

CITY OF BUFFALO
URBAN RENEWAL AGENCY

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012
WITH
INDEPENDENT AUDITORS' REPORT

**CITY OF BUFFALO URBAN RENEWAL AGENCY
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JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To Mark J.F. Schroder
Comptroller of the City of Buffalo
Buffalo, New York

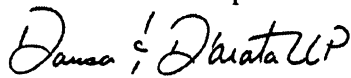
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency ("BURA"), a component unit of the City of Buffalo, as of and for the year ended June 30, 2012, which collectively comprise BURA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buffalo Urban Renewal Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2012, on our consideration of BURA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


November 12, 2012

CITY OF BUFFALO URBAN RENEWAL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Buffalo Urban Renewal Agency ("BURA" or "the agency") is a public benefit corporation that was formed by an act of the New York State Legislature in 1966. Its corporate purpose includes the general planning and operation of a range of urban renewal programs designed to prevent or eliminate blight and enhance economic development in the City of Buffalo, New York ("the City"). Since 1966 BURA has administered various Federal, state and local grant programs to accomplish these objectives, on behalf of the City. BURA is considered a *component unit* of the City of Buffalo and its financial transactions will be incorporated into the financial statements of the City of Buffalo.

BURA's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of BURA's financial activity, identify changes in BURA's financial position (its ability to address the next and subsequent years' challenges), and identify any individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with BURA's financial statements that follow.

Financial Highlights

- At June 30, 2012, BURA's net assets totaled (\$235,220) and are comprised of (\$235,220) in governmental net assets and \$0 in business-type activities.
- Net assets of BURA's governmental activities decreased by \$3,701,245 which resulted from ongoing activities and GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 45). See further explanation of this statement later in Management's Discussion and Analysis.
- The general fund (which is used only to account for non-grant activity) has a fund balance of \$3,030,956 including long-term receivables of \$1,133,587, and unrestricted assets of \$3,030,956.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 14 - 15) provide information about BURA's activities as a whole and present a longer-term view of BURA's finances. Fund financial statements start on page 16. For governmental activities, the fund financial statements tell how these services were financed in the short term. Fund financial statements also report BURA's operations in more detail than the component unit-wide financial statements by providing information about BURA's most significant funds.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Reporting on BURA as a Whole
Component Unit-Wide Financial Statements**

The component unit-wide financial statements are designed to provide for a long-term view and to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the agency. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The focus of the Statement of Net Assets (the Unrestricted Net Assets) is designed to be similar to a bottom line for BURA and its governmental and business-type activities. This statement combines and consolidates the governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

These two statements report BURA's net assets and changes in them. You can think of BURA's net assets – the difference between assets and liabilities – as one way to measure BURA's financial health, or financial position. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, we portray BURA's activities as two kinds of activities:

- ***Governmental Activities*** – Most of BURA's major activities, consisting of various economic and neighborhood development projects, are reported here. These are primarily funded by certain Federal, state and local grants to the City of Buffalo, which are administered by BURA. Program income generated by the grant programs is another source of the revenues used to pay for such projects.
- ***Business-Type Activities*** – reflect the activities that are carried on in a fashion similar to private sector type operations, where the fee for service typically covers all or most of the cost of operations, including depreciation. During the year ended June 30, 2004, BURA's City Centre parking ramp, the last of its business-type assets, was sold to a private party. Such assets had previously generated the fee for services that funded the operation of these projects. Upon elimination of the assets, the activities ceased and the projects were closed.

At June 30, 2012 BURA had no remaining business-type activities.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Reporting on BURA's Most Significant Funds
Fund Financial Statements**

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. This presentation is similar to that used for BURA financial statements in prior years, except that the focus is now on major funds, rather than fund types.

Our analysis of BURA's major funds begins on page 9. The fund financial statements provide detailed information about the most significant funds, not about BURA as a whole. BURA currently has only one kind of fund – *governmental*.

- ***Governmental Funds*** – All of BURA's activities and expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances that are left at year-end and available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of BURA's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance BURA's programs. We describe the relationship and differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- ***Proprietary Funds*** – When BURA charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported under the accrual basis of accounting – the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

At June 30, 2012, BURA had no proprietary funds.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

BURA as a Whole

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets as of June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Current and					
Other Assets	\$ 18,036,564	\$ 17,930,645	\$ -	\$ -	\$ 18,036,564	\$ 17,930,645
Capital Assets	10,304,867	10,628,263	-	-	10,304,867	10,628,263
Total Assets	28,341,431	28,558,908	-	-	28,341,431	28,558,908
Other						
Liabilities	11,806,341	9,410,946	-	-	11,806,341	9,410,946
Long-Term						
Debt	7,290,000	8,555,000	-	-	7,290,000	8,555,000
OPEB						
Liability	9,480,310	7,126,937	-	-	9,480,310	7,126,937
Total						
Liabilities	28,576,651	25,092,883	-	-	28,576,651	25,092,883
Net Assets:						
Invested in						
Capital Assets	10,304,867	10,628,263	-	-	10,304,867	10,628,263
Restricted	-	-	-	-	-	-
Unrestricted						
(Deficit)	(10,540,087)	(7,162,238)	-	-	(10,540,087)	(7,162,238)
Total Net						
Assets	\$ (235,220)	\$ 3,466,025	\$ -	\$ -	\$ (235,220)	\$ 3,466,025

At June 30, 2008, BURA implemented the requirements of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires that BURA include the costs of providing health care benefits to its retirees as a current cost of compensation for employee services. Under this statement, OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statement of those funds. During the year ended June 30, 2008, BURA opted to implement this statement prospectively.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Statement of Net Assets - Continued

Recognition of the liability accumulated from prior years will be amortized over 30 years, commencing with the 2008 liability. A total of \$9,480,310 is recorded as the OPEB liability in the Statement of Net Assets at June 30, 2012.

The unreserved deficit in BURA's governmental activities of \$10,540,087 is primarily due to the recognition of \$7.29 million in long-term debt from loans borrowed under the Federal Section 108 Loan Program, recognition of \$9,480,310 of OPEB Liability, and a \$1,119,204 loss in the non-Federal program due to sales of 11 houses in the Sycamore Village. At June 30, 2012, long-term debt was \$7,290,000.

BURA uses current Community Development Block Grant ("CDBG") grant funds to repay those loans borrowed directly by BURA as they come due. Under the program regulations, Section 108 loans are in fact guaranteed by the annual CDBG grant allocation – CDBG allocations will be reduced by any unpaid Section 108 loan payments. CDBG is a Federal entitlement program, which means it is an established grant that is paid under a formula prescribed in the grant regulations. Accordingly, BURA expects that such funds will be received annually by the City, into the long-term future and these loans will be paid when due.

Statement of Activities

The following table reflects the changes in net assets for the years ended June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Total Component Unit	
	2012	2011	2012	2011	2012	2011
Revenues						
Federal Grants	\$47,231,316	\$58,910,251	\$ -	\$ -	\$47,231,316	\$58,910,251
Repayment of Program Loans	267,419	894,932	-	-	267,419	894,932
Sales of Real Estate	224,000	489,085	-	-	224,000	489,085
Rental Income	287,801	281,241	-	-	287,801	281,241
Interest Income	768,352	510,884	-	-	768,352	510,884
Other Income	1,592,980	3,337,963	-	-	1,592,980	3,337,963
	\$50,371,868	\$64,424,356	\$ -	\$ -	\$50,371,868	\$64,424,356

(Continued)

