elementary & Secondary School Counseling	84.215E	Q215E090059	354,287
Elementary & Secondary School Counseling	84.215E	Q215E090059	100,990
Partnership in Character Education	84.215S	Q215S060162-09	(57)
Teaching American History	84.215X	U215X080307	(1,410)
Teaching American History	84.215X	U215X080307	320,483
Title II Part D	84.318 *	0292-10-0740	87,915
Title II Part D	84.318X *	0292-11-0740	4,631
Special Education - State Personnel Development	84.323A	5291-11-0004	7,135
Professional Development for Arts Ed.	84.351C	U351C080039-09	140,637
Professional Development for Arts Ed.	84.351C	U351C080039-10	207,418
Reading First	84.357A	0243-10-0044	(1,121)
Improving Literacy through School Library	84.364A	S364A090078	77,414
Title III - LEP	84.365	0293-10-0740	95,795
Title III - LEP	84.365	0293-11-0740	472,820

See notes to Schedule of Expenditures of Federal Awards.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal CFDA#	Pass-Through Grantors Numbers	Disbursements/ Expenditures
Title III - Immigrant Funds	84.365	0149-10-0740	74,515
Title III - Immigrant Funds	84.365	0149-11-0740	176,401
Math & Science Partnership-Math	84.366B	0294-10-0118	29,756
Math & Science Partnership-Math	84.366B	0294-11-0213	255,161
Math & Science Partner - Science	84.336B	0294-10-0116	28,702
Math & Science Partner - Science	84.366B	0294-10-0207	348,226
Title II Part A	84.367	0147-08-0740	31
Title II Part A	84.367A	0147-10-0740	571,242
Title II Part A	84.367A	0147-11-0740	4,415,765
School Quality Review - #32	84.377A *	0123-10-0011	8,696
School Quality Review - #95	84.377A *	0123-09-0032	18
STEM/ELA/Leadership ACAD - Title I	84.377A *	0123-10-4052	2,036,215
STEM/ELA/Leadership ACAD - Title I	84.377A *	0123-11-4053	9,456
External Curriculm Audit - #18	84.377A *	0123-10-2104	26,015
Joint Intervention Team Grant	84.377A *	0123-10-3101	400,928
ARRA - Title II D	84.386A *	5291-11-0004	924,824
ARRA - Education for Homeless Children and Youth	84.387	5212-10-0501	(486)
ARRA - Education for Homeless Children and Youth	84.387	5212-11-0501	68,383
ARRA - School Improvement Grant	84.388A *	5123-11-0002	3,468,127
ARRA - Title I	84.389A *	5021-10-0740	2,782,847
ARRA - Title I	84.389A *	5021-11-0741	11,076,533
ARRA - IDEA Section 611	84.391A *	5032-10-0202	68,939
ARRA - IDEA Section 611	84.391A *	5032-11-0202	5,603,587
ARRA - IDEA Section 619	84.392A *	5033-10-0202	(870)
ARRA - IDEA Section 619	84.392A *	5033-11-0203	257,086
State Fiscal Stabilization Fund	84.394 *	5000-11-0740	9,446,966
ARRA - Teacher Resource and Computer Center Grant	84.397 *	5245-10-0010	594
Educational Resources Program	93.558	C020716	16,187
Educational Resources Program	93.558	C020716	16,194
Total U.S. Department of Education			92,815,749
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 112,950,243

* Denotes Major Program

See notes to Schedule of Expenditures of Federal Awards.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - BASIS OF PRESENTATION

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

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented.

Matching costs (the Board's share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

The amounts reported as federal expenditures were obtained from the Board's financial reporting system, which is the source of the Board's basic financial statements. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - PASS-THROUGH GRANTOR

With the exception of the summer lunch and JROTC programs, all 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 $3,388,507 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.

NOTE 5 - NON-MONETARY FEDERAL PROGRAM

The Board is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2011, the Board received $1,028,303 worth of commodities under the Surplus Food Distribution Program (CFDA 10.555).

