

CITY OF BUFFALO, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2013

**CITY OF BUFFALO, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2013**

Elected Officials

Mayor	Brad Nauman	December 31, 2014
Council Member	Steve Downer	December 31, 2014
Council Member	Scott Enter	December 31, 2014
Council Member	Teri Lachermeier	December 31, 2016
Council Member	Paul Olson	December 31, 2016

Term Expires

Appointed Officials

Administrator and Clerk-Treasurer	Merton Auger
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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo (the City), Minnesota as of and for the year ended December 31, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo, Minnesota as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-a-Matter

As discussed in Note 13 to the financial statements, the City adopted the provisions of Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of December 31, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

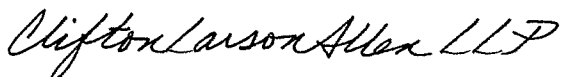
Other Information (Continued)

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The computation of legal debt margin, tax levies to retire bonded indebtedness and property valuations, levies and collections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014, on our consideration of the City of Buffalo'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Buffalo's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 4, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

As management of the City of Buffalo (the City), Minnesota, we offer readers of the City of Buffalo's financial statements this narrative overview and analysis of the financial activities of the City of Buffalo for the fiscal year ended December 31, 2013.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Buffalo exceeded its liabilities at the close of the most recent fiscal year by \$52,307,868 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is a deficit of \$2,148,502.
- The City's total net position decreased by \$2,589,119 from 2012.
- As of the close of the current fiscal year, the City of Buffalo's governmental funds reported a combined ending fund balance of \$6,072,431, an increase of \$1,517,772 in comparison with the prior year. The overall *unassigned fund balance* is a deficit \$1,741,839.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,195,058, or 49% of total 2013 General Fund expenditures.
- The City of Buffalo's total bonded debt increased by \$2,055,680 or 2.1% during the current fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Buffalo's basic financial statements. The City of Buffalo's basic financial statements consist of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

Both of the government-wide financial statements distinguish functions of the City of Buffalo that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*business-type activities*). The governmental activities of the City of Buffalo include general government, public safety, highways and streets, sanitation, culture and recreation and community development. The business-type activities of the City of Buffalo include a water utility and sewer utility, electric utility, liquor stores, and a municipal golf course (Wild Marsh).

The government-wide financial statements can be found on pages 18-20 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Buffalo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Buffalo can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

The City of Buffalo maintains ten individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, Capital Project Fund, and HRA Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 21-26 of this report.

Proprietary Funds

The City of Buffalo maintains four proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Buffalo uses enterprise funds to account for its water and sewer utilities, electric utilities, liquor store operations and golf course operations.

The proprietary fund statements provide the same type of information as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund, the electric fund, liquor fund, and golf course fund which are considered to be major funds of the City of Buffalo. The basic proprietary fund financial statements can be found on pages 27-36 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 37-67 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information demonstrating* the City of Buffalo's compliance with its adopted budget for the General Fund. The General Fund budgetary comparison schedule and related notes can be found on pages 68-72 of this report.

The combining statements referred to earlier in conjunction with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budgetary comparison. Combining and individual fund statements can be found on pages 73-80.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City of Buffalo, total assets and deferred outflows of resources exceeded total liabilities by \$52,307,868 at the close of the most recent fiscal year compared to \$56,464,778 at the end of 2012.

By far the largest portion of the City of Buffalo's net position (90%) reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City of Buffalo uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Buffalo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF BUFFALO'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and Other Assets	\$ 13,110,451	\$ 12,151,469	\$ 4,489,857	\$ 5,883,826	\$ 17,600,308	\$ 18,035,295
Capital Assets	56,365,992	56,306,519	82,974,251	83,738,244	139,340,243	140,044,763
Total Assets	69,476,443	68,457,988	87,464,108	89,622,070	156,940,551	158,080,058
DEFERRED OUTFLOWS OF RESOURCES						
Loss on Refunding of Bonds	45,687	-	470,540	-	516,227	-
LIABILITIES						
Noncurrent Liabilities Outstanding	28,455,959	26,291,498	67,555,121	66,478,633	96,011,080	92,770,131
Other Liabilities	3,868,369	3,816,014	5,269,461	5,029,135	9,137,830	8,845,149
Total Liabilities	32,324,328	30,107,512	72,824,582	71,507,768	105,148,910	101,615,280
Net Position:						
Net Investment in Capital Assets	33,072,698	31,123,667	13,928,354	16,240,283	47,001,052	47,363,950
Restricted	7,455,318	9,741,330	-	-	7,455,318	9,741,330
Unrestricted	(3,330,214)	(2,514,521)	1,181,712	1,874,019	(2,148,502)	(640,502)
Total Net Position	<u>\$ 37,197,802</u>	<u>\$ 38,350,476</u>	<u>\$ 15,110,066</u>	<u>\$ 18,114,302</u>	<u>\$ 52,307,868</u>	<u>\$ 56,464,778</u>

The deferred outflows of resources presented above are a result of the City's implementation of GASB 65 which reclassified the loss on refunding of bonds from a contra liability to this new classification. In addition, all bond issuance costs previously reported as assets were eliminated. See Note 13 for effect on beginning net position.

The remaining balance of the City of Buffalo's net position are *restricted net position* (18%) that can be used only for debt service or other purposes. The City reports a deficit for *unrestricted net position* that may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities decreased the City of Buffalo's net position by \$557,103. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Under full accrual accounting, current year outlay for infrastructure will be expensed over the useful life of the infrastructure. This capital outlay for the infrastructure is budgeted for during the current year.

Business-Type Activities

Business-type activities decreased the City of Buffalo's net position by \$2,032,016, thereby accounting for 78% of the total decrease in the net position of the City of Buffalo. The most significant change in business-type net position is due to the expenses and transfers to other funds growing faster than revenues.

City of Buffalo's Changes in Net Position

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31, 2013:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 3,417,959	\$ 3,222,472	\$ 22,036,230	\$ 21,528,775	\$ 25,454,189	\$ 24,751,247
Operating Grants and Contributions	489,657	466,781	-	-	489,657	466,781
Capital Grants and Contributions	627,005	397,335	290,019	403,715	917,024	801,050
General Revenues:						
Property Taxes	5,441,603	5,434,924	289,099	153,037	5,730,702	5,587,961
Tax Increments	245,253	297,202	-	-	245,253	297,202
Other Taxes	1,830	1,483	-	-	1,830	1,483
Grants and Contributions, Not Restricted	166,577	265,144	-	824	166,577	265,968
Unrestricted Investment Earnings (Loss)	80,915	8,622	6,434	14,864	87,349	23,486
Gain on Disposal of Capital Assets	360	-	-	-	360	-
Miscellaneous	29,104	25,772	87,849	126,038	116,953	151,810
Total Revenues	10,500,263	10,119,735	22,709,631	22,227,253	33,209,894	32,346,988
EXPENSES						
General Government	1,222,696	1,267,036	-	-	1,222,696	1,267,036
Public Safety	2,944,725	2,698,791	-	-	2,944,725	2,698,791
Highways and Streets	4,205,373	4,069,928	-	-	4,205,373	4,069,928
Culture and Recreation	2,553,652	2,632,565	-	-	2,553,652	2,632,565
Sanitation	731,827	760,232	-	-	731,827	760,232
Community Development	183,456	455,445	-	-	183,456	455,445
Interest on Long-Term Debt	872,144	983,301	-	-	872,144	983,301
Electric	-	-	11,015,306	10,767,968	11,015,306	10,767,968
Water	-	-	2,275,587	2,475,678	2,275,587	2,475,678
Sewer	-	-	4,555,992	4,321,610	4,555,992	4,321,610
Liquor Store	-	-	4,012,702	3,822,198	4,012,702	3,822,198
Golf Course	-	-	1,225,553	1,159,274	1,225,553	1,159,274
Total Expenses	12,713,873	12,867,298	23,085,140	22,546,728	35,799,013	35,414,026
Decrease in Net Position Before Transfers	(2,213,610)	(2,747,563)	(375,509)	(319,475)	(2,589,119)	(3,067,038)
Transfers	1,656,507	5,266,194	(1,656,507)	(5,266,194)	-	-
CHANGE IN NET POSITION	(557,103)	2,518,631	(2,032,016)	(5,585,669)	(2,589,119)	(3,067,038)
Net Position - Beginning of Year	38,350,476	35,831,845	18,114,302	23,699,971	56,464,778	59,531,816
Prior Period Adjustment	(595,571)	-	(972,220)	-	(1,567,791)	-
Net Position - Beginning of Year (as Restated)	37,754,905	35,831,845	17,142,082	23,699,971	54,896,987	59,531,816
NET POSITION - END OF YEAR	\$ 37,197,802	\$ 38,350,476	\$ 15,110,066	\$ 18,114,302	\$ 52,307,868	\$ 56,464,778

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

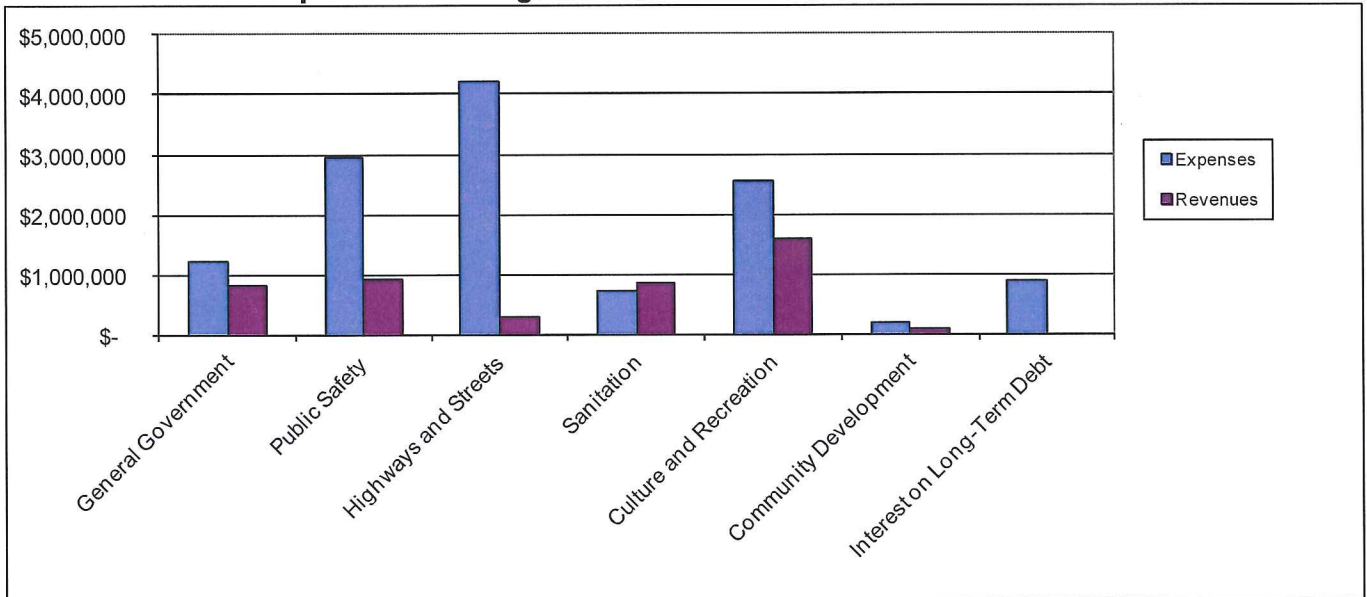
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