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

	Governmental Activities		Business-Type Activities		Total Component Unit	
	2012	2011	2012	2011	2012	2011
Expenses						
Acquisition of Real Property	\$ -	\$ (2,262)	\$ -	\$ -	\$ -	\$ (2,262)
Public Facilities and Site Improvements	3,188,515	3,866,006	-	-	3,188,515	3,866,006
Clearance Activities	5,299,214	3,920,301	-	-	5,299,214	3,920,301
Public Services and Human Service Programs	33,765,957	45,500,947	-	-	33,765,957	45,500,947
Rehabilitation and Preservation Activities, Including Grants and Loans	1,878,187	3,894,478	-	-	1,878,187	3,894,478
Economic Development Activities including Grants and Loans	1,565,401	381,862	-	-	1,565,401	381,862
Interest on Debt	695,142	488,504	-	-	695,142	488,504
Code Enforcement	84,919	-	-	-	84,919	-
Planning, Management & Administration	3,977,405	3,921,325	-	-	3,977,405	3,921,325
Principal Payments of Long-Term Debt	1,265,000	1,255,000	-	-	1,265,000	1,255,000
OPEB Expense	2,353,373	2,416,338	-	-	2,353,373	2,416,338
	<u>54,073,113</u>	<u>65,642,499</u>	<u>-</u>	<u>-</u>	<u>54,073,113</u>	<u>65,642,499</u>
Excess/(Deficiency) of Revenues over Expenses before Transfers in/(out)	(3,701,245)	(1,218,143)	-	-	(3,701,245)	(1,218,143)
Transfers in/(out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase/(Decrease) in Net Assets	<u>\$ (3,701,245)</u>	<u>\$ (1,218,143)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,701,245)</u>	<u>\$ (1,218,143)</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Capital Assets

As of June 30, 2012, BURA had capital assets of \$16,004,739, as detailed in the table below.

BURA's capital assets at June 30, 2012 and 2011 are detailed below.

	Governmental Activities		Business-Type Activities		Totals	
	June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011
Land	\$ 380,370	\$ 380,370	\$ -	\$ -	\$ 380,370	\$ 380,370
Parks	204,809	204,809	-	-	204,809	204,809
Buildings	14,706,007	14,706,007	-	-	14,706,007	14,706,007
Furniture/ Fixtures	75,868	75,868	-	-	75,868	75,868
Equipment	532,127	532,127	-	-	532,127	532,127
Vehicles	105,558	105,558	-	-	105,558	105,558
	<u>\$ 16,004,739</u>	<u>\$ 16,004,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,004,739</u>	<u>\$ 16,004,739</u>

BURA does not own infrastructure assets like roads, bridges or sewers. The most significant capital assets owned by BURA include two buildings – the Market Arcade Building and the William Street Incubator Facility.

Debt

At the end of the June 30, 2012 fiscal year, BURA had \$8,555,000 in loans outstanding versus \$9,665,000 for the prior year, a decrease of \$1,110,000 or 11%, as shown on the next page.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

	Governmental Activities		Business-Type Activities		Totals	
	June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011
Section 108 Loans -						
Due from						
Developers	\$ 4,805,000	\$ 5,465,000	\$ -	\$ -	\$ 4,805,000	\$ 5,465,000
BURA Debt	3,750,000	4,200,000	-	-	3,750,000	4,200,000
	<u>\$ 8,555,000</u>	<u>\$ 9,665,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,555,000</u>	<u>\$ 9,665,000</u>

BURA continues to collect and remit payments from loan recipients under the Section 108 Loan program, and to make payments on its own loans and on behalf of insolvent recipients. BURA's Section 108 Loan Program decreased from the prior year by \$1,110,000. Of the remaining Section 108 loan principal due, \$3.75 million is to be repaid by BURA and the remaining \$4.8 million is due from developers. The terms of the loans vary and are spread over the next ten years.

The \$6,000,000 debt to Fannie Mae provided funds for a housing development loan that has been targeted to a revitalization project in downtown Buffalo and a new mixed-income housing development just east of downtown. BURA was scheduled to repay the loan at the rate of \$1.2 million per year from the annual CDBG allocation beginning in the grant year ended April 30, 2007, and all \$6,000,000 has been paid as of June 30, 2012.

As of June 30, 2012, BURA has no business-type activity debt as all such projects were closed.

BURA's Funds

Business-Type Activities

BURA did not conduct business-type activities during the year ended June 30, 2012.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Governmental Activities

BURA's major funds consist of its most significant grant programs based on dollars received and expended during the fiscal year. Non major grant programs are aggregated and presented in a single column. Although BURA has a general fund, which is reported as a major fund, the general fund has no significant independent means of revenue and is limited to amounts remaining from prior grant funds or other closed out funds.

Revenues for BURA's governmental activities decreased by \$14,052,488 or 21.81%. A significant portion of this decrease corresponds to a reduction in grant expenditures incurred during the year.

During the year ended June 30, 2012, the unreserved fund balance for governmental activities decreased by \$3,701,245 (from \$3,466,025 to \$(235,220)). This decrease is attributable to OPEB expenses and decrease of encumbrance.

Grant Highlights

BURA's main sources of revenue for governmental activities are grant funds provided to the City of Buffalo by the United States Department of Housing and Urban Development. Grant funds are awarded annually. The grant periods begin May 1 of each year and most BURA grants generally do not expire until funds are expended. Certain grants do have statutory terms, which require the use of funds within a specified time period. The HOME regulations require that funds be expended within five years of the date of the award; similarly, ESG and HOPWA grants have two and three year grant periods, respectively.

The following grant awards were recently provided by the United States Department of Housing and Urban Development.

	For Grant Program Year Beginning May 1,				
	2012	2011	2010	2009	2008
Community Development					
Block Grant	\$ 13,319,409	\$ 14,540,753	\$ 17,409,073	\$ 16,091,522	\$ 15,877,280
HOME Investment					
Partnerships	2,772,819	4,476,638	5,073,088	5,081,876	4,575,151
American Dream					
Down Payment Initiative	-	-	-	-	24,536
Emergency Shelter Grant	1,259,191	705,316	705,483	706,910	711,365
Housing Opportunities for Persons with AIDS	550,703	567,151	565,329	521,962	507,000
	<u>\$ 17,902,122</u>	<u>\$ 20,289,858</u>	<u>\$ 23,752,973</u>	<u>\$ 22,402,270</u>	<u>\$ 21,695,332</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Grant Highlights - Continued

As evident from the table shown on page 10, there is a \$2,387,736 decrease in grant funds from the prior year. A major contributing factor to the grant reduction was an overall decline in funding for the program by the Congress.

There has been a substantial reduction to CDBG funding from 2005 through 2008 and in the 2011 and 2012 program years. These reductions are attributable to, a decline in the city's share of total funds available nationwide because of city population declines and an increase in the number of cities which qualify for the grant program and declining federal appropriations.

From time to time, BURA is the recipient of other grants from Federal, state and local authorities.

BURA received several one-time grants in previous fiscal years that have varying close-out dates:

- \$4,311,494 for the Community Development Block Grant – Recovery program was awarded to the City on August 14, 2009.
- \$6,594,081 for the Emergency Shelter Grant for Homeless Prevention and Rapid Re-Housing Program was awarded by HUD on August 13, 2009. BURA applied for and was awarded \$1,552,000 of Block-by-Block Grant funds from the NYS Affordable Housing Corp. (“AHC”). This grant consists of \$400,000 of AHC Subsidy funds for Acquisition Rehab and \$1,152,000 for Home Improvement. The grant was awarded on July 22, 2008.
- BURA applied for and was awarded a Neighborhood Stabilization Grant of \$2,635,019 and awarded this grant on April, 14, 2009. This is a fixed 45-month grant that was a joint application with the Town of Cheektowaga. Funding is provided with demolition, housing rehabilitation and a pilot land bank.

Grant funds administered by BURA are restricted to uses prescribed in grant regulations and in BURA's grant applications. They are not available to meet the general obligations of the City of Buffalo.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Economic Factors and Next Year's Grant Information

BURA is in the process of entering into formal subrecipient agreements with the City of Buffalo (City), as a result of a mandate issued by the U. S. Department of Housing and Urban Development (HUD) which requires entitlement funds be received directly by the City of Buffalo for the 2012 federal grant year. The 2012 federal grant year began May 1, 2012. The subrecipient agreements are contracts with the City which allows BURA to administer and provide program delivery services for CDBG and Home projects.