SECTION D

INTERNAL CONTROL AND COMPLIANCE

Freed Maxick & Battaglia, CPAs, PC

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

To the Board of Education of
City of Buffalo, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education, City of Buffalo, New York (the Board), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 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

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board'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 entity'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 Board'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 Board of Education, City of Buffalo, New York in a separate letter dated October 17, 2011.

This report is intended solely for the information and use of the Board of Education, the Audit Committee, management, 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

Buffalo, New York
October 17, 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

To the Board of Education of
City of Buffalo, New York

Compliance

We have audited the compliance of the Board of Education, City of Buffalo, New York (the Board) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2011. The Board's major federal programs are 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 the Board's management. Our responsibility is to express an opinion on the Board'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 Board'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 Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Board 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 Board'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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board'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 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 Board of Education, Audit Committee, management, 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

Buffalo, New York
October 17, 2011

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report(s) issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____yes	X no
Noncompliance material to financial statements noted?	____yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____yes	X none reported
Type of auditor's opinion(s) 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	X no

Identification of major programs:	CFDA #
Title I Cluster	84.010/84.389
Special Education Cluster	84.027/84.173/84.391/84.392
State Fiscal Stabilization Fund Cluster	84.394/84.397
School Improvement Grants	84.377/84.388
Title II D	84.318/84.386

Dollar threshold used to distinguish between Type A and Type B Programs	3,388,507	
Auditee qualified as low risk?	X yes	____no

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

II. FINDINGS - FINANCIAL STATEMENT AUDIT

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards noted in the current year.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

I. FINDING - FINANCIAL STATEMENT AUDIT

There were no findings material to the financial statements noted in the prior year.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards noted in the prior year.

SECTION E

EXTRACLASSROOM ACTIVITY

Freed Maxick & Battaglia, CPAs, PC

Independent Auditor's Report on the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets of the Extraclassroom Activity Funds

To the Board of Education of
City of Buffalo, New York

We have audited the accompanying Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets of the Extraclassroom Activity Funds of the Board of Education, City of Buffalo, New York (the Board), as of and for the year ended June 30, 2011. The financial statement is the responsibility of the Board's management. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Insufficient accounting controls are exercised over cash receipts from the point of collection to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

In our opinion, except for the effects of any adjustments which might have resulted had the cash collections been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the recorded transactions of the Extraclassroom Activity Funds of the Board for the year ended June 30, 2011, arising from cash collected and disbursements made during the year then ended on the basis of accounting described in Note 1.

The Board's policy is to prepare the financial statements of the Extraclassroom Activity Funds on the basis of cash receipts and disbursements as explained in Note 1 to the financial statement. Accordingly, the accompanying Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets of the Extraclassroom Activity Funds is not intended to present financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
October 17, 2011

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS NET ASSETS OF THE
EXTRACLASSROOM ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

School	Balance June 30, 2010	Cash Receipts	Cash Disbursements	Balance June 30, 2011
3	$ 6,363	$ 13,763	$ 17,395	$ 2,731
6	6,883	16,054	18,106	4,831
17	9,022	6,572	5,636	9,958
18	4,526	7,751	7,031	5,246
19	10,219	10,205	11,006	9,418
27	30,551	25,043	31,656	23,938
30	4,335	25,238	24,595	4,978
31	(342)	20,359	19,351	666
32	8,276	79,479	65,077	22,678
33	3,221	12,042	12,332	2,931
37	37	12,622	13,654	(995)
39	5,796	36,887	32,275	10,408
42	4,016	27,071	25,236	5,851
43	6,585	39,378	36,538	9,425
45	18,054	50,160	55,414	12,800
53	2,762	8,227	8,281	2,708
54	16,574	21,592	25,844	12,322
56	7,786	29,956	34,714	3,028
59	2,110	27,095	24,875	4,330
61	495	5,607	5,192	910
64	721	31,440	29,784	2,377
65	6,505	23,653	26,300	3,858
66	8,765	18,312	20,559	6,518
67	11,961	41,319	47,759	5,521
69	1,001	9,709	7,580	3,130
Subtotal	$ 176,222	$ 599,534	$ 606,190	$ 169,566

See note to financial statement.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS NET ASSETS OF THE
EXTRACLASSROOM ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