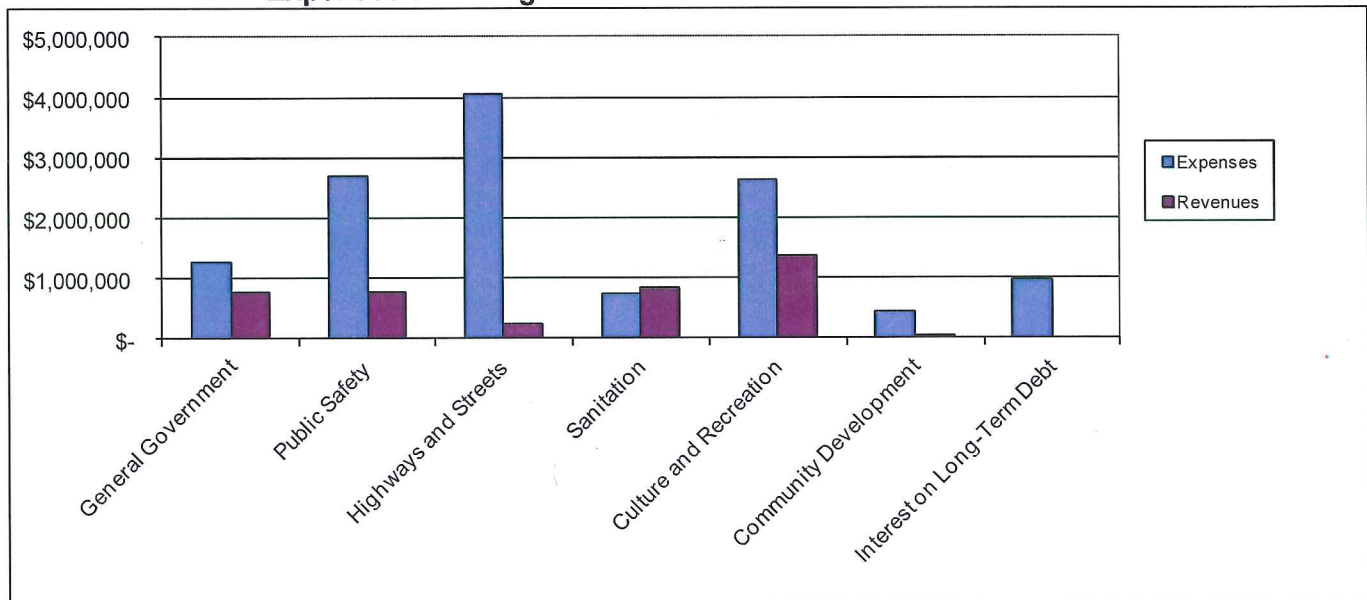
2013

Expenses and Program Revenues-Governmental Activities



2012

Expenses and Program Revenues-Governmental Activities



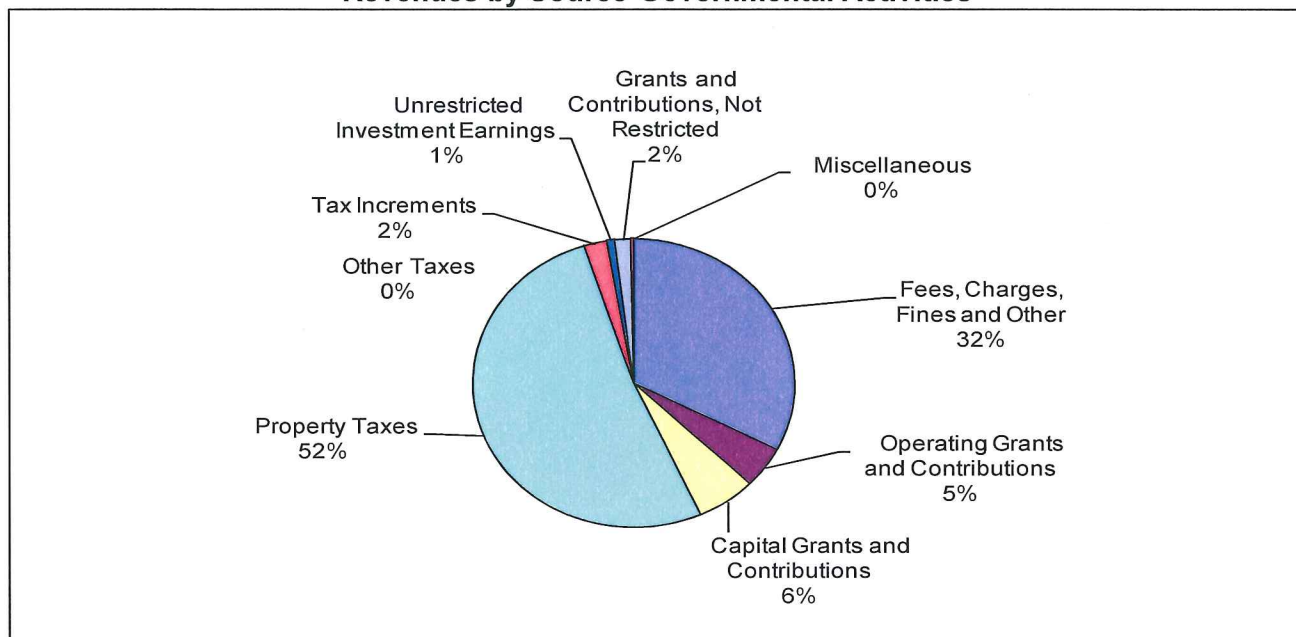
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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

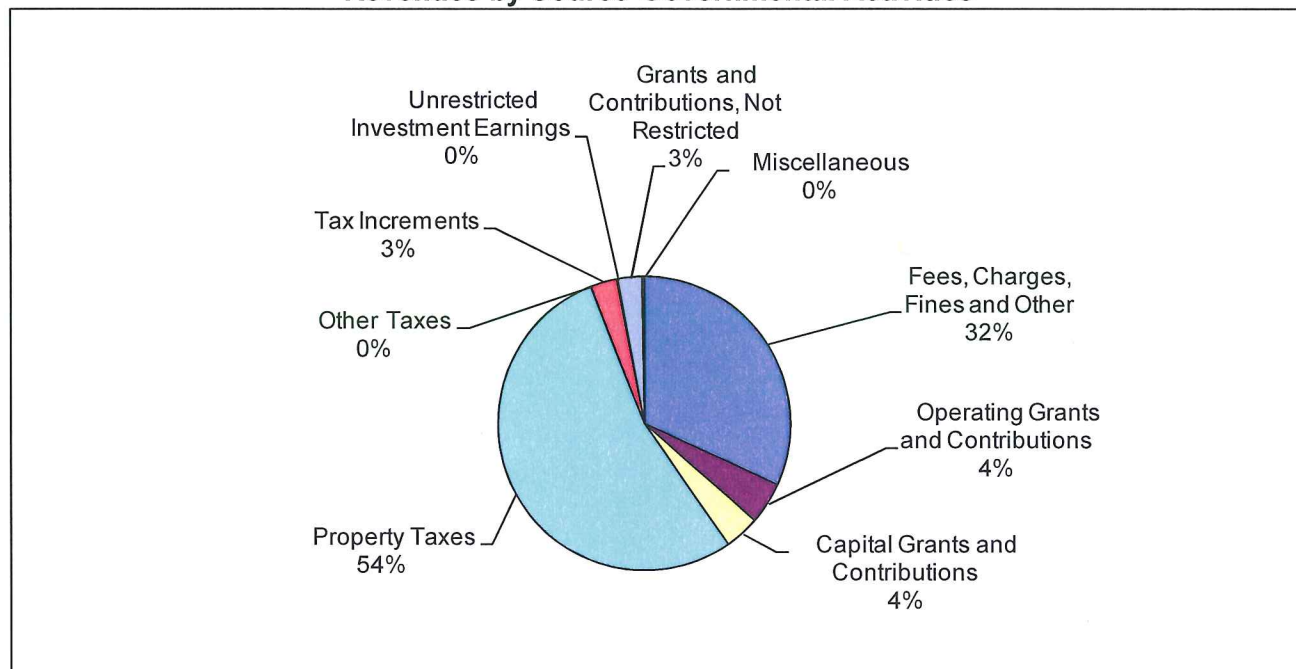
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

**2013
Revenues by Source-Governmental Activities**



**2012
Revenues by Source-Governmental Activities**



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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

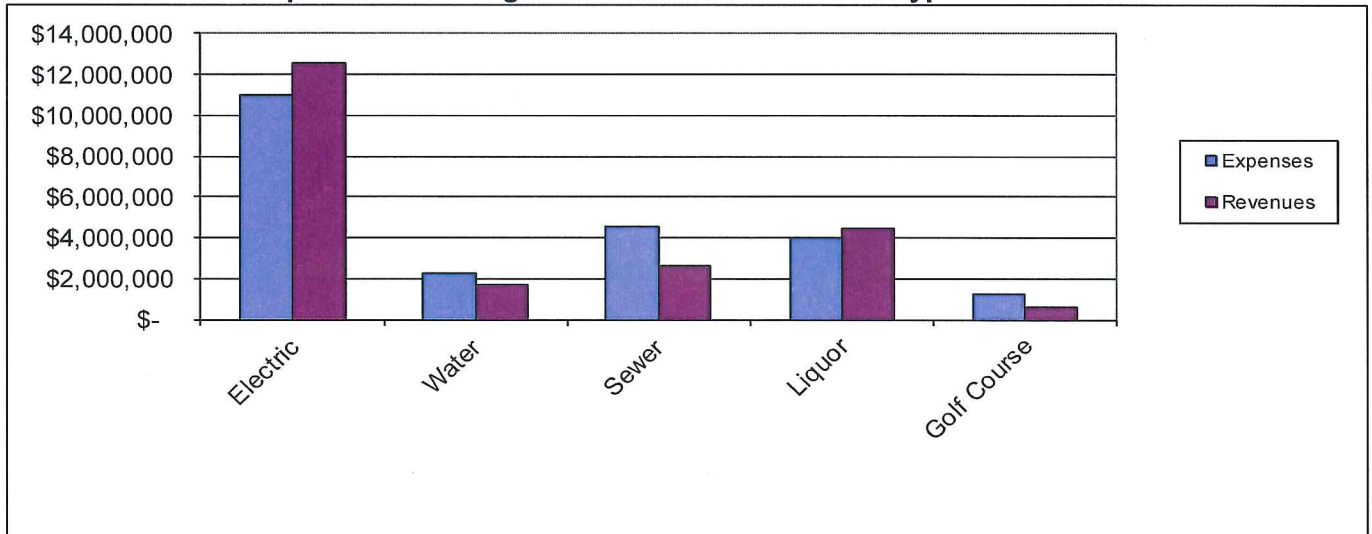
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the business-type activities' direct program revenues with their expenditures. Excess revenues are retained within each fund until such time that capital replacement is needed.