The major focus of BURA's grant efforts in the coming year will center on the implementation of the City of Buffalo's Neighborhood and Business Development initiatives, which seek to develop communities, enhance neighborhoods and encourage private enterprise.

The City of Buffalo has implemented a Targeted Approach for neighborhood preservation and conservation. The Office of Strategic Planning has identified specific communities throughout the City that conform to the preservation and conservation objectives stated in its Consolidated Plan. Furthermore, these communities conform to the HUD guidelines for use of Community Development Block Grant dollars and other government funds.

The identified targeted areas include a HUD-approved Neighborhood Revitalization Program in the Mid-City area between Main Street and the Kensington Expressway, north of Best Street. It also includes 13 "Comprehensive Code Enforcement Areas" ("CCE") in designated neighborhoods. The CCE area neighborhoods include: Black Rock, Broadway Fillmore, Cazenovia Park, Seneca/Triangle, Grant Ferry, Lakeview, Leroy, Masten Park/Cold Springs, Medical Park ("Fruitbelt"), Schiller Park, and Willert Park (Home Ownership Zone – "HOZO").

The City recognizes the complexity of a comprehensive encompassing program and realizes completion can only occur through a phased approach. Projects will build upon the area's current assets and previous investments. Some areas require a long-term planned approach with an emphasis on smart growth concepts. The program will be comprehensive in nature dealing with quality of life issues such as city infrastructure (streets, curbs, sidewalks, trees), commercial stabilization and revitalization, housing conditions (deterioration, rehabilitation, new construction, demolition, vacant land) and community services.

With Federal assistance for code enforcement inspection, the City has created a targeted owner-occupied housing rehabilitation program. In its first year of operation, several streets were identified in each CCE area and inspectors visited each house to assess conditions and issue violation notices where needed. At the same time, Federal grant dollars were offered to homeowners to assist in making the required repairs. This effort will continue in the next fiscal year adding more streets adjacent to those previously selected.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Economic Factors and Next Year's Grant Information

The administration continues to develop programs that support the maintenance and rehabilitation of existing owner-occupied homes while attracting new residents to the City. Implementing mixed-use neighborhood development projects that build market rate homes in market competitive segments of the housing market is a priority that demonstrates this. The City will also leverage non-government funding in conjunction with overall goals and objectives. For example, in 2006 the Mayor began his "Move Back to Buffalo" program that offers down payment and closing cost assistance to certain city employees who purchase a home in the City.

Contacting BURA's Financial Management

This financial report is designed to provide the citizens, taxpayers and elected officials of the City of Buffalo with a general overview of the Buffalo Urban Renewal Agency's finances and to show BURA's accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact the Office of Strategic Planning, Room 214 City Hall, Buffalo, New York 14202.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents (Note 7)	\$ 2,687,624
Receivables, Net	
Due Within One Year	9,486,972
Due in More Than One Year	4,050,000
Due from City of Buffalo (Note 3)	328,386
Due from Other Governmental Units	531,164
Construction in Progress (Note 10)	247,561
Real Estate Acquired for Resale, at Cost	704,857
Capital Assets:	
Land and Land Improvements	380,370
Other Capital Assets, Net of Accumulated Depreciation	<u>9,924,497</u>
Total Capital Assets	<u>10,304,867</u>
Total Assets	<u>\$ 28,341,431</u>
Liabilities	
Accounts Payable and Accrued Expenses	\$ 7,344,630
Due to Federal Government	311,636
Deferred Grant Revenue	2,825,721
Other	59,354
Long-Term Liabilities	
Due Within One Year	1,265,000
Due in More than One Year	7,290,000
Other Non Current Liabilities	
OPEB Liability (Note 5)	<u>9,480,310</u>
Total Liabilities	28,576,651
Net Assets	
Invested in Capital Assets	10,304,867
Unrestricted / (Deficit)	<u>(10,540,087)</u>
Change in Net Asset	
Total Net Assets	<u>(235,220)</u>
Total Liabilities and Net Assets	<u>\$ 28,341,431</u>

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Community Development	\$ 54,073,113	\$ 50,371,868	\$ -	\$ (3,701,245)
Total Governmental Activities (Note 1)	54,073,113	50,371,868	-	(3,701,245)
Business-Type Activities:	-	-	-	-
Total Business-Type Activities	-	-	-	-
	<u>\$ 54,073,113</u>	<u>\$ 50,371,868</u>	<u>\$ -</u>	(3,701,245)
Net Assets - Beginning				<u>3,466,025</u>
Net Assets - Ending				<u>\$ (235,220)</u>

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds							Total Governmental Funds
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs	Eliminations	
Assets								
Cash and Cash Equivalents	\$ 622,239	\$ 1,450,212	\$ -	\$ 7,461	\$ 105,928	\$ 501,784	\$ -	\$ 2,687,624
Temporary Investments at Cost	-	-	-	-	-	-	-	-
Receivables:								
Program Loans Receivable	850,000	-	755,000	-	-	1,643,111	-	3,248,111
Notes Receivable	1,133,587	6,024,016	-	-	-	-	-	7,157,603
Advances to Subgrantees	-	2,082,280	-	-	-	366,101	-	2,448,381
Advances for Payroll and Related Expenses	511,846	-	-	-	-	-	-	511,846
Other Receivables	1,030,344	-	-	-	-	911	-	1,031,255
Allowance for Uncollectibles / Forgiveness	(1,990,444)	(1,283,826)	-	-	-	(1,635,953)	-	(4,910,223)
Due from Other Funds	1,799,076	206,986	590,337	-	-	95,064	(2,691,463)	1,865,594
Due from Federal Government	-	1,530,803	-	-	-	334,791	-	328,386
Due from City of Buffalo	310,248	18,138	-	-	-	-	-	531,164
Due from Other Governmental Units	437,581	275	82,679	-	-	10,629	-	(59,354)
Other	(29,090)	(30,264)	-	-	-	-	-	247,561
Construction in Progress	247,561	-	-	-	-	-	-	704,857
Real Estate Acquired for Resale, at Cost	-	704,857	-	-	-	-	-	-
Total Assets	\$ 4,922,948	\$ 10,703,477	\$ 1,428,016	\$ 7,461	\$ 105,928	\$ 1,316,438	\$ (2,691,463)	\$ 15,792,805
Liabilities and Fund Equity / (Deficit)								
Liabilities:								
Accounts Payable and Accrued Liabilities	\$ 69,933	\$ 6,319,962	\$ -	\$ -	\$ -	\$ 785,579	\$ -	\$ 7,175,474
Loan Payable - Community Preservation Corporation	-	-	-	-	-	-	-	-
Due to Federal Government	-	148,620	163,016	-	-	-	-	311,636
Due to City of Buffalo	-	-	-	-	-	-	-	-
Due to Other Funds	1,822,059	708,840	-	-	36,610	123,955	(2,691,463)	1
Deferred Grant Revenue	-	238,310	-	7,461	69,318	360,082	-	675,171
Current Portion of Long-Term Debt	-	-	1,265,000	-	-	-	-	1,265,000
Total Liabilities	1,891,992	7,415,732	1,428,016	7,461	105,928	1,269,616	(2,691,463)	9,427,282
								(Continued)

**CITY OF BUFFALO URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2012**

	Special Revenue Funds						Total Governmental Funds
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs	
Liabilities and Fund Equity / (Deficit) - Cont'd.							
Fund Equity:							
Fund Balances							
Reserved for Encumbrances	\$ -	\$ 4,016,144	\$ -	\$ -	\$ -	\$ -	\$ 4,016,144
Reserved for Land Inventory	-	704,857	-	-	-	-	704,857
Reserved for Long-Term Advances	-	1,421,982	-	-	-	-	1,421,982
Reserved for Long-Term Notes Receivable	-	4,174,182	-	-	-	-	4,174,182
Reserved for Project Assistance	-	-	-	-	-	-	46,822
Unreserved	3,030,956	(7,029,420)	-	-	-	-	(3,998,464)
Total Fund Equity / (Deficit)	3,030,956	3,287,745	-	-	-	46,822	6,365,523
Total Liabilities and Fund Equity / (Deficit)	\$ 4,922,948	\$ 10,703,477	\$ 1,428,016	\$ 7,461	\$ 105,928	\$ 1,316,438	\$ (2,691,463)
							\$ 15,792,805

**CITY OF BUFFALO URBAN RENEWAL AGENCY
FUND FINANCIAL STATEMENTS - CONTINUED**

**Explanations of Certain Differences Between the
Governmental Funds Balance Sheet
and the Statement of Net Assets**

Differences between Governmental Funds Balance Sheet and the Statement of Net Assets are as follows:

Capital assets are expensed as capital outlays under fund balance sheet whereas they are recorded at historical cost and depreciated in the Statement of Net Assets. Long-term receivables, notes payable, and other payables are not reported in the fund balance sheets but they are recorded for the Statement of Net Assets. Encumbrances are recorded as receivable Due from Federal Government for the fund balance sheets, whereas the Statement of Net Assets does not disclose encumbrances.