School	Balance June 30, 2010	Cash Receipts	Cash Disbursements	Balance June 30, 2011
72	$ 4,783	$ 17,784	$ 18,529	$ 4,038
74	6,681	15,456	16,405	5,732
76	4,837	31,071	35,134	774
79	23,792	14,537	17,269	21,060
80	9,756	36,526	38,039	8,243
81	438	5,540	4,880	1,098
82	9,962	9,638	10,574	9,026
84	14,533	5,402	8,431	11,504
89	13,397	11,985	15,492	9,890
90	1,312	17,784	14,231	4,865
91	6,688	14,207	16,022	4,873
93	4,034	-	-	4,034
94	12,823	14,366	11,637	15,552
95	10,215	15,656	10,871	15,000
96	17,696	31,596	35,073	14,219
97	655	3,187	3,283	559
99	10,117	30,491	31,613	8,995
131	976	3,219	4,249	(54)
187	71,642	224,308	226,586	69,364
195	53,070	241,999	205,016	90,053
197	8,153	27,752	27,291	8,614
198	2,214	10,690	9,012	3,892
200	6,528	125,528	124,940	7,116
202	837	1,967	2,805	(1)
204	13,140	63,611	66,694	10,057
205	7,890	44,219	43,654	8,455
206	45,778	87,033	92,091	40,720
Subtotal	$ 361,947	$ 1,105,552	$ 1,089,821	$ 377,678

See note to financial statement.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS NET ASSETS OF THE
EXTRACLASSROOM ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

School	Balance June 30, 2010	Cash Receipts	Cash Disbursements	Balance June 30, 2011
212	$ 24,073	$ 121,093	$ 118,168	$ 26,998
301	6,856	40,982	33,433	14,405
302	24,727	46,592	43,942	27,377
304	59,146	156,757	159,651	56,252
305	48,845	77,620	92,574	33,891
307	10,559	55,438	57,456	8,541
415	16,634	44,348	43,748	17,234
Subtotal	190,840	542,830	548,972	184,698
Subtotal (1)	176,222	599,534	606,190	169,566
Subtotal (2)	361,947	1,105,552	1,089,821	377,678
Total	$ 729,009	$ 2,247,916	$ 2,244,983	$ 731,942

See note to financial statement.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
EXTRACLASSROOM ACTIVITY FUNDS
NOTE TO FINANCIAL STATEMENT

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The transactions of the Extraclassroom Activity Funds are not considered part of the reporting entity of the Board of Education, City of Buffalo, New York (the Board). Consequently, such transactions are included in the basic financial statements of the Board only to the extent that cash and a corresponding liability are recorded in the Agency Fund in the Board's Statement of Net Assets - Fiduciary Funds at June 30, 2011.

The books and records of the Board's Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting revenues are recognized when cash is received and expenditures are recognized when cash is disbursed.

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
EXTRACLASSROOM ACTIVITY FUNDS
SUMMARY OF AUDIT FINDINGS

CASH RECEIPTS

Based on our conversations with the Associate Auditor, we noted that student treasurers and advisors are not providing the Central Treasurer with documentation to support the amount of cash collected from fundraising activities. This deficiency has resulted in a qualification of our audit report.

Internal accounting control and control over undeposited cash collections could be strengthened if receipts for cash collections were issued at the point of sale and a preaudit of receipts was available for each major fundraiser.

Extraclassroom activity funds are derived from a number of sources such as admissions, sales and campaigns and donations. The procedures used in collecting and preauditing (checking) these several types of receipts will naturally vary. As far as possible, devices should be used which will make it possible to determine in advance the amounts which should be received.

To facilitate the preaudit and recording of receipts, statements should be prepared by those collecting money. Such statements should, on the face of them, give all the essential data for a complete check and audit of the receipts. A determination should be made as to whether the activity falls within the provision of the New York State Sales Tax Law, and an estimate should be obtained as to the amount of sales tax which will be collected. Such statements should enable those collecting money to prepare a complete report and verify the money turned over to the treasurer. In addition, they will afford protection for those handling funds, facilitate a check, and serve as documentary evidence, which can be used for accounting purposes. A preaudit of receipts should make only reasonable allowances for errors in making change.