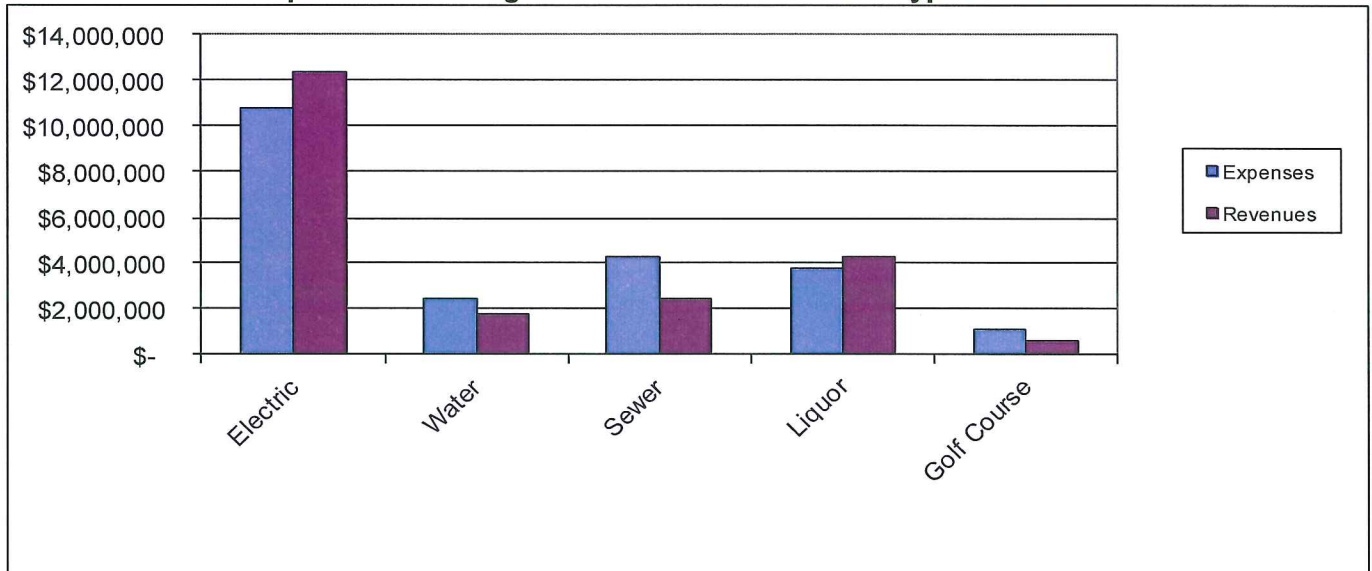
2013

Expenses and Program Revenues – Business-Type Activities



2012

Expenses and Program Revenues – Business-Type Activities



Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in program revenues in the above graphs.

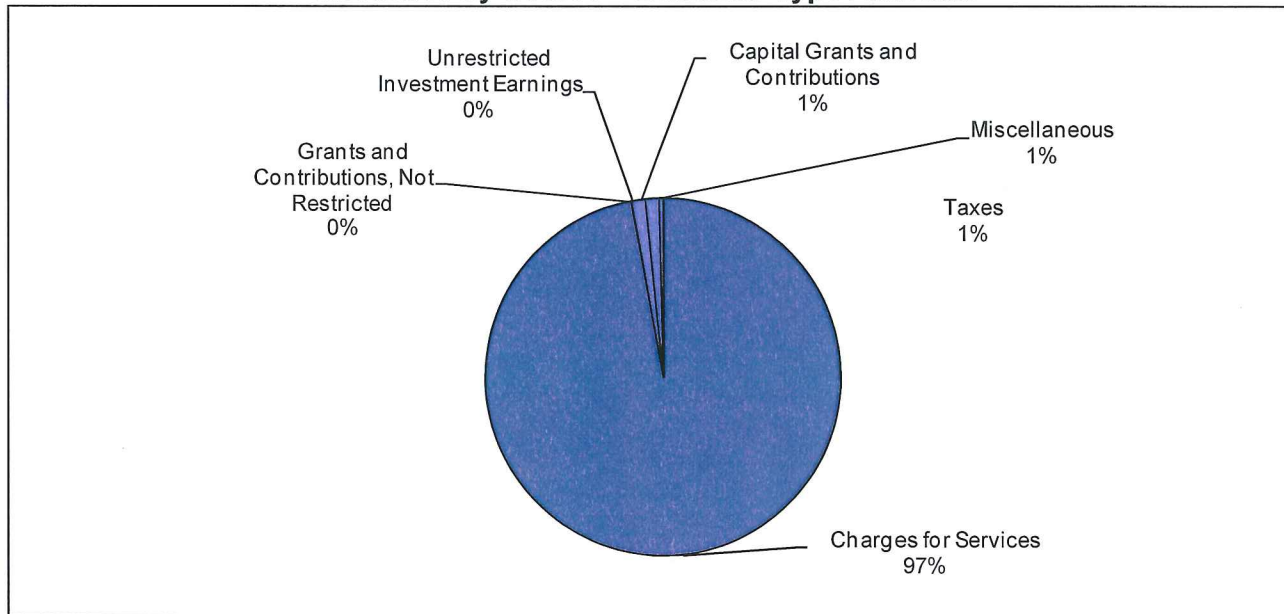
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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

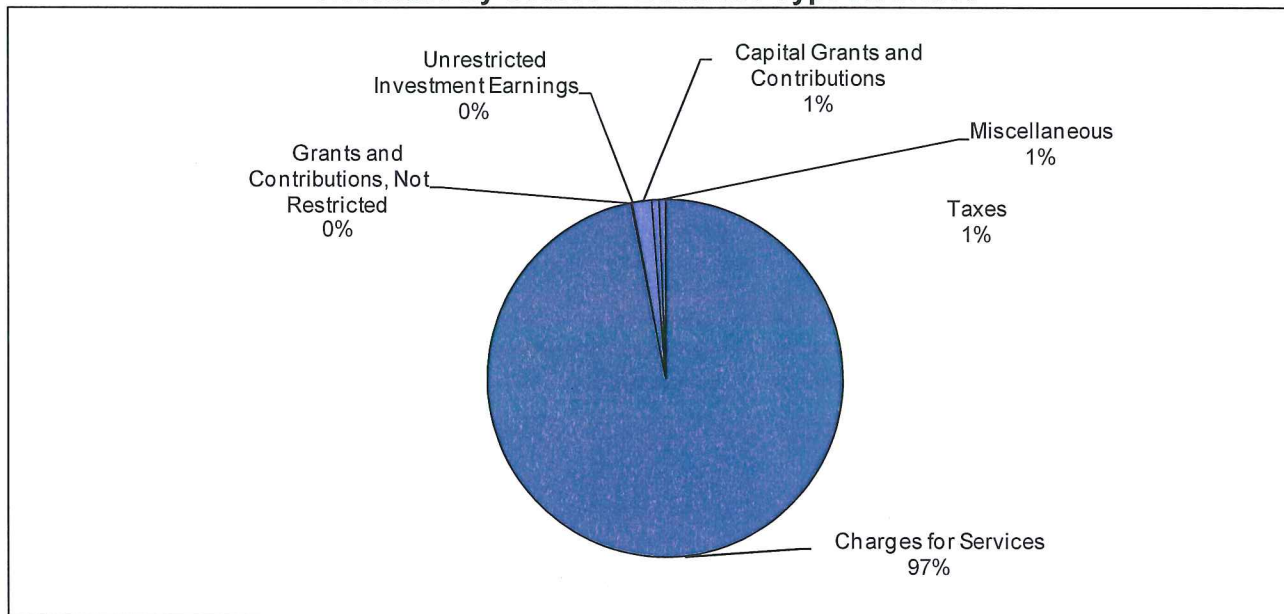
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

**2013
Revenues by Source – Business-Type Activities**



**2012
Revenues by Source – Business-Type Activities**



Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in revenues in the above charts.

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City of Buffalo's governmental funds reported combined ending fund balances of \$6,072,431, an increase of \$1,517,772 in comparison with 2012. The City reported deficit unassigned fund balance in the amount of \$1,741,839. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending. At December 31, 2013 fund balances were as follows:

	Balance	Increase (Decrease) From 2012
General Fund	\$ 3,213,186	\$ 657,828
Debt Service Fund	4,403,807	(243,175)
Capital Project Fund	1,953,722	1,151,419
HRA Debt Service Fund	(1,916,122)	2,297
Other Governmental Funds	(1,582,162)	(50,597)
Total	<u>\$ 6,072,431</u>	<u>\$ 1,517,772</u>

The General Fund is the chief operating fund of the City of Buffalo. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,195,058.

During the current fiscal year, the City of Buffalo's General Fund balance increased by \$657,828. The increase was a result of operating transfers from the electric and liquor funds and an increase in general property tax revenues and building permit fees.

Debt Service

The decrease in the Debt Service Fund balance was the result of scheduled principal and interest payments.

Capital Project

The Capital Projects Fund balance increased as a result of the issuance of bonds during 2013.

HRA Debt Service

The increase in the HRA Debt Service Fund balance was due to more refunds and reimbursements received during 2013.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Proprietary Funds

The City of Buffalo's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position in the Electric Fund at the end of 2013 was \$12,637,531, of which \$3,571,727 is unrestricted. Net position increased \$664,581 during the current year primarily due to an increase in operating revenue.

The Water and Sewer Fund has total net position of \$6,092,412, of which \$1,618,669 is unrestricted. The decrease in net position of \$2,157,787 from 2012 was due to bonded debt interest expense not covered by operating revenues.

The Liquor Fund has total net position of \$1,322,673. It has unrestricted net position of \$168,241. Net position increased by \$53,752 from 2012. The net position increase is consistent with prior years and includes an annual transfer to the General Fund (see Note 8).

The City purchased Wild Marsh Golf Course in May 2004. Wild Marsh has total net position of \$(4,942,550) and unrestricted net position of \$(4,176,925) primarily due to operating losses incurred in the nine and one-half years of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$16,916 over budget due mainly to an increase in charges for services. Expenditures came in over the budgeted amounts by \$33,379 which is mainly due to general government and public safety being over budget. This resulted in a net fund balance decrease of \$16,463 compared to budget for the fiscal year (excluding other financing sources and uses). Refer to pages 68-70 of the required supplementary information for additional information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Buffalo's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$139,340,243 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and furniture, vehicles, machinery and equipment, other capital assets, and infrastructure. The total decrease in the City of Buffalo's investment in capital assets (net of accumulated depreciation) was \$704,520 when compared to 2012. Most of this decrease can be attributed to the depreciation of the City's assets.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

**CITY OF BUFFALO'S CAPITAL ASSETS
(Net of Accumulated Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,724,784	\$ 1,724,784	\$ 2,534,091	\$ 2,534,091	\$ 4,258,875	\$ 4,258,875
Land Improvements	8,674,360	8,875,561	1,734,141	1,804,107	10,408,501	10,679,668
Buildings and Building Improvements	11,009,836	11,440,680	34,257,615	35,249,046	45,267,451	46,689,726
Improvements Other than Building	2,107,582	1,531,031	-	-	2,107,582	1,531,031
Vehicle	1,193,156	1,241,908	-	-	1,193,156	1,241,908
Equipment	1,464,903	1,687,659	2,481,262	2,359,595	3,946,165	4,047,254
Infrastructure	25,470,502	25,911,182	-	-	25,470,502	25,911,182
Utility Distribution Systems	-	-	40,986,535	41,519,597	40,986,535	41,519,597
Construction in Progress	4,720,869	3,893,714	980,607	281,808	5,701,476	4,175,522
Total	<u>\$ 56,365,992</u>	<u>\$ 56,306,519</u>	<u>\$ 82,974,251</u>	<u>\$ 83,748,244</u>	<u>\$ 139,340,243</u>	<u>\$ 140,054,763</u>

Long-Term Debt

At the end of the current fiscal year, the City of Buffalo had total bonded debt outstanding of \$98,771,320. Of this amount, \$28,405,000 comprises tax supported debt, \$2,090,000 is special assessment debt and \$63,472,197 is revenue supported debt. All outstanding debt carries the general obligation backing for which the City is liable in the event of default by the property owners subject to the specific taxes, special assessments or revenues pledged to the retirement of the debt.