Balance at June 30, 2012 was:

Long-Term Notes Receivable-Section 108	\$ 4,050,000
Capital Assets, Net of Depreciation	10,304,867
Compensated Absences	(169,156)
Due to Federal Government	(4,016,144)
Long-Term Debt-Section 108	(7,290,000)
OPEB Liability	<u>(9,480,310)</u>
Combined Adjustment	(6,600,743)
Total Fund Equity-Total Governmental Funds, June 30, 2012	<u>6,365,523</u>
Net Assets of Governmental Activities	<u>\$ (235,220)</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds						Total Governmental Funds
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs	
Revenues							
Federal Grants	\$ -	\$ 11,074,536	\$ -	\$ 26,374,969	\$ -	\$ 6,398,574	\$ -
New York State Grants	11,700	-	-	-	-	-	43,848,079
Repayment of Program Loans	20,000	4,583	-	-	32,805	210,031	11,700
Sales of Real Estate	224,000	-	-	-	-	-	267,419
Demolition Income	-	-	-	-	-	-	224,000
Rental Income	287,801	-	-	-	-	-	-
Interest Income	105,318	560	661,461	-	502	511	287,801
Other Income	390,759	1,184,885	-	-	-	17,336	768,352
Total Revenues	1,039,578	12,264,564	661,461	26,374,969	33,307	6,626,452	47,000,331
Expenditures							
Current							
Acquisition of Real Property	-	-	-	-	-	-	-
Bad Debt	-	-	-	-	-	-	-
Demolitions	-	-	-	-	-	-	-
Public Facilities and Site Improvements	-	2,543,570	-	-	-	644,945	3,188,515
Clearance Activities	-	5,299,214	-	-	-	-	5,299,214
Public Services and Human Service Programs	-	2,065,333	-	26,374,969	-	5,325,655	33,765,957
Rehabilitation and Preservation Activities, Including Grants and Loans	27,869	1,850,318	-	-	-	-	1,878,187
Economic Development Activities, Including Grants and Loans	1,996,326	1,353,836	-	-	-	-	3,350,162
Neighborhood Program Delivery	-	-	-	-	-	-	-
Interest on Loans	374	-	661,461	-	33,307	-	695,142
Code Enforcement	-	84,919	-	-	-	-	84,919
Planning, Management and Administration	116,042	3,193,911	-	-	-	655,702	3,965,655
Capital Outlays	-	-	-	-	-	-	-
Total Expenditures	2,140,611	16,391,101	661,461	26,374,969	33,307	6,626,302	52,227,751
Excess/(Deficiency) of Revenues Over Expenditures	(1,101,033)	(4,126,537)	-	-	-	150	(5,227,420)
Other Financing Sources / (Uses):							
Issuance of Long-Term Debt	-	-	-	-	-	-	-
Payment of Long-Term Debt	-	-	-	-	-	-	-
Transfer to Current Portion of Long Term Debt	-	-	-	-	-	-	-
Transfer of Long-Term Debt	-	(345,343)	-	-	-	-	(345,343)
Excess/(Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,101,033)	(4,471,880)	-	-	-	150	(5,572,763)
Fund Balances, June 30, 2011	4,131,989	7,859,625	-	-	-	46,672	12,038,286
Decrease in Reserve for Land Inventory	-	(100,000)	-	-	-	-	(100,000)
Fund Balances, June 30, 2012	\$ 3,030,956	\$ 3,287,745	\$ -	\$ -	\$ -	\$ 46,822	\$ 6,365,523

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
FUND FINANCIAL STATEMENTS - CONTINUED**

**Explanations of Certain Differences Between the
Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances and the Statement of Activities**

Encumbrances are recorded as revenue for Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, whereas Statement of Activities does not include this revenue. Capital assets and land inventory are expensed when incurred for Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; capital assets and land inventory are capitalized and, where applicable, depreciated for Statement of Activities. Repayment of long-term debt is expensed for Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

Net Change in Fund Balances – Total Governmental Funds	\$ (5,227,420)
Amounts Reported for Change in Net Assets of Governmental Activities over / (under) Amounts Reported for Net Change in Fund Balances:	
Long-Term Notes Receivable - Section 108	(755,000)
Changes in Encumbrances	4,126,537
Depreciation	(323,396)
Changes in Long-Term Debt	1,265,000
OPEB Expense	(2,353,373)
Changes in Land Inventory	(100,000)
Changes in Reserve for Long-Term Receivable - Others	(345,343)
Compensated Absences	<u>11,750</u>
Change in Net Assets of Governmental Activities	<u>\$ (3,701,245)</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1 – Description of the Entity

The City of Buffalo Urban Renewal Agency (“BURA”) is a public benefit corporation, which was formed by an act of the New York 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, New York urban area (“the City”). Such programs include real estate acquisition and clearance; relocation of businesses and individuals displaced by urban renewal activities; design and construction of site improvements and public facilities; provision of grants and loans to facilitate rehabilitation of residential and business properties, and other programs designed to stimulate urban economic growth and to revitalize urban neighborhoods.

As required by the legislation which created the entity, BURA’s members consist chiefly of City of Buffalo governmental officials. Most of the funding for the various programs conducted by BURA is obtained from the Federal government, through the City of Buffalo. In effect, BURA acts as an agent of the City in carrying out its urban renewal activities. Because of its close administrative and financial relationship with the City, BURA is considered to be a component of the City of Buffalo for financial reporting purposes, and the financial information presented herein for BURA alone is to be presented within the City’s basic financial statements as of June 30, 2012 and for the year then ended.

Note 2 – Summary of Significant Accounting Policies

BURA’s accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”). The City implemented new reporting model standards beginning July 1, 2001. Comparability with reports of all prior years will be affected.

At June 30, 2008, BURA implemented the requirements of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires that BURA include the costs of providing Health Care benefits to its retirees as a current cost of compensation for employee services. Under this statement, OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statement of those funds.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

BURA funds are grouped into two broad fund categories for financial statement presentation. Governmental funds include general and special revenue funds. Proprietary funds include enterprise funds. During the year ended June 30, 2012, BURA had no proprietary funds.

Basis of Accounting

Component Unit-Wide Financial Statements

The component unit-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all activities of BURA. Governmental activities, which normally are supported by grants, are reported separately from business-type activities, which primarily rely on fees and charges for support.

The component unit-wide statements are prepared using the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the component-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the component unit-wide financial statements.

The component unit-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of BURA and for each governmental program. Program revenues include charges paid by the recipients for the 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 not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing.

Net assets should be reported as restricted when constraints placed on net asset use 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. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

Fund Financial Statements

Fund financial statements report detailed information about BURA. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non Major funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The major governmental funds are:

- **The General Fund** is used to account for all financial resources except those required to be accounted for in another fund. Included in BURA's general fund are proceeds from previously closed out grant programs.
- **Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust funds, or major capital projects) that are legally restricted to expenditures for specified purposes. BURA's special revenue funds account for the proceeds of Federal Community Development Block Grants (Metropolitan Entitlement), HOME grants, Emergency Shelter Grants, and various other Federal and New York State grants.