We also noted instances where Central Treasurers were not providing receipts of the cash deposited with the Central Treasurer to the student treasurers. We suggest the Central Treasurers provide receipts to the student treasurers for all cash receipts deposited with the Central Treasurer.

ACTIVITY FUND MANAGEMENT

During our audit, we noted instances in which neither budgets for fund-raising events nor annual budgets for annual fundraising activities were prepared. The Board of Education has the ultimate responsibility for the safeguarding of the Extraclassroom Activity Fund. The Board delegates this responsibility to the Central Treasurer, the faculty advisors and the student treasurers.

Additionally, the only reconciliation of expected revenue to actual cash collected is performed by the internal audit staff after the school year is complete. Such reconciliations are performed on a random basis and not on a fundraiser-by-fundraiser basis, resulting in doubt about whether the cash deposit totals can be reasonably relied upon.

In order to help monitor the plans and operations of the various activities, we suggest that at the start of each school year the activity advisors and activity officers prepare a program outline indicating the various events to be held, the anticipated profits and the plans for the proceeds. A copy of the program outline should be submitted to the Building Principal, the Central Treasurer, and the Associate Auditor, so they can anticipate and approve the various events throughout the year.

As each event is completed, the program outline should be compared to the actual results. The profit and loss analysis should be filed with the activity records for future reference.

CASH DISBURSEMENTS

During our test of expenditures, we noted instances in which all the required signatures were not present on the payment order. We also noted instances where payments were made without an invoice.

We recommend the Central Treasurers refrain from issuing checks without a properly completed payment order that includes all required signatures and an original invoice.

STUDENT LEDGERS

During our testing, we noted that not all clubs maintained accounting records of cash receipts, disbursements and available cash independent of those maintained by the Central Treasurer. We also noted approximately 15 of 64 clubs did not submit updated information to the Board as of year-end in order to complete bank reconciliations.

We recommend each student treasurer maintain an independent accounting record of cash receipts, disbursements and available cash. We further recommend student accounting records be reconciled with those of the Central Treasurer and at least semi-annually. We recommend the Board obtain information from the clubs in order to prepare timely bank reconciliations.

DEFINITION

We noted that certain accounts included in the Board's Student Activity Funds are not in compliance with Section 172.1 of the Commissioner of Education Regulations governing Financial Accounting of Extra Classroom Activity Funds since these accounts do not represent activities conducted by students. These accounts are "Teacher's Supply," "Principal's Supply," "Postage," "Miscellaneous," and other "General Funds."

BOARD OF EDUCATION, CITY OF BUFFALO, NEW YORK
EXTRACLASSROOM ACTIVITY FUNDS
SUMMARY OF AUDIT FINDINGS
(Continued)

Section 172.1 of the Regulations of the Commissioner of Education on Financial Accounting of Extra Classroom Activity Funds defines activity funds as follows:

> An organization within a school district whose activities are conducted by and for the students and whose financial support is raised other than by taxation or through charges of the Board of Education.

The deposit of funds into the extraclassroom account shall consist only of monies received from the conduct, operation, or maintenance of extraclassroom activity (Regulation of the Commissioner of Education on Financial Accounting of Extra Classroom Activity Funds, Section 172.4).

We understand that these accounts are included with the Extraclassroom Activity Funds to assist improving internal control, to save on bank charges, and to streamline administrative requirements. However, we recommend that the Board review and evaluate these activities to determine if they meet the criteria of an extraclassroom activity.

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APPENDIX D

SUMMARY OF THE ACT

The Act and the Enabling Resolution contain various covenants and provisions, certain of which are summarized herein. Reference should be made to the Act and the Enabling Resolution for a full and complete statement of their provisions, including the definition of certain words and terms not defined herein.

Authorization for Fund (Section 3)

The City is authorized by the Enabling Resolution to establish and maintain with a Trustee a Capital Debt Service Fund for the purpose of paying Capital Debt Service. The Chief Fiscal Officer shall annually certify to the Collecting Officer and Trustee the amount of real property taxes to be deposited into the Fund at the time or times specified in the Enabling Resolution. Other Moneys may be deposited into the Fund. Amounts in the Fund shall be withdrawn by the Trustee for the purpose of paying Capital Debt Service.