**CITY OF BUFFALO'S OUTSTANDING DEBT
(General Obligation)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
G.O. Tax Supported Debt	\$ 20,295,000	\$ 17,840,000	\$ 8,110,000	\$ 4,060,000	\$ 28,405,000	\$ 21,900,000
G.O. Special Assessment Debt	2,090,000	2,185,000	-	-	2,090,000	2,185,000
G.O. Revenue Debt	6,775,767	7,074,780	56,696,430	61,759,417	63,472,197	68,834,197
Interest Accretion on Capital Appreciation Bonds	-	-	4,804,123	3,796,443	4,804,123	3,796,443
Total	<u>\$ 29,160,767</u>	<u>\$ 27,099,780</u>	<u>\$ 69,610,553</u>	<u>\$ 69,615,860</u>	<u>\$ 98,771,320</u>	<u>\$ 96,715,640</u>

The City of Buffalo's total bonded debt increased by \$2,055,680 or (2.1%) during the current fiscal year. There were two new bonds issued in the current fiscal year, a \$5,030,000 General Obligation Bond and a \$3,700,000 General Obligation Bond (see Note 4).

The City of Buffalo maintained an "A+/Stable" rating from Standard & Poor's for general obligation debt. Refer to Notes 3 and 4 for detailed information on capital assets and long-term debt.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Wright County is currently 5.2%, based on U.S. Department of Labor: Bureau of Labor statistics.
- The City of Buffalo continues to see increased commercial/industrial construction growth. Residential growth and home values are somewhat higher.
- Interest rates have remained low and are reflected in the City's investment earnings.
- Local government aid is expected to increase in 2014, however, still significantly lower than years before the state aid cuts occurred.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Buffalo's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Buffalo, 212 Central Ave., Buffalo, Minnesota, 55313.

BASIC FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	2013		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,608,863	\$ 4,723,699	\$ 11,332,562
Restricted Cash and Investments	402,325	-	402,325
Taxes Receivable	116,377	2,588	118,965
Special Assessments Receivable	1,134,067	-	1,134,067
Accounts Receivable	260,324	1,559,039	1,819,363
Hook-up Fees Receivable - Current	-	34,003	34,003
Due from Other Governments	584,536	1,210	585,746
Accrued Interest Receivable	117,987	714	118,701
Internal Balances	3,336,287	(3,336,287)	-
Inventory	13,371	1,388,954	1,402,325
Prepaid Items	10,660	3,527	14,187
Hook-up Fees Receivable - Noncurrent	-	112,410	112,410
Loans Receivable	501,995	-	501,995
Land Held for Resale	23,659	-	23,659
Capital Assets:			
Land and Construction in Progress	6,445,653	3,514,698	9,960,351
Other Capital Assets, Net of Depreciation	49,920,339	79,459,553	129,379,892
Total Assets	69,476,443	87,464,108	156,940,551
DEFERRED OUTFLOWS OF RESOURCES			
Refunding Loss on Bonds	45,687	470,540	516,227
LIABILITIES			
Accounts and Contracts Payable	943,934	1,179,946	2,123,880
Other Accrued Liabilities	136,709	166,893	303,602
Accrued Interest Payable	295,483	397,069	692,552
Due to Other Governmental Units	46,086	18,665	64,751
Escrow Deposits	74,629	111,480	186,109
Unearned Revenue	-	45,214	45,214
Long-Term Liabilities:			
Due within One Year	2,371,528	3,350,194	5,721,722
Due in More than One Year	28,455,959	67,555,121	96,011,080
Total Liabilities	32,324,328	72,824,582	105,148,910
NET POSITION			
Net Investment in Capital Assets	33,072,698	13,928,354	47,001,052
Restricted for:			
Debt Service	7,334,754	-	7,334,754
Federal Loan Programs	120,564	-	120,564
Unrestricted	(3,330,214)	1,181,712	(2,148,502)
Total Net Position	\$ 37,197,802	\$ 15,110,066	\$ 52,307,868

See accompanying Notes to Financial Statements.

**CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	2013			
	Expenses	Fees, Charges, Fines and Other	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,222,696	\$ 807,146	\$ -	\$ -
Public Safety	2,944,725	667,141	242,412	-
Highways and Streets	4,205,373	3,025	177,648	104,929
Sanitation	731,827	863,975	-	-
Culture and Recreation	2,553,652	991,944	62,597	522,076
Community Development	183,456	84,728	7,000	-
Interest on Long-Term Debt	872,144	-	-	-
Total Governmental Activities	12,713,873	3,417,959	489,657	627,005
Business-Type Activities:				
Electric	11,015,306	12,573,027	-	47,793
Water	2,275,587	1,734,307	-	26,363
Sewer	4,555,992	2,634,741	-	215,863
Liquor	4,012,702	4,457,401	-	-
Golf Course	1,225,553	636,754	-	-
Total Business-Type Activities	23,085,140	22,036,230	-	290,019
Total	\$ 35,799,013	\$ 25,454,189	\$ 489,657	\$ 917,024

General Revenues:

Taxes:

 Property Taxes, Levied for General Purpose

 Tax Increments

 Other Taxes

Grants and Contributions not Restricted to Specific Programs

Unrestricted Investment Earnings (Loss)

Gain on Disposal of Capital Assets

Miscellaneous

Transfers

 Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Prior Period Adjustment

Net Position - Beginning of Year, as Restated

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

2013

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (415,550)	\$ -	\$ (415,550)
(2,035,172)	-	(2,035,172)
(3,919,771)	-	(3,919,771)
132,148	-	132,148
(977,035)	-	(977,035)
(91,728)	-	(91,728)
(872,144)	-	(872,144)
(8,179,252)	-	(8,179,252)
-	1,605,514	1,605,514
-	(514,917)	(514,917)
-	(1,705,388)	(1,705,388)
-	444,699	444,699
-	(588,799)	(588,799)
-	(758,891)	(758,891)
(8,179,252)	(758,891)	(8,938,143)
5,441,603	289,099	5,730,702
245,253	-	245,253
1,830	-	1,830
166,577	-	166,577
80,915	6,434	87,349
360	-	360
29,104	87,849	116,953
1,656,507	(1,656,507)	-
7,622,149	(1,273,125)	6,349,024
(557,103)	(2,032,016)	(2,589,119)
38,350,476	18,114,302	56,464,778
(595,571)	(972,220)	(1,567,791)
37,754,905	17,142,082	54,896,987
\$ 37,197,802	\$ 15,110,066	\$ 52,307,868

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2013**

	General Fund	Debt Service Fund	Capital Project Fund
ASSETS			
Cash and Investments	\$ 104,108	\$ 2,481,397	\$ 2,478,266
Restricted Cash and Investments	-	-	-
Taxes Receivable:			
Delinquent	66,018	40,065	-
Special Assessments Receivable:			
Delinquent	-	90,547	-
Deferred	-	1,043,520	-
Accounts Receivable	187,932	-	-
Due from Other Governmental Units	25,555	9,909	72,291
Accrued Interest Receivable	-	2,804	-
Due from Other Funds	3,290,416	-	-
Advances to Other Funds	-	1,918,759	-
Interfund Lease Receivable	-	-	-
Inventory	-	-	-
Prepaid Expenses	10,328	-	-
Loans Receivable, Net of Allowance	-	-	-
Land Held for Resale	7,800	-	-
	<u>\$ 3,692,157</u>	<u>\$ 5,587,001</u>	<u>\$ 2,550,557</u>
Total Assets			
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts and Contracts Payable	\$ 202,705	\$ -	\$ 596,835
Other Accrued Liabilities	96,131	-	-
Due to Other Governmental Units	46,086	-	-
Due to Other Funds	-	9,063	-
Advances From Other Funds	-	-	-
Escrow Deposits	68,031	-	-
Total Liabilities	<u>412,953</u>	<u>9,063</u>	<u>596,835</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	66,018	40,065	-
Unavailable Special Assessments	-	1,134,066	-
Unavailable Lease Receivables	-	-	-
Unavailable Loans Receivables	-	-	-
Other Unavailable Resources	-	-	-
Total Deferred Inflows of Resources	<u>66,018</u>	<u>1,174,131</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Nonspendable	18,128	-	-
Restricted	-	4,403,807	1,953,722
Committed	-	-	-
Assigned	-	-	-
Unassigned	3,195,058	-	-
Total Fund Balances (Deficits)	<u>3,213,186</u>	<u>4,403,807</u>	<u>1,953,722</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,692,157</u>	<u>\$ 5,587,001</u>	<u>\$ 2,550,557</u>

See accompanying Notes to Financial Statements.

2013		
HRA Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 58,058	\$ 1,487,034	\$ 6,608,863
402,325	-	402,325
-	10,294	116,377
-	-	90,547
-	-	1,043,520
-	72,392	260,324
-	476,781	584,536
-	115,183	117,987
28,421	9,063	3,327,900
-	20,000	1,938,759
3,940,000	-	3,940,000
-	13,371	13,371
-	332	10,660
-	501,995	501,995
-	15,859	23,659
<u>\$ 4,428,804</u>	<u>\$ 2,722,304</u>	<u>\$ 18,980,823</u>

\$ -	\$ 144,394	\$ 943,934
-	40,578	136,709
-	-	46,086
-	3,290,416	3,299,479
2,376,505	194,388	2,570,893
-	6,598	74,629
<u>2,376,505</u>	<u>3,676,374</u>	<u>7,071,730</u>
-	10,294	116,377
-	-	1,134,066
3,968,421	-	3,968,421
-	617,178	617,178
-	620	620
<u>3,968,421</u>	<u>628,092</u>	<u>5,836,662</u>
-	72,062	90,190
-	5,450	6,362,979
-	563,833	563,833
-	797,268	797,268
<u>(1,916,122)</u>	<u>(3,020,775)</u>	<u>(1,741,839)</u>
<u>(1,916,122)</u>	<u>(1,582,162)</u>	<u>6,072,431</u>
<u>\$ 4,428,804</u>	<u>\$ 2,722,304</u>	<u>\$ 18,980,823</u>

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**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

	<u>2013</u>
Total Fund Balance for Governmental Funds	\$ 6,072,431
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Land	1,724,784
Construction in Progress	4,720,869
Land Improvements	12,886,616
Buildings and Improvements	17,334,082
Improvements Other than Buildings	3,349,287
Vehicles	3,207,862
Equipment	6,433,325
Infrastructure	73,478,003
Less: Accumulated Depreciation	(66,768,836)
Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	
	5,836,662
The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds.	
	45,687
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.	
	(295,483)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:	
Bonds Payable	(29,160,767)
Unamortized Discounts and Premium and Bond Issuance Costs	(320,136)
Note Payable	(169,363)
Obligations Under Capital Leases	(808,949)
Compensated Absences Payable	(368,272)
Total Net Position of Governmental Activities	<u>\$ 37,197,802</u>

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2013**

	General Fund	Debt Service Fund	Capital Project Fund
REVENUES			
General Property Taxes	\$ 3,457,944	\$ 1,858,915	\$ -
Tax Increments	-	-	-
Other Taxes	1,830	-	-
Licenses and Permits	261,664	-	-
Intergovernmental	462,908	8,400	-
Special Assessments	-	130,330	-
Charges for Services	1,454,006	-	-
Fines and Forfeits	32,703	-	-
Investment Earnings (Loss)	1,937	36,714	4,686
Refunds and Reimbursements	76,508	-	-
Grants and Contributions	44,668	-	-
Miscellaneous	16,264	-	7,101
Total Revenues	5,810,432	2,034,359	11,787
EXPENDITURES			
Current:			
General Government	954,809	-	-
Public Safety	2,313,086	-	-
Public Works	1,213,829	-	-
Sanitation	731,827	-	-
Culture and Recreation	815,307	-	-
Community Development	-	-	-
Capital Outlay:			
General Government	142,697	-	-
Public Safety	83,391	-	-
Public Works	10,283	-	3,196,500
Sanitation	6,665	-	-
Culture and Recreation	37,797	-	-
Community Development	-	-	-
Capital Leases:			
Principal	193,852	-	-
Interest and Fiscal Charges	9,170	-	-
Debt Service:			
Principal	33,426	1,817,013	-
Interest and Fiscal Charges	8,381	748,519	71,592
Total Expenditures	6,554,520	2,565,532	3,268,092
Revenue Over (Under) Expenditures	(744,088)	(531,173)	(3,256,305)
OTHER FINANCING SOURCES (USES)			
Transfer In	1,450,080	223,279	157,103
Transfer Out	(227,418)	(25,542)	(6,863)
Bond Proceeds	-	90,261	4,069,739
Proceeds from Sale of Capital Assets	360	-	-
Capital Lease Proceeds	178,894	-	-
Bond Premium	-	-	187,745
Total Other Financing Sources (Uses)	1,401,916	287,998	4,407,724
Net Change in Fund Balance	657,828	(243,175)	1,151,419
Fund Balance (Deficit) - Beginning of Year	2,555,358	4,646,982	802,303
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 3,213,186	\$ 4,403,807	\$ 1,953,722

See accompanying Notes to the Financial Statements.