Measurement Focus for Operations

All of BURA's governmental funds are accounted for on a spending measurement focus.

Basis of Accounting

The financial statements of the general fund and special revenue funds are prepared in accordance with the modified accrual basis of accounting.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

Under the modified accrual basis, revenues, other than those susceptible to accrual, are recorded when received in cash and expenditures are recorded when fund liabilities are incurred.

Significant revenues considered to be susceptible to accrual include grant revenues receivable under Federal Community Development Block Grants (Metropolitan Entitlement) and various categorical grants.

Deferred grant revenue consists of funds received in excess of project costs chargeable in the current period.

Budgets and Budgetary Accounting

BURA follows specified procedures in establishing budgetary controls over its revenues and expenditures. These controls relate solely to the Community Development Block Grant (“CDBG”), HOME Investment Partnership (“HOME”), Emergency Shelter Grant (“ESG”) and Housing Opportunities for Persons with Aids (“HOPWA”) grant programs which are funded annually by the U.S. Department of Housing and Urban Development (“HUD”) under Metropolitan Entitlement grants. Expenditures for these programs are budgeted over the entitlement program year which commences on May 1 of one year and ends on April 30 of the following year. Appropriations of funds do not lapse at the close of the program year, but remain available for expenditure until the budgeted projects are completed, at which time any unexpended funds may be reprogrammed in accordance with HUD guidelines. The following outlines the budgetary process for these entitlement funds.

- An allocation plan is developed annually by the Office of Strategic Planning (“OSP”) of the City, taking into consideration citizens’ comments received at a public hearing.
- An annual allocation plan is presented by the Mayor to the City of Buffalo Common Council (“Common Council”) approximately sixty days prior to the commencement of the program year.
- The Common Council holds additional public hearings and considers the proposed allocation plan, and provides advisory comments to the Mayor.
- Upon approval of the annual allocation plan by the Mayor, the plan is approved by the BURA board. An application based on the plan is submitted to HUD approximately forty-five days prior to the commencement of the May 1 program year. HUD then forwards entitlement grant contracts to the City, which are executed by the City and by BURA.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

- Beginning May 1, 2012 BURA was required to enter into formal subrecipient agreements with the City. These agreements change the scope and functions of BURA's duties and responsibilities. BURA will administer and provide program delivery services solely for CDBG and HOME projects going forward.
- The detailed budget for the various projects and for the administrative costs of the program is prepared by OSP in conjunction with other City departments affected.
- The administrative budget is submitted annually to the members of BURA for approval.
- Contracts for work on individual CDBG projects are approved separately by the members of BURA at regular and special meetings held throughout the year.
- Budgeted amounts and contract encumbrances are recorded and integrated with the program expenditure records as a management control device.
- Budgets for the entitlement programs do not expire at the end of the fiscal year but continue in force until all grant funds are expended, or the specific grant regulatory period expires, whichever comes first.
- Budgets for projects funded by sources other than HUD entitlement grants are generally an integral part of the respective grant contracts and are processed internally by management. Budgets for the general fund have not been prepared.

Since BURA's budgets are programmatic and are designed to cover several fiscal years, a fiscal period budgetary comparison has not been included in the general-purpose financial statements at June 30, 2012.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded, is employed as part of BURA's budgetary control mechanism for the CDBG program, which is included in BURA's special revenue funds.

BURA, 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 are included in expenditures, while the

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

amounts representing commitments are shown as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year do not lapse.

Real Estate Inventory

In the course of conducting its urban renewal activities, BURA acquires real property for use in future urban renewal projects. This property is recorded at historical cost at the time of purchase. BURA uses the purchase method for recording real estate inventory transactions, which requires a corresponding reservation of fund balance in the governmental fund purchasing the asset.

Long-Term Advances and Receivables

Long-term advances and receivables, which are not available for current expenditures, have been designated by reservation of the fund balance of the special revenue fund.

Capital Assets (Governmental Activities)

Governmental Capital Assets, recorded at cost, as of June 30, 2012 are summarized as follows:

<u>Function and Activity</u>	<u>Total</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>
Economic Development					
Administration	\$ 15,979,873	\$ 380,370	\$ 14,706,007	\$ 787,938	\$ 105,558
General					
Administration	<u>24,866</u>	<u>-</u>	<u>-</u>	<u>24,866</u>	<u>-</u>
Governmental Capital					
Assets	16,004,739	380,370	14,706,007	812,804	105,558
Less Accumulated Depreciation	<u>(5,699,872)</u>	<u>-</u>	<u>(4,884,916)</u>	<u>(709,398)</u>	<u>(105,558)</u>
	<u>\$ 10,304,867</u>	<u>\$ 380,370</u>	<u>\$ 9,821,091</u>	<u>\$ 103,406</u>	<u>\$ -</u>

For the year ended June 30, 2012 depreciation in the amount of \$323,396 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 39 years.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 – Summary of Significant Accounting Policies – Continued

Compensated Absences

Employees of BURA earn vacation, personal, and sick pay based upon length of service and job classification. Unused vacation leave accumulates up to a maximum number of days based upon length of service and is payable upon termination.

Unused sick leave accumulates, but may only be used to compensate for actual time off for medical or other defined reasons. However, it is BURA's policy to compensate retiring employees for unused accumulated sick pay on a reduced basis. BURA has reflected the June 30, 2012 liability for accumulated earned, but unpaid, employee vacation time in its Statement of Net Assets and Statement of Activities. Other compensated absences, which are not vested in the employees, are accounted for on a cash basis.

Note 3 – Related Party Transactions

In the course of carrying out its urban renewal activities, BURA regularly engages in transactions with various administratively and functionally related entities. The principal such entity is the City, which is the prime sponsor of the programs conducted by BURA and which is the nominal recipient of most of BURA's Federal and state grant funding. BURA is a component unit of the City.

Certain City employees devote a substantial portion of their time to BURA activities. BURA reimburses the City for all its allocated portion of the salaries and fringe benefits of those employees. Conversely, BURA employees also spend time working on City business. Accordingly, BURA and affected City employees complete bi-weekly time sheets which are used to determine cost allocations between the entities' activities. In addition, an indirect cost plan provides for reimbursement of other operating costs from the central service centers of the City. Indirect costs are calculated using an agreed-upon indirect cost rate applied to the amount of actual salaries of City employees who work on BURA projects. Salary and indirect cost reimbursements to the City totaled \$-0- for the year ended June 30, 2012.

Certain BURA funded program activities are conducted directly by the City of Buffalo. These consist, for the most part, of specific public works projects assisted by CDBG funds. Net transfers to the City for such activities amounted to approximately \$1,129,024 for the year ended June 30, 2012.

Other program activities funded by BURA are conducted by two related public benefit entities, the Buffalo Economic Renaissance Corporation ("BERC") and the Buffalo Neighborhood Revitalization Corporation ("BNRC").

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012**

Note 3 – Related Party Transactions – Continued

These entities receive loans or grants from BURA under the CDBG program, the Section 108 Loan program, as well as various New York State grant programs, and, in turn, loan or grant funds to qualifying individuals and businesses for purposes of property rehabilitation, home acquisitions for low income individuals, or business development and expansion. For the year ended June 30, 2012, no funds were provided to BEREC or BNRC during the fiscal year.

Under an agreement with BEREC, certain program income (such as loan repayments or interest) earned through the CDBG program may generally be retained as supplemental BURA funding, subject to applicable Federal regulations. Other program income must be returned to BURA. In a 2003 HOME monitoring report, HUD specified that all BNRC program income be returned to BURA. Regardless, grant allocation agreements with these entities also provide that, upon termination of the agreements, all unused program income, and any CDBG assets held by BEREC and BNRC will revert to BURA.