Special Covenants to Secure Certain Obligations and Performance of the Act (Section 4)

At the discretion of the Common Council, the Enabling Resolution may contain certain covenants of the City to protect and safeguard the security and rights of Holders of Obligations issued and sold subject thereto and other Capital Debt Obligations outstanding. Such Enabling Resolution may contain covenants as to: (a) the establishment and maintenance of the Fund and its requirements; (b) the powers and duties of the Trustee; and (c) conditions which would give rise to an event of default.

Rights and Remedies of Holders of Certain Obligations (Section 5)

Holders of Obligations for the benefit of which the Fund is established shall have certain rights and remedies in addition to any rights and remedies under law, subject to the Enabling Resolution establishing said Fund. (See "Special Rights and Remedies".)

State Pledge and Agreement (Section 6)

The State pledges to and agrees with the Holders of Obligations benefited by the fund the performance of certain acts. (See "State Pledge.") The City is authorized and directed to include this pledge in the Enabling Resolution.

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APPENDIX E

SUMMARY OF ENABLING RESOLUTION

<u>Definitions (Section 101)</u>

Act means the act of the legislature of the State entitled "AN ACT in relation to certain financing by the City of Buffalo, to authorizing the establishment of a debt service fund, to prescribing and limiting powers and procedures with respect to such fund, and to providing for the rights of holders of certain obligations of such city", approved March 8, 1977 and constituting Chapter 12 of the Laws of 1977 of the State;

Capital Debt Obligations means serial bonds, bond anticipation notes and capital notes;

Capital Debt Service means with respect to a fiscal year (a) all principal due or becoming due in said year on any serial bonds and capital notes, (b) all amounts appropriated for principal amortization for said year on bond anticipation notes and (c) all interest due or becoming due for said year on serial bonds, capital notes and bond anticipation notes;

Capital Debt Service Fund or Fund means the fund so entitled which is held by the Trustee and is described and provided for in the Resolution;

Capital Debt Service Requirement means the amount of Capital Debt Service on Obligations in a fiscal year;

Chief Fiscal Officer means the comptroller of the City or such other officer of the City who may hereafter be designated chief fiscal officer of the City;

City means the City of Buffalo;

City Taxes means and includes all taxes on real property levied and assessed by the City based on valuation thereof, and shall not mean any rent, rate, fee, special assessment or other charge based on benefit or use;

Collecting Officer means the treasurer of the City and any other official empowered to demand, collect and receive City Taxes;

Collection Period means a length of time during which City Taxes are received by the Collecting Officer;

Common Council means the common council of the City;

First Collection Period means the Collection Period commencing on the first day of July and ending on and including the last day of November;

Holder or Holders means any person who shall be the bearer of an Obligation or Obligations registered to bearer or not registered, or the registered owner of any Obligation or Obligations which shall at the time be registered other than to bearer;

Investment Securities means any investment authorized pursuant to paragraph b of section one hundred sixty-five of the local finance law, except an investment in any obligation of any political subdivision of the State; provided such investment shall be payable or redeemable within such times as the proceeds thereof shall be needed to make payments from the Fund;

Obligation or Obligations means and includes all Capital Debt Obligations issued and sold subject to the Resolution and all Outstanding Capital Debt Obligations and any coupons appurtenant thereto;

Other Capital Debt Redemption Sources means all or part of the proceeds of Capital Debt Obligations issued, or other funds received, which are to be applied to payment of Capital Debt Service;

Other Moneys means and includes (a) accrued interest received at the time of delivery of any Obligation or Obligations; (b) the proceeds of any Obligation or Obligations no longer required for the object or purpose for which such Obligation or Obligations are issued; (c) investment earnings and capital gains on any Obligation or Obligations; (d) rents, rates, fees, special assessments or other charges based on benefit or use; (e) Other Capital Debt Redemption Sources; (f) funds received by the City which are required by law to be expended only for the payment of Capital Debt Service on an Obligation or Obligations; and (g) any other revenue received by the City, whether or not required by law to be expended for payment of Capital Debt Service on any Obligation or Obligations, which the Chief Fiscal Officer determines to so expend;