2013		
HRA Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 49,500	\$ 192,097	\$ 5,558,456
-	134,319	134,319
-	-	1,830
-	-	261,664
-	605,334	1,076,642
-	-	130,330
-	1,544,630	2,998,636
-	-	32,703
263,136	1,685	308,158
269,140	7,015	352,663
-	57,000	101,668
-	6,240	29,605
<u>581,776</u>	<u>2,548,320</u>	<u>10,986,674</u>
-	-	954,809
-	387,699	2,700,785
-	-	1,213,829
-	-	731,827
-	1,154,903	1,970,210
900	219,728	220,628
-	-	142,697
-	11,942	95,333
-	-	3,206,783
-	-	6,665
-	102,489	140,286
-	529,447	529,447
-	119,093	312,945
-	10,159	19,329
282,000	18,594	2,151,033
270,803	-	1,099,295
<u>553,703</u>	<u>2,554,054</u>	<u>15,495,901</u>
28,073	(5,734)	(4,509,227)
23,724	140,462	1,994,648
(49,500)	(185,325)	(494,648)
-	-	4,160,000
-	-	360
-	-	178,894
-	-	187,745
<u>(25,776)</u>	<u>(44,863)</u>	<u>6,026,999</u>
2,297	(50,597)	1,517,772
(1,918,419)	(1,531,565)	4,554,659
<u>\$ (1,916,122)</u>	<u>\$ (1,582,162)</u>	<u>\$ 6,072,431</u>

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**CITY OF BUFFALO, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

	<u>2013</u>
Net Change in Fund Balances-Total Governmental Funds	\$ 1,517,772
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlays	4,220,131
Capital Contributions	156,506
Depreciation Expense	(4,317,164)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.	
Capital Lease Proceeds	(178,894)
Principal Payments for Capital Leases	312,945
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
General Obligation Bond Proceeds	(4,160,000)
Bond Discount/Premium	(187,745)
Repayment of Bond Principal and Note Payable	2,151,033
Change in Accrued Interest Expense for General Obligation Bonds	15,344
Amortization of Bond Discount/Premium	29,644
Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds.	(110,393)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(6,282)
Change in Net Position of Governmental Activities	<u>\$ (557,103)</u>

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

ASSETS	<u>Electric</u>	<u>Water & Sewer</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,794,135	\$ 859,365
Accounts Receivable, Net of Allowance	1,150,940	403,516
Accrued Interest Receivable	714	-
Taxes Receivable	-	-
Sewer and Water Hook-up Fees Receivable - Current Portion	-	34,003
Due from Other Governments	-	696
Due from Other Funds	-	4,062,116
Inventory	842,570	8,335
Prepaid Expenses	3,205	-
Total Current Assets	<u>5,791,564</u>	<u>5,368,031</u>
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	112,410
Advance to Other Funds	174,388	250,000
Capital Assets:		
Land, Buildings, Infrastructure and Improvements	21,896,540	91,681,088
Equipment	4,832,043	1,405,915
Construction in Progress	80,668	899,939
Total Capital Assets	<u>26,809,251</u>	<u>93,986,942</u>
Less: Allowance for Depreciation	<u>(13,628,112)</u>	<u>(28,751,814)</u>
Total Net Capital Assets	<u>13,181,139</u>	<u>65,235,128</u>
 Total Long-Term Assets	 <u>13,355,527</u>	 <u>65,597,538</u>
 Total Assets	 19,147,091	 70,965,569
DEFERRED OUTFLOWS OF RESOURCES		
Refunding Loss on Bonds	<u>-</u>	<u>470,540</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 19,147,091</u></u>	 <u><u>\$ 71,436,109</u></u>

See accompanying Notes to the Financial Statements.

2013		
Liquor	Golf Course	Total
\$ 70,199	\$ -	\$ 4,723,699
2,645	1,938	1,559,039
-	-	714
2,588	-	2,588
-	-	34,003
514	-	1,210
-	-	4,062,116
502,647	35,402	1,388,954
-	322	3,527
578,593	37,662	11,775,850
-	-	112,410
-	457,746	882,134
2,021,557	3,283,296	118,882,481
449,684	985,807	7,673,449
-	-	980,607
2,471,241	4,269,103	127,536,537
(794,761)	(1,387,599)	(44,562,286)
1,676,480	2,881,504	82,974,251
1,676,480	3,339,250	83,968,795
2,255,073	3,376,912	95,744,645
-	-	470,540
<u>\$ 2,255,073</u>	<u>\$ 3,376,912</u>	<u>\$ 96,215,185</u>

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2013**

LIABILITIES	<u>Electric</u>	<u>Water & Sewer</u>
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 671,208	\$ 401,779
Accrued Expenses	81,022	19,286
Due to Other Governments	-	13,857
Due to Other Funds	-	-
Accrued Interest	76,734	315,255
Unearned Revenue	83	-
Compensated Absences - Current Portion	58,077	55,704
Capital Lease Obligation - Current Portion	13,000	2,404
Interfund Lease Payable - Current Portion	-	-
Bonds Payable - Current Portion	1,210,000	1,852,987
Total Current Liabilities	<u>2,110,124</u>	<u>2,661,272</u>
LONG-TERM LIABILITIES		
Escrow Deposits	-	111,480
Compensated Absences - Long-Term	59,397	19,064
Capital Lease Obligation - Long-Term	50,184	9,282
Bonds Payable - Long-Term	4,289,855	62,542,599
Interfund Lease Payable - Long-Term	-	-
Advance from Other Funds	-	-
Total Long-Term Liabilities	<u>4,399,436</u>	<u>62,682,425</u>
Total Liabilities	6,509,560	65,343,697
NET POSITION		
Net Investment in Capital Assets	9,065,804	4,473,743
Unrestricted	3,571,727	1,618,669
Total Net Position	<u>12,637,531</u>	<u>6,092,412</u>
Total Liabilities and Net Position	<u>\$ 19,147,091</u>	<u>\$ 71,436,109</u>

See accompanying Notes to Financial Statements.

2013		
Liquor	Golf Course	Total
\$ 60,245	\$ 46,714	\$ 1,179,946
58,915	7,670	166,893
2,574	2,234	18,665
-	4,090,537	4,090,537
5,080	-	397,069
2,588	42,543	45,214
13,491	19,968	147,240
86,838	37,725	139,967
-	165,000	165,000
-	-	3,062,987
<u>229,731</u>	<u>4,412,391</u>	<u>9,413,518</u>
-	-	111,480
17,459	4,921	100,841
435,210	127,150	621,826
-	-	66,832,454
-	3,775,000	3,775,000
250,000	-	250,000
<u>702,669</u>	<u>3,907,071</u>	<u>71,691,601</u>
932,400	8,319,462	81,105,119
1,154,432	(765,625)	13,928,354
168,241	(4,176,925)	1,181,712
<u>1,322,673</u>	<u>(4,942,550)</u>	<u>15,110,066</u>
<u>\$ 2,255,073</u>	<u>\$ 3,376,912</u>	<u>\$ 96,215,185</u>

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013**

	Electric	Water & Sewer
OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	-	-
Charges for Services	12,573,027	4,369,048
Total Gross Profit and Operating Revenues	<u>12,573,027</u>	<u>4,369,048</u>
OPERATING EXPENSES		
Cost of Sales and Services	8,799,015	1,131,256
Compensation and Employee Benefits	1,079,793	792,301
Depreciation	956,364	2,120,125
Total Operating Expenses	<u>10,835,172</u>	<u>4,043,682</u>
OPERATING INCOME (LOSS)	1,737,855	325,366
OTHER INCOME (EXPENSES)		
Interest Income (Loss)	4,485	6,172
Interest Expense	(180,134)	(2,787,897)
Taxes and Special Assessments	-	176,472
Access Fees	14,500	242,226
Refunds and Reimbursements	33,293	-
Miscellaneous Revenue	3,376	37,587
Total Other Income (Expense)	<u>(124,480)</u>	<u>(2,325,440)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,613,375	(2,000,074)
CONTRIBUTIONS AND TRANSFERS		
Transfers Out	(950,000)	-
Capital Contributions to Other Funds	-	(259,754)
Capital Contributed from Other Funds	1,206	102,041
Total Contributions and Transfers	<u>(948,794)</u>	<u>(157,713)</u>
CHANGE IN NET POSITION	664,581	(2,157,787)
Net Position - Beginning of Year	12,078,300	9,087,454
Prior Period Adjustment	(105,350)	(837,255)
Restated Net Position - Beginning of Year	<u>11,972,950</u>	<u>8,250,199</u>
NET POSITION - END OF YEAR	<u>\$ 12,637,531</u>	<u>\$ 6,092,412</u>

See accompanying Notes to Financial Statements.

2013		
Liquor	Golf Course	Total
\$ 4,457,401	\$ 72,852	\$ 4,530,253
(3,217,509)	(49,727)	(3,267,236)
-	563,902	17,505,977
<u>1,239,892</u>	<u>587,027</u>	<u>18,768,994</u>
224,627	360,352	10,515,250
464,001	482,754	2,818,849
69,536	157,781	3,303,806
<u>758,164</u>	<u>1,000,887</u>	<u>16,637,905</u>
481,728	(413,860)	2,131,089
210	(4,433)	6,434
(37,029)	(174,939)	(3,179,999)
112,627	-	289,099
-	-	256,726
-	670	33,963
46,216	-	87,179
<u>122,024</u>	<u>(178,702)</u>	<u>(2,506,598)</u>
603,752	(592,562)	(375,509)
(550,000)	-	(1,500,000)
-	-	(259,754)
-	-	103,247
<u>(550,000)</u>	<u>-</u>	<u>(1,656,507)</u>
53,752	(592,562)	(2,032,016)
1,268,921	(4,320,373)	18,114,302
-	(29,615)	(972,220)
<u>1,268,921</u>	<u>(4,349,988)</u>	<u>17,142,082</u>
<u>\$ 1,322,673</u>	<u>\$ (4,942,550)</u>	<u>\$ 15,110,066</u>

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013**

	Electric	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Service Users	\$ 12,612,168	\$ 4,363,734
Cash Paid to Suppliers	(8,772,861)	(1,147,405)
Cash Paid to Employees	(1,074,532)	(785,318)
Net Cash Provided (Used) by Operating Activities	<u>2,764,775</u>	<u>2,431,011</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund Borrowing	(950,000)	-
Interfund Note Receivable	-	50,000
Advance to Other Funds	-	(555,142)
Advance From Other Funds	-	-
Property Tax Revenues	-	176,472
Water and Sewer Hook-up Fee Revenues	-	70,971
Miscellaneous Revenues	36,669	37,587
Intergovernmental Revenues	-	(696)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(913,331)</u>	<u>(220,808)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Bonds	1,455,000	3,115,000
Payments on Bond Issuance Costs, Premiums and Discounts	72,962	178,889
Interfund Lease Payable	-	-
Access Fees	14,500	242,226
Acquisition and Construction of Capital Assets	(925,173)	(1,469,615)
Interest Paid on Revenue Bonds	(188,615)	(1,790,545)
Interest Paid on Capital Lease Obligations	(646)	(104)
Principal Payments on Capital Lease Obligation	(13,352)	(1,588)
Principal Payments on Revenue Bonds	(1,025,000)	(4,557,987)
Net Cash Used by Capital and Related Financing Activities	<u>(610,324)</u>	<u>(4,283,724)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	<u>4,534</u>	<u>6,172</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,245,654	(2,067,349)
Cash and Cash Equivalents - Beginning of Year	<u>2,548,481</u>	<u>2,926,714</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 3,794,135</u></u>	<u><u>\$ 859,365</u></u>
NONCASH TRANSACTIONS		
Capital Lease Proceeds	\$ 67,438	\$ 12,473
Capital Contributed From Other Funds	1,206	102,041
Capital Contributed to Governmental Activities	-	(259,754)
Interest Accretion on Capital Appreciation Bonds	-	1,007,682
Amortized Premiums and Refunding Loss	-	(426,568)
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 68,644</u></u>	<u><u>\$ 435,874</u></u>

See accompanying Notes to Financial Statements.