At June 30, 2012, net amounts due from/(to) related parties consisted of:

Due from City of Buffalo	\$ 328,386
Notes Receivable (Section 108) – BEREC	300,000
Other BEREC Net Receivables	410,464
BNRC Net Receivables	<u>28,922</u>
 Total	 <u>\$ 1,067,772</u>

Note 4 – Employee Retirement Benefits

BURA’s employees participate in the New York State Employee Retirement System (“the System”), a cost-sharing, multiple-employer defined benefit pension plan administered by the New York State and Local Retirement System. All BURA employees are eligible to participate in the System. The System provides retirement, disability and death benefits to plan members and beneficiaries. Membership benefits and employer and employee obligations to contribute are described in the New York State Retirement and Social Security Law. The New York State Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 4 – Employee Retirement Benefits – Continued

Employees who joined the System before July 27, 1976, are on a plan with minimum retirement age of 55, which provides for 1.67% of final average salary for each year of service less than 20 years. Generally, the benefits for employees with more than 20 years are 2% of final average salary for each year of service. For employees who joined on or after July 1, 1973 but before July 27, 1976, those who retire between the ages of 55 and 62 with less than 30 years of service receive reduced benefits. Employees who joined after July 27, 1976 earn 1.67% of final average salary for the first 20 years of service and 2% for 20 to 30 years of service. An additional benefit of 1.5% is applied for each year of service over 30 years. A member must be age 62 with 10 years of service or at least age 55 with 30 years of service to retire with full benefits. For employees who joined after January 1, 2010 earns 1.66% of final average salary for the first 20 years of service and 2% for 20 to 30 years of service with minimum retirement age of 62. For employees who joined after April 1, 2012 earn 1.66 of final 5 years average salary for each year of less than 20 years service, 35% of 5 years average salary for 20 years of service and additional 2% of their 5 years average salary for each year of service in excess of 20 years. Generally, vesting requires 5 years of service except for employees who joined after April 1, 2012. The employees who joined the system after April 1, 2012 require 10 years of service credit to be vested.

Certain covered employees, as determined by date of entry into the plan, are required to contribute 3% of their salary to the plan during their first 10 years of credited service or for the whole period of service.

The payroll for the employees covered by the System for the year ended June 30, 2012 was \$2,960,142. All full-time BURA employees at June 30, 2012 were covered by the pension plan.

BURA’s required contributions for the current and preceding two years are as follows:

Fiscal Year Ending	Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	250,946	100%	\$ -
6/30/2011	250,946	100%	-
6/30/2012	503,727	100%	-

The amount to be funded within the next fiscal year has been recorded as a current liability of the special revenue fund, from which applicable wages are paid. It is BURA’s practice to fund the annual pension cost (“APC”) annually as billed.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012**

Note 4 – Employee Retirement Benefits – Continued

The System uses the aggregate actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities, therefore no schedule of funding progress is provided. The System returned to this method on April 1, 1994, using a four-year phase-in period. For fiscal years beginning after March 31, 1997, contribution rates are full aggregate rates.

Under its employee union contract, BURA also provides health insurance coverage for individuals who have retired from BURA service and meet specified longevity requirements with respect to employment. It is BURA’s practice to fund these insurance premiums as billed. For the year ended June 30, 2012, the cost of providing health insurance benefits to thirty-nine BURA retirees was \$557,748.

Note 5 – Postemployment Health Care Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, BURA recognizes the cost of postemployment healthcare 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 BURA’s future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description: BURA provides continuation of medical insurance coverage to employees that retire under the New York Retirement System 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 non-union employees are similar to those of union employees. The retiree’s share of premium cost range from 0% to 25%, depending on the employee hire date.

The number of participants as of June 30, 2012 was as follows:

Active Employees	55
Retired Employees	39
Spouses of Retired Employees	<u>16</u>
Total	<u>110</u>

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.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 5 – Postemployment Health Care Benefits – Continued

Annual Other Postemployment Benefit Cost: For the fiscal year ended June 30, 2012, BURA’s annual OPEB cost of \$2,735,088 and the Annual Required Contribution is 2,911,121. The payment of current health insurance premiums, which totaled \$557,748 for retirees and their beneficiaries, resulted in a Net OPEB obligation of \$9,480,310 for the year ended June 30, 2012.

Annual OPEB Cost and Net OPEB Obligation: BURA’s annual other postemployment benefit (“OPEB”) cost is calculated based on the *annual required contribution of the employer (“ARC”)*. BURA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer 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 (of funding excess) over a period not to exceed thirty years. The following table shows 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:

Annual Required Contribution, Including Interest	\$ 2,911,121
Contribution Made	<u>(557,748)</u>
Increase in Net OPEB Obligation	2,353,373
Net OPEB Obligation - Beginning of Year	<u>7,126,937</u>
Net OPEB Obligation - End of Year	<u>\$ 9,480,310</u>

BURA is required to report the required annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012 and the two preceding fiscal years.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	2,028,394	18.89%	4,710,599
6/30/2011	2,735,088	14.00%	7,126,937
6/30/2012	2,735,088	20.39%	9,480,310

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 5 – Post –Employment Health Care Benefits – Continued

Funded Status and Funding Progress. As of June 30, 2012, 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 \$2,960,142, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 970.16 percent.

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 on page 33, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for 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 include the types of benefits provided at the time of each evaluation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Full evaluations of the Actuarial Accrued Liability are completed every third year and the liability is adjusted at that time. 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 was assumed to continue throughout retirement.

Mortality – Life expectancies were based on the RP2000 Mortality Life Tables for Males and for Females.

Turnover – Non-group-specific-age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed 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.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 5 – Postemployment Health Care Benefits – Continued

Healthcare 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 9.0 percent initially, reduced to an ultimate rate of 4.7 percent after six years, was used.

Health Insurance Premiums – June 30, 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation Rate – The expected long-term inflation assumption of 3.0 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 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2012, was twenty-six years.

**Schedule of Funding Progress
For the Retiree Health Plan**

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)
6/30/2010	-	25,032,240	25,032,240	0%	2,285,350	1095.34%
6/30/2011	-	28,717,970	28,717,970	0%	2,820,508	1018.18%
6/30/2012	-	28,717,970	28,717,970	0%	2,960,142	970.16%

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 6 – Commitments and Contingent Liabilities

Litigation

BURA owns the land immediately east of the Waterfront School in the City of Buffalo. BURA fully investigated the land to the satisfaction of the New York State Department of Environmental Conservation (“NYSDEC”) at a cost of approximately \$250,000. A formal agreement with the NYSDEC to accept BURA’s investigation of the site as full settlement of any obligations it has for this site is pending.

BURA is a defendant in litigation commenced by a proposed recipient of Federal HOME funds. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to an alleged promise to provide funding for plaintiff’s project. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is a defendant in litigation commenced by a contractor of the City of Buffalo 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 and 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 is a defendant in a litigation commenced by a hold over tenant of BURA for breach of the original lease terms. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to costs incurred by the tenant during rehabilitation and improvement of the leased premises. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is 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.

Note 7 – Cash and Cash Equivalents

Cash and cash equivalents reported in BURA’s special revenue fund represent grant funds held prior to disbursement of approved expenditures and are restricted as to use. BURA’s deposits are maintained in demand deposits or savings accounts. For certain demand or checking accounts, BURA requires that its depository banks pledge collateral in the form of securities held by the bank in the name of BURA. For the accounts held at one financial institution, collateral is established at fixed amounts, which may vary throughout the year. For accounts held at other financial institutions, no collateral requirements have been established.

Deposits with three financial institutions covered by Federal deposit insurance totaled \$719,466.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 7 – Cash and Cash Equivalents – Continued

Deposits are generally classified into three categories of credit risk. Those categories and BURA’s cash balances per bank at June 30, 2012 are as follows:

<u>Category</u>	<u>Description</u>	<u>BURA's Bank Balances</u>
1	Uncollateralized	\$ 2,687,184
2	Collateralized by securities held by the pledging Financial Institution	\$ -
3	Collateralized by securities held by the pledging Financial Institution's trust department or agent but not in BURA's name	\$ -

The carrying value of BURA’s deposits was \$2,687,184, as reported on the financial statements.