Outstanding Capital Debt Obligations means serial bonds, capital notes and bond anticipation notes outstanding on the date Capital Debt obligations are issued and sold subject to the Resolution;

Resolution means this resolution as the same may from time to time be amended or supplemented;

Second Collection Period means the Collection Period commencing on the first day of December and ending on and including the last day of June;

State means the State of New York; and

Trustee means any trust company or bank having the power of a trust company in the State, appointed by the City in the manner set forth in the Resolution, and any successor trust company or bank having the powers of a trust company in the State which may be substituted in its place pursuant to the Resolution.

Establishment of Capital Debt Service Fund (Section 201)

The City establishes a special fund to be known as the Capital Debt Service Fund (Fund) for the purpose of paying Capital Debt Service on Obligations for the benefit of Holders of Obligations; such Fund to be held, by and maintained with the Trustee. The City covenants with the Trustee and Holders of Obligations that it will comply in all respects with the provisions of the Act and the Resolution, that it will duly and punctually pay or cause to be paid Capital Debt Service on such Obligations, and that it will maintain the Fund with the trustee, and will operate the Fund in the manner set forth in the Resolution.

Operation of the Fund (Section 202)

On or before the first day of each fiscal year commencing hereafter, the Chief Fiscal Officer shall prepare and deliver to the Trustee and to the Collecting Officer, a certificate setting forth: (a) the Capital Debt Service Requirement for such fiscal year, (b) the portions of such Capital Debt Service Requirement allocated to each Collection Period, being July 1 through December 31, for the First Collection Period and January 1 through June 30 for the Second Collection Period, (c) a schedule of the amounts of Capital Debt Service Requirement allocated to each Collection Period and the date or dates when and place or places where such amounts are due and payable, and (d) the amount to be deposited in the Fund during each Collection Period, which amount shall equal the portion of the Capital Debt Service Requirement allocated to such period.

Commencing on the first day of each Collection Period, the Collecting Officer shall deposit real property tax collections in the Fund, until the amount so deposited equals the Capital Debt Service Requirement allocated to such period. At any time, Other Moneys shall be deposited in the Fund. When the amount deposited in the Fund equals the unpaid Capital Debt Service Requirement allocated to such period and any prior period, no further real property taxes shall thereafter be deposited in the Fund during such period. If at any time during a Collection Period the amount in the Fund exceeds the unpaid amount of Capital Debt Service Requirement allocated to such period and any other prior period, such excess may be returned to the City in the manner set forth in Section 304.

The Chief Fiscal Officer's certificate shall be amended in order to provide for the payment of Capital Debt Service on Obligations issued after the commencement of the fiscal year for which such certificate was prepared, and such certificate as amended shall show the change in the amount to be deposited in the Fund.

Covenant as to City Tax Collection Procedure (Section 203)

The City covenants with the Trustee and the Holders of Obligations that it will not adopt a new tax collection procedure which in any manner shall provide insufficient City Taxes to timely pay portions of a Capital Debt Service Requirement allocated to any Collection Period as such portions and periods may be determined pursuant to the amended Resolution.

Negative Pledge (Section 204)

The City will not issue any Capital Debt Obligations other than Capital Debt Obligations issued and sold subject to the Resolution or any other forms of indebtedness and execute other contracts secured by a pledge of the revenues, moneys and securities in or payable to the Fund, and will not create or cause to be created any lien or charge upon the revenues, moneys and securities in or payable to the Fund.

Accounts, Reports and Certificates (Section 205)

The City covenants that it will keep, or cause to be kept, proper books of record in which complete and accurate entries shall be made of all transactions relating to the Fund. The City shall cause such books of record to be audited annually by one or more certified public accountants duly licensed by the State, and such audit shall be filed by the City with the Trustee.