2013		
Liquor	Golf Course	Total
\$ 4,456,666	\$ 644,328	\$ 22,076,896
(3,358,436)	(371,852)	(13,650,554)
(457,183)	(475,553)	(2,792,586)
641,047	(203,077)	5,633,756
(550,000)	554,423	(945,577)
-	-	50,000
-	-	(555,142)
(50,000)	-	(50,000)
113,411	-	289,883
-	-	70,971
46,216	670	121,142
769	-	73
(439,604)	555,093	(1,018,650)
-	-	4,570,000
-	-	251,851
-	(115,000)	(115,000)
-	-	256,726
(51,078)	(36,216)	(2,482,082)
(15,011)	-	(1,994,171)
(22,831)	(174,939)	(198,520)
(83,539)	(21,428)	(119,907)
-	-	(5,582,987)
(172,459)	(347,583)	(5,414,090)
210	(4,433)	6,483
29,194	-	(792,501)
41,005	-	5,516,200
\$ 70,199	\$ -	\$ 4,723,699
\$ -	\$ 134,327	\$ 214,238
-	-	103,247
-	-	(259,754)
-	-	1,007,682
-	-	(426,568)
\$ -	\$ 134,327	\$ 638,845

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	Electric	Water & Sewer
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,737,855	\$ 325,366
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	956,364	2,120,125
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	63,039	(12,436)
(Increase) Decrease in Prepaid Items	(3,205)	-
(Increase) Decrease in Inventory	(16,694)	-
Increase (Decrease) in Accounts and Contracts Payable	47,486	(19,463)
Increase (Decrease) in Accrued Expenses	638	3,314
Increase (Decrease) in Due to Other Governments	(1,433)	7,122
Increase (Decrease) in Unearned Revenue	(23,898)	-
Increase (Decrease) in Accrued Compensated Absences	4,623	6,983
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,764,775</u>	<u>\$ 2,431,011</u>

See accompanying Notes to the Financial Statements.

2013		
Liquor	Golf Course	Total
\$ 481,728	\$ (413,860)	\$ 2,131,089
69,536	157,781	3,303,806
49	2,644	53,296
-	(322)	(3,527)
138,375	(3,686)	117,995
(56,843)	42,235	13,415
4,098	2,595	10,645
2,168	(1,791)	6,066
(784)	4,930	(19,752)
2,720	6,397	20,723
<u>\$ 641,047</u>	<u>\$ (203,077)</u>	<u>\$ 5,633,756</u>

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NOTES TO FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Buffalo, located in Wright County in Minnesota, conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

The City adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to January 1, 2013. This statement requires certain items that were previously reported as assets and liabilities to be reported as deferred outflows of resources or deferred inflows of resources in the year incurred or received.

A. Financial Reporting Entity

As required by GAAP, the financial statements of the reporting entity include those of the City of Buffalo and its component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

The Housing and Redevelopment Authority (HRA) of Buffalo is an entity legally separate from the City. However, for financial reporting purposes, the HRA is reported as if it were part of the City's operations (blended component unit) because the HRA provides services primarily to the City of Buffalo and the City Council appoints the commission board members.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. The City reports all proprietary funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, interest, principal and related costs on general long-term debt.

Capital Project Fund

The Capital Project Fund accounts for financial resources to be used for acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

HRA Debt Service Fund

The HRA Debt Service Fund accounts for the accumulation of resources for, and the payment of, interest, principal and related costs on general long-term debt for the HRA.

The City reports the following major proprietary funds:

Electric Fund

The Electric Fund accounts for customer electric service charges that are used to finance electric operating expenses.

Water and Sewer Fund

The Water and Sewer Fund accounts for customer water and sewer service charges that are used to finance water and sewer operating expenses.

Liquor Fund

The Liquor Fund accounts for customer sales that are used to finance liquor store operating expenses and provide funds for general operations of the City.

Golf Course Fund

The Golf Course Fund accounts for customer sales that are used to finance golf course operating expenses.

C. Measurement Focus and Basis of Accounting

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Electric, Water and Sewer, Liquor Stores and Golf Course Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets

Annual appropriation budgets are adopted for the following funds: General, Fire, Library, Airport, and Civic Center.

The General Fund budget does not include activity related to the community center or parks. Therefore, the budgetary basis for the General Fund differs from GAAP. Budgets for the Fire, Library, Airport, and Civic Center are adopted on a basis consistent with GAAP.

Budgeted amounts are reported as originally adopted, or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments, and the final tax levy and budget are adopted.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds.
5. Budgets are adopted on a basis consistent with GAAP except for the General Fund, as previously described, and enterprise funds where capital expenditures are budgeted for as an operating expense. Budgeted amounts presented are as originally adopted. The City does not budget for some special revenue funds that have minimal transactions nor is an annual budget prepared for the HRA.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances

1. Cash and Investments

Cash and investment balances from all funds are combined and invested to the extent available in certificates of deposits and other allowable investments. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Short-term highly liquid debt instruments (including commercial paper, bankers' acceptances and U.S. Treasury and Agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

2. Property Tax Credits

Property taxes on homestead property (as defined by state statutes) are partially reduced by property tax credits. These credits are paid to the City by the state in lieu of taxes levied against homestead property. The state remits these credits through installments each year.

3. Property Tax Revenue Recognition

Property tax levies are set by the City Council in December of each year, and are certified to the County Auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the City at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing entities three times a year.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources in the governmental funds because it is not available to finance current expenditures. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements.

4. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

4. Special Assessment Revenue Recognition (Continued)

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year.

Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent assessments receivable in governmental funds are completely offset by deferred inflows of resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

5. Utility Billing

The City bills customers monthly for the following utility services: electric, sewer and water, sanitation, recycling, storm sewer and internet. The City bills and recognizes the electric, sewer and water services revenue at mid-month, when the meters are read.

6. Inventories

Materials and supplies, if material, are recorded at original cost and are reported under the consumption method in the Governmental Funds. Inventories in the City's utility funds and liquor store funds are reflected at average cost.

7. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as "due from other funds", "interfund lease receivable", "interfund note receivable", or "advances to other funds" on the balance sheets of the fund financial statements.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

8. Loans Receivable

The City records loans receivable for a revolving loan program that assists residents in the rehabilitation of homes. Also, the HRA issues loans to local businesses. The City estimates the allowance based on the specific identification method. The estimated allowance as of December 31, 2013 for the HRA loans is \$8,296 and the estimated allowance for the revolving loan program is \$97,061.

9. Property Held for Resale

These assets are recorded at the lower of original cost or current net realizable value in the governmental fund, which purchased them.

10. Capital Assets

Capital assets are capitalized at historical cost, estimated historical cost, or in the case of contributions, at their estimated fair market value at the time received. In the case of the initial capitalization of infrastructure, the City retroactively implemented the reporting of this item when GASB 34 was implemented. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred.

Capital assets related to general governmental activities are recorded in the government-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 10 years for Office Furnishings, Office and Computer Equipment, Vehicles and Large Equipment; 20 to 50 years for Infrastructure and 40 to 50 years for Buildings and Plants. Capital assets not being depreciated include land and construction in progress.

Property, plant and equipment used by proprietary funds are stated at cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received.

11. Compensated Absences

Vacation

City employees earn vacation days based upon the number of completed years of service. The City compensates employees for unused vacation upon termination of employment. Accordingly, the expenditure for vacation is recognized as it is used in the governmental funds and is recognized as it is earned in the proprietary funds. Accrued vacation (unused) is recorded in the proprietary fund level statements and in the government-wide statements as compensated absences.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

11. Compensated Absences (Continued)

Sick Leave

Employees are entitled to paid sick leave at various rates for each month of full-time service. Sick pay is recorded as an expenditure when payment is made.

Severance

Regular employees who retire from active service receive pay for a percentage of their unused sick leave as severance. The percentage of sick leave varies from 25% to 40% based on years of service. The estimated severance liability is recorded in the fund level statements of the proprietary funds as compensated absences payable and in the government-wide financial statements as a component of long-term debt.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed in the year of issuance.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as an other financing source. Premiums and discounts received on debt issuances are reported as other financing sources and uses, respectively. Bond issuance costs are reported as debt service expenditures.

13. Deferred Outflows of Resources

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position or fund balance, that relate to future periods. The City will not recognize the related outflow until a future event occurs.

14. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

15. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statements of net position and statements of activities.

16. Allowance for Uncollectible Accounts

Allowance for uncollectible accounts receivable are established when City management believes that some portion of the receivable will not be collected. Management's estimate of the required allowance is based upon historical experience and analysis of receivables on a specific identification basis.

17. Net Position

In the government-wide financial statements and in the proprietary fund level statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because the City reports all capital assets which make up a significant portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

18. Fund Balance

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the City Administrator and the Assistant Administrator for Business and Operations to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the City's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the City's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Investment earnings on cash and pooled investments are credited to all funds based on their cash balances each month. In addition, some funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2013 were \$13,686.

A. Deposits

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of a state or local governments rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposit policy does not provide additional restrictions beyond Minnesota State Statutes. At year-end, the carrying amount of the City's deposits was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The City may also invest idle funds as authorized by *Minnesota Statutes* as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;
- General obligations rated "A" or better; revenue obligations rated "AA" or better;
- General obligations of the Minnesota Housing Finance Agency rated "A" or better;
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less;
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories;
- Repurchase or reverse purchase agreements and security lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

As of December 31, 2013, the City had the following investments in its pool:

Investment	Credit Rating	Maturity	Fair Value	Percent of Total
First American Treasury Obligations Fund - Class A	AAA	N/A	\$ 402,325	66.80%
Negotiable Certificates of Deposit:				
Wells Fargo	NR	5/24/2014	200,000	33.20%
			<u>\$ 602,325</u>	

NR - Not Rated

Interest Rate Risk – This is the risk that arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City implemented a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maximum maturity for US Treasury securities, federal agency securities and brokered certificates of deposits is 10 years and commercial paper is 270 days.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk – *Minnesota Statutes* restrict the types of investments that the City may invest in. The City has an investment policy that limits its investment choices to commercial paper with a minimum credit quality of A1/P1 or better and brokered certificates of deposit with 150 IDC or higher.