Note 8 – Receivables

Program Loans Receivable

Program loans receivable consist of several economic development loans made directly by BURA, or indirectly through the Buffalo Economic Renaissance Corporation (“BERC”). This corporation has, in turn, loaned the grant funds to qualifying developers.

As of June 30, 2012, program loans receivable consist of CDBG funds advanced by BURA to BERC for Section 108 program loans due within one year in the amount of \$300,000.

Since the inception of the CDBG program in the mid-1970’s, BURA has also expended a substantial amount of grant funds directly or indirectly, through BERC, BNRC and their predecessors, and through various community-based not-for-profit organizations, on loans for business development and for the rehabilitation of commercial and residential properties. Under CDBG program reporting requirements, these loans are treated as “program expenditures.” The actual loans are recorded as accounts receivable on the books of BERC and BNRC, who monitor the loans and collect repayments to be used for further economic development activities.

Notes Receivable – Special Revenue Fund

As of June 30, 2012, various notes from individuals, businesses and other organizations were outstanding, representing funds advanced by BURA for projects designed to stimulate economic development and

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 8 – Receivables – Continued

housing improvements in the City of Buffalo. These notes are secured by mortgages with varying repayment terms.

Advances to Subgrantees

In the course of conducting various projects funded through 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 in the component unit-wide financial statements.

Note 9 – Due from Federal Government

At June 30, 2012, \$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.

Note 10 – Long-Term Liabilities

Governmental Activities

Section 108 Loan Guarantee Program

BURA is indebted to the Federal Financing Bank under promissory notes for advances received under the 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 semi-annual installments, starting with the first February or August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semi-annual 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.

BURA has loaned the advances received from the Federal Financing Bank to the Buffalo Economic Renaissance Corporation ("BERC"), which, in turn, has loaned these funds to various businesses for economic development purposes. BURA's future obligations for interest and principal payments to the Federal Financing Bank on such loans are to be provided by BERC, though interest and principal

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 10 – Long-Term Liabilities – Continued

repayments from the individual borrowers. In the event of default on such loans, BURA will be responsible for the payments of the amounts due.

As of June 30, 2012, loans in default totaled \$380,000. BURA has made the required debt service payments.

BURA is also the borrower on six Section 108 loans. Principal and interest payments have been made from CDBG grant program funds and are allowable as program expenditures of this program.

At June 30, 2012, the responsibility for repayment of Section 108 loans is as follows:

Private Developers	\$ 4,625,000
BURA - HOZO	1,800,000
BURA - William Gaiter Incubator	500,000
BURA - Root Building/MAC Apartments	1,250,000
BURA - Defaulted Loans	<u>380,000</u>
	8,555,000
Less Current Amount due to Federal Government	<u>(1,265,000)</u>
Total	<u>\$ 7,290,000</u>

As of June 30, 2012, future maturities of the Section 108 loans are as follows:

Fiscal Year Ending June 30, 2013	\$ 1,265,000
Fiscal Year Ending June 30, 2014	1,265,000
Fiscal Year Ending June 30, 2015	2,155,000
Fiscal Year Ending June 30, 2016	1,085,000
Fiscal Year Ending June 30, 2017	1,035,000
Fiscal Year Ending June 30, 2018	1,035,000
Thereafter	<u>715,000</u>
	8,555,000
Less Current Portion	<u>(1,265,000)</u>
Total Long-Term Obligations	<u>\$ 7,290,000</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012**

Note 10 – Long-Term Liabilities – Continued

Fannie Mae

During the year ended June 30, 2006, BURA established a non-revolving line of credit in the amount of \$6,000,000 with Fannie Mae. Interest is at one month LIBOR Rate plus one hundred fifty basis points (3.35% at June 30, 2011). The agreement, along with other stipulations, requires a cash collateral account of \$600,000 and includes a covenant requiring an annual line item within the CDBG program, or other funding budgets, in the amount of \$1,200,000 for the past four, and this year. These annual budget allocations total \$6,000,000 and 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 30, 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 amounts of \$1,200,000 plus interest was paid on June 26, 2007 and June 30, 2008, respectively. BURA made the third, fourth and fifth annual 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, 2012, eleven market rate homes were completed; and all 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:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 1,200,000
Paid in 2011	<u>(1,200,000)</u>
Loan balance	<u>\$ -</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 11 – Mortgage Obligations

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012.

<u>Balance</u> <u>Type of Debt</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>	<u>Amount Due Within One Year</u>
Governmental Activities					
Section 108 Loans	\$ 9,665,000	\$ -	\$ (1,110,000)	\$ 8,555,000	\$ 1,265,000
Fannie Mae	-	-	-	-	-
	<u>\$ 9,665,000</u>	<u>\$ -</u>	<u>\$ (1,110,000)</u>	<u>\$ 8,555,000</u>	<u>\$ 1,265,000</u>

Note 12 – Dissolution of BEREC

The City of Buffalo is engaged in a complex transaction to dissolve BEREC. Outside counsel and auditors reviewed BEREC’s finances and planned the legal steps required to dissolve the agency. On October 20, 2010, the membership of BEREC approved a plan to dissolve the agency. BEREC’s assets and programs are to be divided and transferred to BURA and the Buffalo Urban Development Corporation (“BUDC”).

BEREC’s Federal funds and program income were audited prior to dissolution in order to reconcile the accounts attributable to Federal sources. In order to ensure that BURA is reimbursed for any funds found through the audit that are due to BURA, an agreement has been reached between BURA and BEREC to establish an escrow account in the amount of \$800,000 from BEREC non-Federal funds. BURA has also reached agreement with BEREC to periodically transfer program income from real estate operations to BURA until the dissolution is finalized.

It is anticipated that the dissolution of BEREC and transfer of assets to BURA and BUDC will be completed by March 31, 2015.

Note 13 – Subsequent Event

The City of Buffalo and BURA are subject to audit by various Federal and New York State oversight and authoritative agencies. During the year ended June 30, 2011, The City of Buffalo was audited by the Office of the Inspector General (“OIG”) regarding the use of Community Block Development Block Grant funds. In a letter dated April 15, 2011 the OIG issued a list of findings to the City. Since that time, the City has worked with the local HUD office to address the Findings issued in the letter.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 13 – Subsequent Event – Continued

On June 21, 2012 BURA received a letter from the local HUD office informing them of :

- A change to deposit of Community Development and Planning (CPD) funds into accounts controlled by the City,
- The requirement for a subrecipient agreement between the City and BURA, and
- Discontinuance of BURA's access to HUD's Line of Credit Control System (LOCCS) and the Integrated Disbursement and Information System (IDIS) for accessing and approving draws for CDBG, HOME, HOPWA and ESG eligible expenditures.

As noted previously, beginning with the 2012 federal grant year BURA will administer and provide program delivery services to support CDBG and HOME entitlement projects.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To Mark J.F. Schroder
Comptroller of the City of Buffalo
Buffalo, New York

Our report on our audit of the basic financial statements of the City of Buffalo Urban Renewal Agency, a component unit of the City of Buffalo, as of and for the year ended June 30, 2012, appears on page 1. The audit was made for the purpose of forming an opinion in the component unit-wide financial statements taken as a whole. The Combining Balance Sheet - Other Special Revenue Programs and Schedule of Governmental Capital Assets by Function and Activity as of June 30, 2012 and the Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Other Special Revenue Programs and the Schedule of Changes in Governmental Capital Assets by Function and Activity for the year ended June 30, 2012, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Buffalo Urban Renewal Agency. 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.

Dansa & Darata LLP

November 12, 2012

**CITY OF BUFFALO URBAN RENEWAL AGENCY
FUND DESCRIPTIONS
JUNE 30, 2012**

General Fund

General Fund - To account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than fiduciary funds or capital project funds) legally restricted to expenditure for specified purposes.

Community Development Block Grant - To account for monies received from the Federal government under the Community Development Block Grant program for providing decent housing and a suitable living environment, and expanded economic opportunities principally for persons of low and moderate income and the allowable administrative costs associated with those projects.