Issuance and Sale of Capital Debt Obligations (Section 206)

All Capital Debt Obligations shall hereafter be issued and sold subject to the Resolution, unless the Common Council shall determine by resolution adopted by two-thirds of all the members of such Council and approved by the Mayor that a particular issue of Capital Debt obligations shall not be issued and sold subject to the Resolution, and such resolution shall be filed with the Trustee.

Moneys in the Fund (Section 302, 303 and 304)

The Trustee shall hold all moneys deposited in the Fund for the benefit of Holders of Obligations, and shall withdraw all amounts as may be necessary to pay the Capital Debt Service Requirement. Pending such withdrawals, moneys in the Fund may be invested in Investment Securities. If at any time during a Collection Period the amounts in the Fund exceed the unpaid amount of the Capital Debt Service Requirement allocated to such Collection Period and any prior Collection Period, the Chief Fiscal Officer may request the Trustee to, and the Trustee shall, pay over to the Chief Fiscal Officer the amount of such excess for use by the City in the manner provided by Law.

Resignation and Removal of Trustee (Section 310, 311 and 312)

The Trustee may resign by giving written and publication notice, and may be removed by the City or the holders of a majority in principal amount of Obligations outstanding provided at the time of any such removal or resignation a successor Trustee shall be appointed. A successor Trustee may be appointed by the City or the Holders of a majority in principal amount of Obligations outstanding, and any successor Trustee appointed by Holders shall supersede a successor Trustee appointed by the City.

Remedies and Abrogation of Right to Appoint Trustee (Sections 401 and 404)

The Holders shall be entitled to the benefits and be subject to the provision of Section 5 of the Act. (See "Summary of the Act.") The powers provided by said Section 5 are conferred on the Trustee, and the right or privilege of the Holders of any Obligations to be issued and sold subject to the Resolution hereafter to appoint a different Trustee is abrogated.

Events of Default (Section 402)

Each of the following constitutes an event of default under the Resolution: (1) default by the City in the payment of principal or interest on any Obligation, whether at maturity or upon call for redemption, which default shall continue for a period of thirty days; or (2) failure or refusal by the City to maintain the Fund and the covenants with respect thereto which continues for a period of 45 days after written notice of such default to the City by the Trustee or the Holders of five per cent of the principal amount of Obligations outstanding; or (3) filing by the City of a petition seeking a composition of indebtedness under any applicable law or statute of the United States of America or of the State or seeking by the City of application of laws then in effect under the bankruptcy provision of the United States Constitution.

Enforcement by Trustee (Section 403)

Upon the happening and continuance of any event of default the Trustee may, and upon the written request of the Holders of twenty-five percent in principal amount of Obligations outstanding shall, exercise all or any of the powers of any such Holders set forth below and in addition (a) bring suit for any principal or interest then due with respect to such Obligations; (b) by mandamus or other suit, action or proceeding at law or in equity enforce all rights of the Holders of such Obligations, including any right to require the City to carry out the provisions of any contract with the Holders and to perform its duties thereunder; (c) bring suit upon such Obligations; and (d) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of such Holders.

Enforcement by Holders (Section 405)

Any Holder of an Obligation at any time outstanding, whether or not then due and payable or reduced to judgment and either on his own behalf or on behalf of all persons similarly situated, may (a) by mandamus, original or ancillary, mandatory or other injunction, or any other order, process or decree, or by any other suit, action or proceeding at law or in equity, enforce all contractual or other rights of such Holder or Holders, including any right to require the City to carry out the provisions of any contract with such Holder or Holders and to perform its duties thereunder; and (b) by action, suit or other proceeding, enjoin any acts or things which may be unlawful or in violation of the rights of such Holder or Holders.

Restriction on Action by Holders (Section 406)

No Holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Resolution or for any other remedy hereunder, unless either (a) such Holder previously shall have given to the City and the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted requesting the Trustee to institute such suit, action or proceeding, and the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (b) such Holder previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and such suit, action or proceeding is brought for the ratable benefit of all Holders of Obligations.