Section 108 Loan Guarantee Program - To account for monies received from the Federal government under the HUD Section 108 program, BURA has loaned the advances received to the Buffalo Economic Renaissance Corporation ("BERC"), which, in turn, has loaned these funds to various businesses for economic development purposes. BURA is also the borrower of eight Section 108 loans.

Section 8 Housing Program - To account for monies received from the Federal government under the HUD Section 8 program. Such monies are passed through to the Rental Assistance Corporation of Buffalo ("RACB"). The program's primary goal is to provide a decent home in a suitable housing environment for families that cannot afford standard private housing.

Home Ownership Zone Program - To account for monies received from the Federal government under the HUD Economic Development Initiative ("EDI") program. The EDI funds are to provide for home ownership assistance. Such monies have been passed through to Buffalo Neighborhood Revitalization Corporation ("BNRC") who administers the funds.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
COMBINING BALANCE SHEET
OTHER SPECIAL REVENUE PROGRAMS
JUNE 30, 2012**

	HOME Program	Emergency Shelter Grant Program	Shelter Plus Care Grant Program	HOPWA Program	Public Hazard Control Grant Program	Section 312 Loan Program	Lead Demo Grant	Rental Rehabilitation Program	HOPE III Program	Brownfields Project	Total Other Special Revenue Programs
Assets											
Cash and Cash Equivalents	\$ 317,113	\$ 934	\$ 210	\$ 8,611	\$ -	\$ 2,173	\$ 2,631	\$ 123,290	\$ 46,822	\$ -	\$ 901,784
Receivables	-	-	-	-	-	37,101	1,124,720	481,290	-	-	1,643,111
Notes Receivable	-	-	-	-	-	-	-	-	-	-	-
Advances to Subrecipients	-	361,101	-	-	5,000	-	-	-	-	-	366,101
Other Receivables	-	-	-	-	-	911	-	-	-	-	911
Allowance for Uncollectibles	-	-	-	-	-	(29,943)	(1,124,720)	(481,290)	-	-	(1,655,953)
Due from Other Funds	302,036	42	-	22,493	22,390	-	10,000	-	-	30,263	337,064
Due from Federal Government	-	-	-	-	-	-	43,349	-	-	282	334,791
Due from City of Buffalo	-	-	-	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	-	10,629	-	-	-	-	-	10,629
Other	-	-	-	-	-	-	-	-	-	-	-
Real Estate Acquired for Resale, at Cost	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 619,149	\$ 362,077	\$ 210	\$ 31,104	\$ 38,019	\$ 10,242	\$ 55,000	\$ 123,290	\$ 46,822	\$ 30,225	\$ 1,316,438
Liabilities and Fund Balances											
Accounts Payable and Accrued Expenses	\$ 619,149	\$ 135,116	\$ 210	\$ 31,104	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 785,579
Notes Payable	-	-	-	-	-	-	-	-	-	-	-
Due to Federal Government	-	-	-	-	-	-	-	-	-	-	-
Due to City of Buffalo	-	-	-	-	-	-	-	-	-	-	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	3,594	-	-	-	34,836	-	55,000	-	-	30,225	123,955
Deferred Grant Revenue	(3,594)	226,961	-	-	3,183	10,242	-	123,290	-	-	360,082
Total Liabilities	619,149	362,077	210	31,104	38,019	10,242	55,000	123,290	-	30,225	1,209,616
Fund Balances											
Reserved for Encumbrances	-	-	-	-	-	-	-	-	-	-	-
Reserved for Land Inventory	-	-	-	-	-	-	-	-	-	-	-
Reserved for Long-Term Advances	-	-	-	-	-	-	-	-	-	-	-
Reserved for Long-Term Notes Receivable	-	-	-	-	-	-	-	-	-	-	-
Reserved for Project Assistance	-	-	-	-	-	-	-	-	46,822	-	46,822
Unreserved	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	-	-	-	-	-	-	-	-	46,822	-	46,822
Total Liabilities and Fund Balances	\$ 619,149	\$ 362,077	\$ 210	\$ 31,104	\$ 38,019	\$ 10,242	\$ 55,000	\$ 123,290	\$ 46,822	\$ 30,225	\$ 1,316,438

See independent auditors' report on supplementary information.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER SPECIAL REVENUE PROGRAMS
 FOR THE YEAR ENDED JUNE 30, 2012**

	HOME Program	Emergency Shelter Grant Program	Shelter Plus Care Grant Program	HOPWA Grant Program	Fault Hazard Control Grant Program	Section 312 Loan Program	Lead Demonstration Grant	Rental Rehabilitation Program	HOPPE III Program	Brewerfields Project	Total Other Special Revenue Program
Revenues											
Federal Grants	\$ 3,701,342	\$ 2,131,928	\$ -	\$ 570,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,209)	\$ 6,398,574
New York State Grants	-	-	-	-	-	-	-	-	-	-	-
Repayment of Program Loans	209,745	-	-	-	-	246	-	-	-	-	210,031
Sale of Real Estate	-	-	-	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	-	-	-	-	-	-	-
Rental Income	361	-	-	-	-	-	-	-	-	-	-
Interest Income	17,536	-	-	-	-	-	-	-	150	-	511
Other Income	-	-	-	-	-	-	-	-	-	-	17,336
Total Revenues	3,928,784	2,131,928	-	570,513	-	246	-	-	150	(5,209)	6,626,452
Expenditures											
Current											
Acquisition of Real Property	-	-	-	-	-	-	-	-	-	-	-
Demolitions	-	-	-	-	-	-	-	-	-	-	-
Public Facilities and Site Improvements	-	-	-	-	-	-	-	-	-	-	-
Cleanse Activities	-	644,945	-	-	-	-	-	-	-	-	644,945
Public Services and Human Service Programs	3,293,109	1,484,797	-	552,958	-	-	-	-	-	(5,209)	5,325,655
Completion of Urban Renewal Projects Rehabilitation and Preservation Activities, Including Grants and Loans	-	-	-	-	-	-	-	-	-	-	-
Economic Development Activities Including Grants and Loans	-	-	-	-	-	-	-	-	-	-	-
Neighborhood Program Delivery Interest on Federal Loan Funds	-	-	-	-	-	-	-	-	-	-	-
Planning, Management and Administration Capital Outlays	635,675	2,186	-	17,555	-	286	-	-	-	-	655,702
Total Expenditures	3,928,784	2,131,928	-	570,513	-	286	-	-	-	(5,209)	6,626,302
Excess/(Deficiency) of Revenues Over Expenditures	-	-	-	-	-	-	-	-	150	-	150
Transfers In / (out)	-	-	-	-	-	-	-	-	-	-	-
Excess / (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	-	-	-	-	-	-	-	-	150	-	150
Fund Balances, June 30, 2011	-	-	-	-	-	-	-	-	46,672	-	46,672
Increase in Reserve for Land Inventory	-	-	-	-	-	-	-	-	-	-	-
Fund Balances, June 30, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,822	\$ -	\$ 46,822

See independent auditors' report on supplementary information.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF GOVERNMENTAL CAPITAL ASSETS BY FUNCTION AND ACTIVITY
JUNE 30, 2011**

<u>Function and Activity</u>	<u>Total</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>
Economic Development					
Administration	\$ 15,979,873	\$ 380,370	\$ 14,706,007	\$ 787,938	\$ 105,558
General					
Administration	24,866	-	-	24,866	-
Governmental Capital					
Assets	\$ 16,004,739	\$ 380,370	\$ 14,706,007	\$ 812,804	\$ 105,558

See auditors' report on supplementary information.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF CHANGES IN GOVERNMENTAL CAPITAL ASSETS BY FUNCTION AND
ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2012**

Function and Activity	Governmental Capital Assets July 1, 2011	Additions	Deductions	Net Transfers	Governmental Capital Assets June 30, 2012
Economic Development Administration	\$ 15,979,873	\$ -	\$ -	\$ -	\$ 15,979,873
General Administration	24,866	-	-	-	24,866
Governmental Capital Assets	\$ 16,004,739	\$ -	\$ -	\$ -	\$ 16,004,739

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