Limitation on Powers of Trustee (Section 407)

Nothing in this Resolution contained shall be deemed to give power to the Trustee either as such or as attorney-in-fact of the Holders of Obligations to vote the claims of such Holders in any bankruptcy proceeding or to accept or consent to any plan of reorganization, readjustment, arrangement or composition or other like plan, or any other action of any character to waive or change any right of any such Holder or to give consent on behalf of any such Holder to any modification or amendment of the Resolution requiring such consent pursuant to the provisions of the Resolution.

Right to Enforce Payment of Obligations Unimpaired (Section 408)

Nothing in the Resolution contained shall affect or impair the right of the Holder of any Obligation to enforce payment of the principal of and interest on his Obligation, or the duty of the City to pay the principal of and interest on such Obligation to the Holder thereof at the time and place or places set forth in said Obligation.

Powers of Amendment (Sections 502 and 503)

Any modification or amendment of the Resolution and of the rights and obligations of the City and of the Holders of Obligations may be made by written consent of the Holder of at least two-thirds in principal amount of the Obligations outstanding at the time such consent is given; provided, however, that no such modification or amendment shall permit a change in the terms of redemption or maturity or the principal of any Obligation outstanding or of any installment of interest thereon or a reduction in the principal amount or the redemption price, if any, thereof or the rate of interest thereon, or the requirements for the discharge and satisfaction of the obligations of the City without the consent of the Holders of such Obligations, or shall reduce the percentage or otherwise affect the description of Obligations the consent of the Holders of which is required to effect such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without the filing with the Trustee of its written assent thereto.

Amendments Not Requiring Consent of Holders (Section 506)

The Resolution may be amended for any of the following purposes without consent of Holders: (1) to add to the covenants or agreements to be observed by the City; (2) to add to the limitations or restrictions to be observed by the City; (3) to surrender any right, power or privilege reserved to or conferred upon the City by the Resolution; (4) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; (5) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution; and (6) to effect any change in the operation of the Fund necessitated by any change or alteration in the procedure for collection of City Taxes.

Defeasance (Section 602)

The covenants, agreement and other obligations of the City to the Holders shall be discharged and shall be of no further force and effect if any time during a Collection Period: (a) there is on deposit in the Fund sufficient money or direct obligations of the United States of America or of the State, the principal of and interest on which will provide moneys to pay the unpaid amount of the Capital Debt Service Requirement of such Collection Period and any prior Collection Period as well as all the principal of and interest due or to become due on all Capital Debt Obligations issued and sold subject to the Resolution, (b) irrevocable instructions from the City to the Trustee for such payment on all Capital Debt Obligations issued and sold subject to the Resolution have been given, and (c) notice to the Holders of Obligations of the provisions for payment made herein has been given.

Regulations Regarding Investment of the Fund (Section 605)

Investment Securities purchased as an investment of moneys in the Fund shall be deemed at all times to be part of the Fund, and the interest thereon and any profit arising on the sale thereof shall be credited to the Fund, any loss resulting on the sale thereof shall be charged to the Fund. In computing the amount in the Fund for any purpose hereunder, such Investment Securities shall be valued at the lower of cost or market price thereof, exclusive of accrued interest.

APPENDIX F

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series D Bonds maturing on December 1 of the years 2018 through 2023, inclusive and on the Series E Bonds maturing February 1 of the years 2018 through 2024, inclusive (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM’s financial strength is rated “AA-” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 20, 2012, Moody’s issued a press release stating that it had placed AGM’s “Aa3” insurance financial strength rating on review for possible downgrade. AGM can give no assurance as to any further ratings action that Moody’s may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody’s comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM’s financial strength rating from “AA+” to “AA-“. At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, and its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012.

Capitalization of AGM

At June 30, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,169,404,271 and its total net unearned premium reserve was approximately $2,204,572,593, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, for the quarterly period ended March 31, 2012, and for the quarterly period ended June 30, 2012, which have been filed with the New York State Department of Financial Services and posted on AGL's website at http://www.assuredguaranty.com, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (filed by AGL with the SEC on May 10, 2012); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (filed by AGL with the SEC on August 9, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured bonds offered under this Official Statement and may hold such Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

Form 500NY (5/90)

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CITY OF BUFFALO, NEW YORK • SCHOOL REFUNDING BONDS – 2012D AND 2012E

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