Concentration of Credit Risk – The City's investment policy places the following limits on the amount the City may invest in any one issuer: \$5,000,000 for commercial paper and \$1,000,000 for brokered certificates of deposit. Percentages of concentration of credit risk by investment are shown in the table on the previous page.

Custodial Credit Risk – Investments – For an investment, this is that risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits brokered certificates of deposit to \$250,000 (the amount of FDIC coverage).

The deposits and investments are presented in the financial statements as follows:

Cash	\$ 9,546,132
Money Market Accounts	8,338
Non-Negotiable Certificates of Deposits	1,578,092
Investments	<u>602,325</u>
Total Cash and Investments	<u>\$ 11,734,887</u>
Cash and Investments	\$ 11,332,562
Restricted Cash and Investments	<u>402,325</u>
Total Cash and Investments	<u>\$ 11,734,887</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,724,784	\$ -	\$ -	\$ -	\$ 1,724,784
Construction in Progress	3,893,714	3,860,801	(2,931,604)	(102,042)	4,720,869
Total Capital Assets, Not Being Depreciated	5,618,498	3,860,801	(2,931,604)	(102,042)	6,445,653
Capital Assets, Being Depreciated:					
Land Improvements	12,500,860	385,756	-	-	12,886,616
Buildings and Building Improvements	17,319,679	14,403	-	-	17,334,082
Improvements Other than Buildings	2,638,449	710,838	-	-	3,349,287
Vehicles	3,139,327	68,535	-	-	3,207,862
Equipment	6,168,219	265,106	-	-	6,433,325
Infrastructure	71,373,159	1,846,296	-	258,548	73,478,003
Total Capital Assets, Being Depreciated	113,139,693	3,290,934	-	258,548	116,689,175
Accumulated Depreciation for:					
Land Improvements	(3,625,299)	(586,957)	-	-	(4,212,256)
Buildings and Building Improvements	(5,878,999)	(445,247)	-	-	(6,324,246)
Improvements Other than Buildings	(1,107,418)	(134,287)	-	-	(1,241,705)
Vehicles	(1,897,419)	(117,287)	-	-	(2,014,706)
Equipment	(4,480,560)	(487,862)	-	-	(4,968,422)
Infrastructure	(45,461,977)	(2,545,524)	-	-	(48,007,501)
Total Accumulated Depreciation	(62,451,672)	(4,317,164)	-	-	(66,768,836)
Total Capital Assets, Being Depreciated, Net	50,688,021	(1,026,230)	-	258,548	49,920,339
Governmental Activities Capital Assets, Net	<u>\$ 56,306,519</u>	<u>\$ 2,834,571</u>	<u>\$ (2,931,604)</u>	<u>\$ 156,506</u>	<u>\$ 56,365,992</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 178,666
Public Safety	325,355
Public Works	3,007,778
Parks, Culture and Recreation	805,365
Total Depreciation Expense, Governmental Activities	<u>\$ 4,317,164</u>

In 2013, \$102,042 (net) of infrastructure assets were contributed from governmental activities to business-type activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,534,091	\$ -	\$ -	\$ -	\$ 2,534,091
Construction in Progress	271,808	744,688	(35,889)	-	980,607
Total Capital Assets, Not Being Depreciated	2,805,899	744,688	(35,889)	-	3,514,698
Capital Assets, Being Depreciated:					
Land Improvements	2,667,457	-	-	-	2,667,457
Buildings and Building Improvements	49,666,542	142,622	-	-	49,809,164
Utility Distributions Systems	62,726,355	1,300,775	-	(156,506)	63,870,624
Machinery and Shop Equipment	7,131,316	544,123	(845)	-	7,674,594
Total Capital Assets, Being Depreciated	122,191,670	1,987,520	(845)	(156,506)	124,021,839
Accumulated Depreciation for:					
Land Improvements	(863,350)	(69,966)	-	-	(933,316)
Buildings and Building Improvements	(14,417,496)	(1,134,053)	-	-	(15,551,549)
Utility Distributions Systems	(21,206,758)	(1,677,331)	-	-	(22,884,089)
Machinery and Shop Equipment	(4,771,721)	(422,456)	845	-	(5,193,332)
Total Accumulated Depreciation	(41,259,325)	(3,303,806)	845	-	(44,562,286)
Total Capital Assets, Being Depreciated, Net	80,932,345	(1,316,286)	-	(156,506)	79,459,553
Business-Type Activities Capital Assets, Net	\$ 83,738,244	\$ (571,598)	\$ (35,889)	\$ (156,506)	\$ 82,974,251

Depreciation expense was charged to Business-Type Activities as follows:

Business-Type Activities:	
Electric Fund	\$ 956,364
Water and Sewer Fund	2,120,125
Liquor Fund	69,536
Golf Course Fund	157,781
Total Depreciation Expense, Business-Type Activities	<u>\$ 3,303,806</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2013 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2008 G.O. Street Reconstruction Bonds #2008D	\$ 1,715,000	2019	3.50-4.50%	\$ 1,200,000
2009 G.O. Refunding Bonds #2009A	2,460,000	2016	2.00-3.00%	1,125,000
2009 G.O. Bonds #2009D	3,685,000	2025	3.00-4.00%	3,575,000
2010 G.O. Bonds #2010A	1,070,000	2021	2.00-4.00%	680,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80%	2,035,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80%	405,000
2011 G.O. Capital Improvement Refunding #2011A	5,925,000	2024	0.40-3.15%	5,700,000
2012 G.O. Refunding #2012B	1,555,000	2020	2.00%	1,415,000
2013 G.O. Bonds #2013A	3,575,000	2024	2.00%	3,575,000
2013 G.O. Bonds #2013B	585,000	2028	3.00-3.40%	585,000
Total Governmental Activities - G.O. Bonds	23,140,000			20,295,000
Business-Type Activities:				
2008 G.O. Equipment Certificates #2008A	775,000	2015	3.29%	240,000
2010 G.O. Bonds #2010A	2,385,000	2026	2.00-4.00%	2,245,000
2010 G.O. Bonds #2010C	1,320,000	2019	2.00-3.80%	1,055,000
2013 G.O. Equipment Certificates #2013A	1,455,000	2022	2.00%	1,455,000
2013 G.O. Bonds #2013B	440,000	2028	3.00-3.40%	440,000
2013 G.O. Bonds #2013B	2,675,000	2017	3.00%	2,675,000
Total Business-Type Activities - G.O. Bonds	9,050,000			8,110,000
Total General Obligation Bonds	\$ 32,190,000			\$ 28,405,000
Special Assessments and Tax Abatement Bonds:				
Governmental Activities:				
2000 Improvement Bonds #2000D	\$ 345,000	2016	4.70-5.20%	\$ 90,000
2005 Improvement Bonds #2005B	975,000	2016	3.25-4.00%	45,000
2012 G.O. Tax Abatement Bonds #2012C	1,955,000	2033	0.65-3.20%	1,955,000
Total Special Assessment Bonds	\$ 3,275,000			\$ 2,090,000

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2012 Street and Parks Vehicles	\$ 95,937	2016	2.97%	\$ 57,948
2012 Fire and Street Equipment	821,044	2017	2.03%	583,392
2013 MIS, Police, Garbage Equipment	178,894	2018	2.19%	167,609
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 1,095,875</u>			<u>\$ 808,949</u>
Note Payable:				
Governmental Activities:				
Note Payable - ISD 877	<u>\$ 250,000</u>	2018	4.25%	<u>\$ 169,363</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
2002 Electric Revenue Bond #2002C	\$ 1,295,000	2015	4.45-5.00%	\$ 375,000
2004 Refunding Wastewater Revenue Bonds #2004F			3.25-4.00%	-
2005 Water & Sewer Revenue Bonds #2005A	7,015,000	2025	4.20-4.25%	2,885,000
2005 Electric Revenue Bonds #2005C	1,755,000	2016	3.752-4.38%	600,000
2006 Electric Revenue Bonds #2006C	1,160,000	2022	4.50-5.00%	1,160,000
2006 Water and Sewer Rev. Refunding Bonds #2006A	14,995,000	2024	4.00-4.50%	13,410,000
2007 G.O. Wastewater Revenue Bonds #2007A	10,915,000	2023	4.00-4.25%	8,755,000
2008 G.O. Wastewater Rev. Refunding Bonds #2008B	11,433,639	2028	5.01-5.21%	11,433,639
2009 G.O. Water and Sewer Refunding Rev. Bonds #2009B	4,712,560	2025	4.35-4.94%	4,712,560
2009 G.O. Electric Rev. Refunding Bonds #2009C	3,025,000	2014	3.00-4.00%	650,000
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75%	2,305,231
2009 G.O. Water and Sewer Rev. Refunding Bonds #2009F	870,000	2016	1.00-2.65%	410,000
2010 Electric Revenue Bonds #2010B	955,000	2021	2.50-3.70%	955,000
2011 G.O. Water and Sewer Revenue Bonds, #2011B	3,435,000	2032	0.65-4.30%	3,435,000
2012 G.O. Water and Sewer Revenue Bonds #2012A	5,610,000	2033	2.55-3.00%	5,610,000
Total Business-Type Activities Revenue Bonds	<u>70,180,393</u>			<u>56,696,430</u>
Governmental Activities:				
2005 Wild Marsh Revenue Bonds	4,380,000	2027	3.50-4.50%	3,940,000
2009 G.O. Utility Revenue Bonds #2009E	220,806	2024	2.00-3.75%	169,767
2009 HRA Revenue Bond	178,000	2020	4.82%	131,000
2011 Public Facility Lease Revenue Bonds #2011A	2,865,000	2027	0.65-4.60%	2,535,000
Total Governmental Activities Revenue Bonds	<u>7,643,806</u>			<u>6,775,767</u>
Total Revenue Bonds	<u>\$ 77,824,199</u>			<u>\$ 63,472,197</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 522,048
2012 Wild Marsh Aerator	20,478	2016	2.97%	12,369
2012 Golf Course Equipment	37,479	2017	2.03%	26,652
2013 Wild Marsh, Electric, Water, Wastewater Equipment	214,238	2018	2.19%	200,724
Total Revenue Lease Purchase Obligations	<u>\$ 1,467,195</u>			<u>\$ 761,793</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2013:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 17,840,000	\$ 4,160,000	\$ 1,705,000	\$ 20,295,000	\$ 1,475,000
Special Assessment Debt with Governmental Commitments	2,185,000	-	95,000	2,090,000	115,000
General Obligation Revenue Bond	7,074,780	-	299,013	6,775,767	349,013
Bond Subtotal	27,099,780	4,160,000	2,099,013	29,160,767	1,939,013
Bond Premium	134,795	218,457	33,116	320,136	-
Bond Discount	(247,787)	-	(247,787)	-	-
Net Bond Subtotal	26,986,788	4,378,457	1,884,342	29,480,903	1,939,013
Capital Lease Obligations	943,000	178,894	312,945	808,949	206,905
Note Payable	221,383	-	52,020	169,363	34,882
Compensated Absences	361,990	227,776	221,494	368,272	190,728
Total Governmental Activities	28,513,161	4,785,127	2,470,801	30,827,487	2,371,528
Business-Type Activities:					
General Obligation Bonds	4,060,000	4,570,000	520,000	8,110,000	1,135,000
General Obligation Revenue Bonds	57,109,417	-	4,152,987	52,956,430	837,987
Electric Revenue Bonds	4,650,000	-	910,000	3,740,000	1,090,000
Bond Subtotal	65,819,417	4,570,000	5,582,987	64,806,430	3,062,987
Interest Accretion on Capital Appreciation Bonds	3,796,443	1,007,680	-	4,804,123	-
Bond Premium	51,492	251,851	18,455	284,888	-
Bond Discount	(1,028,327)	-	(1,028,327)	-	-
Net Bond Subtotal	68,639,025	5,829,531	4,573,115	69,895,441	3,062,987
Revenue Lease Purchase Obligations	667,462	214,238	119,907	761,793	139,967
Compensated Absences	227,358	140,071	119,348	248,081	147,240
Total Business-Type Activities	69,533,845	6,183,840	4,812,370	70,905,315	3,350,194
Total Debt	\$ 98,047,006	\$ 10,968,967	\$ 7,283,171	\$ 101,732,802	\$ 5,721,722

Bond Discounts above were removed in the current year as a result of the implementation of GASB 65. See Note 13 for further information.

Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Land	\$ -	\$ 2,347,908
Buildings and Improvements	-	2,476,044
Vehicles and Equipment	1,114,735	1,625,967
Subtotal	1,114,735	6,449,919
Less: Accumulated Depreciation	(149,523)	(1,639,742)
Total	\$ 965,212	\$ 4,810,177

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Years	Governmental Activities				
	Long-Term Debt		Notes and Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2014	\$ 1,939,013	\$ 858,513	\$ 241,787	\$ 35,594	\$ 3,074,907
2015	2,380,213	804,255	261,432	15,949	3,461,849
2016	2,396,214	743,629	252,889	9,589	3,402,321
2017	2,302,214	679,489	176,691	3,698	3,162,092
2018	2,042,214	624,181	45,513	645	2,712,553
2019-2023	10,772,880	2,238,291	-	-	13,011,171
2024-2028	6,718,019	598,125	-	-	7,316,144
2029-2033	610,000	48,845	-	-	658,845
Totals	\$ 29,160,767	\$ 6,595,328	\$ 978,312	\$ 65,475	\$ 36,799,882

Years	Business-Type Activities				
	Long-Term Debt		Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2014	\$ 3,062,987	\$ 1,635,304	\$ 139,967	\$ 20,319	\$ 4,858,577
2015	3,156,787	1,546,258	145,281	16,592	4,864,918
2016	3,186,786	1,442,305	146,836	12,783	4,788,710
2017	3,141,786	1,340,636	145,418	9,691	4,637,531
2018	3,921,786	1,230,744	131,324	5,011	5,288,865
2019-2023	24,360,386	7,081,603	52,967	1,015	31,495,971
2024-2028	17,425,912	20,381,132	-	-	37,807,044
2029-2033	6,550,000	611,845	-	-	7,161,845
Totals	\$ 64,806,430	\$ 35,269,827	\$ 761,793	\$ 65,411	\$ 100,903,461

The annual requirements to amortize all long-term debt outstanding as of December 31, 2013, including interest of \$41,996,041 are as follows:

Year	Amount
2014	\$ 7,933,484
2015	8,326,767
2016	8,191,031
2017	7,799,623
2018	8,001,418
2019-2023	44,507,142
2024-2028	45,123,188
2029-2033	7,820,690
Total	\$ 137,703,343

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

In 2012, the City issued \$1,555,000 in General Obligation Refunding Bonds (Series 2012B) for a current refunding of the Series 2002F General Obligation Bonds maturing in 2013 through 2019 and of the Series 2004A General Obligation Highway Bonds maturing in 2013 through 2020, and for a crossover refunding of the Series 2006B General Obligation Bonds maturing in 2014 through 2017. Refunding bond proceeds for the crossover refunding of Series 2006B were placed in an escrow account to be liquidated on the crossover refunding date of February 1, 2013. The total cash flow savings to the City attributable to the refunding of these bonds was \$149,761 with a net present value of approximately \$142,049.

During 2013, the City issued \$5,030,000 in General Obligation Bonds (Series 2013A) for the purpose of financing the construction of streets and financing a new transformer for the City's electric system.

In addition, the City issued \$3,700,000 General Obligation Bonds, (Series 2013B) for the purpose of financing improvements in the City's Water and Sewer systems and for a current refunding of the Series 2004F General Obligation Bonds maturing in 2014 through 2017. The total cash flow savings to the City attributable to the refunding of these bonds is \$130,897 with a new present value of approximately \$131,931.

NOTE 5 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Buffalo are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employee Police and Fire Fund, (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

A. Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. The annuity accrual rate is 1.9% for each year of service for PECF members. For all PEPFF members and GERP members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a life time annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees, who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. The City of Buffalo is required to contribute the following percentages of annual covered payroll: 11.78% for GERS Basic Plan members, 7.25% for GERS Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2013, 2012 and 2011 were \$272,973, \$269,543, and \$278,198, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2013, 2012 and 2011 were \$139,425, \$136,569, and \$135,656, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

C. City of Buffalo Fire Relief Association

1. Plan Description

The Buffalo Fire Relief Association is the administrator of a single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by state statute. The Buffalo Firemen's Relief Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Hall.

2. Funding Policy

The funding policy provides for contributions from the State of Minnesota and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the state contribution payment, and the provision for administrative expenses. The City's contributions for the years ended December 31, 2013, 2012 and 2011 were \$36,201, \$34,425 and \$75,448, respectively, equal to the required contributions for each year.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2013 as follows:

Governmental Funds:	
HRA Debt Service	\$ (1,916,122)
Other Governmental Funds:	
Civic Center Fund	(2,832,875)
Airport Fund	(174,197)
Proprietary Funds:	
Golf Course Fund	(4,942,550)

The City intends to fund these deficits through future tax levies, special assessment levies, tax increments, transfers from other funds, and various other sources.

NOTE 7 DEFERRED AD VALOREM TAX LEVIES – BONDED DEBT

General Obligation Bond issues sold by the City are partially financed by ad valorem tax levies in addition to special assessments levied against the benefiting properties. When a bond issue to be financed partially or completely by ad valorem tax levies is sold, specific annual amounts of such tax levies are stated in the bond resolution and the County Auditor is notified and instructed to levy these taxes over the appropriate years. The future tax levies are subject to cancellation when and if the City has provided alternative sources of financing. The City Council is required to levy any additional taxes found necessary for full payment of principal and interest.

These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2013 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2013 totaled \$20,429,746.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2013 are as follows:

Fund	Due from Other Funds	Due to Other Funds	Description
General Fund	\$ 3,290,416	\$ -	Eliminate Deficit Cash
Capital Project Fund	-	-	Eliminate Deficit Cash
Debt Service Fund	-	9,063	Repay Duplicate Payment
HRA Debt Service Fund	28,421	-	Lease Purchase Funding
Other Governmental Funds	-	3,290,416	Eliminate Deficit Cash
Other Governmental Funds	9,063		Repay Duplicate Payment
Proprietary Funds:			
Water and Sewer Fund	4,062,116	-	Eliminate Deficit Cash
Golf Course Fund	-	4,090,537	Lease Purchase/Deficit Cash
Total Due To/From	<u>\$ 7,390,016</u>	<u>\$ 7,390,016</u>	

All of the Due From/Due to Other Funds balances are expected to be repaid in the following year.

B. Advances To/From Other Funds

Fund	Advances To Other Funds	Advances From Other Funds
Debt Service Fund	\$ 1,918,759	\$ -
HRA Debt Service Fund	-	2,376,505
Other Governmental Funds	20,000	194,388
Proprietary Funds:		
Electric Fund	174,388	-
Water and Sewer Fund	250,000	-
Liquor Fund	-	250,000
Golf Course Fund	457,746	-
Total Advances	<u>\$ 2,820,893</u>	<u>\$ 2,820,893</u>

The advance in the amount of \$250,000 represents remodeling expense incurred by the Liquor Fund payable to the Water and Sewer Fund. The advance in the amount of \$194,388 payable by the Airport Fund to the Electric (\$174,388) and Other Governmental Funds (\$20,000) is an advance of construction funds. The advance between the HRA Debt Service and the Golf Course represents restricted cash held by HRA Debt Service in accordance with golf course purchase agreement. The Debt Service Fund advanced \$1,918,759 to the HRA Debt Service Fund as the City issued debt for the downtown enhancement project for which the HRA spent the proceeds.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

C. Interfund Receivables/ Payables

Fund	Interfund Lease Receivable	Interfund Lease Payable
HRA Debt Service Fund	\$ 3,940,000	\$ -
Proprietary Funds:		
Wild Marsh Golf Course	-	3,940,000
Total Interfund Leases	<u>\$ 3,940,000</u>	<u>\$ 3,940,000</u>

This represents the lease between HRA and the Golf Course for bonds issued by the HRA (see also Note 4). The lease payment schedule follows the bond repayment schedule. A principal payment of \$165,000 is due in 2014.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

D. Transfers

Transfers between funds during 2013 are as follows:

	Amount	Description
<u>Major Governmental Funds</u>		
Transfers to General Fund from:		
Debt Service Fund	\$ 80	Defeased Bonds
Electric Fund	900,000	Annual Contribution
Liquor Fund	550,000	Annual Contribution
Total Transfers to General Fund	<u>1,450,080</u>	
Transfers to Debt Service Fund from:		
General Fund	5,315	Transfer of Debt Payment
Capital Project Fund	6,863	Transfer of Project Costs
HRA Debt Service Fund	49,500	Transfer of Debt Payment
HRA Fund	161,601	Transfer of Debt Payment
Total Transfers to Debt Service Fund	<u>223,279</u>	
Transfer to Capital Projects Fund from:		
General Fund	157,103	Close Project Funds
Transfer to HRA Debt Service Fund from:		
HRA Fund	<u>23,724</u>	Transfer of Debt Payment
Total Transfers to Major Funds	1,854,186	
<u>Nonmajor Governmental Funds</u>		
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfer to Civic Center Fund from:		
Debt Service Fund	25,462	Close-Out Bond
Electric Fund	50,000	Annual Contribution
Total Transfers to Civic Center Fund	<u>75,462</u>	
Transfer to Airport Fund from:		
General Fund	<u>50,000</u>	Annual Contribution
Total Transfers to Nonmajor Governmental Funds	<u>140,462</u>	
Total Interfund Transfers	<u><u>\$ 1,994,648</u></u>	

Also reported on the government-wide statement of activities, from the governmental activities to the business-type activities, is a transfer of \$102,042 and a transfer of \$258,548 from the business-type activities to the governmental activities. These are transfers of capital assets between the two opinion units.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 9 FUND BALANCE CLASSIFICATIONS

The fund balance classifications of the governmental funds as of December 31, 2013, were as follows:

	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable						
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 13,371	\$ 13,371
Prepaid Expenses	10,328	-	-	-	332	10,660
Loan Commitments	-	-	-	-	22,500	22,500
Advance to Other Funds	-	-	-	-	20,000	20,000
Land Held for Resale	7,800	-	-	-	15,859	23,659
Total Nonspendable	<u>18,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,062</u>	<u>90,190</u>
Restricted						
Federal Programs	-	-	-	-	5,450	5,450
Debt Service	-	4,403,807	-	-	-	4,403,807
Capital Projects	-	-	1,953,722	-	-	1,953,722
Total Restricted	<u>-</u>	<u>4,403,807</u>	<u>1,953,722</u>	<u>-</u>	<u>5,450</u>	<u>6,362,979</u>
Committed						
Library	-	-	-	-	121,756	121,756
The Buffalo HRA	-	-	-	-	442,077	442,077
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>563,833</u>	<u>563,833</u>
Assigned						
Fire Operations	-	-	-	-	797,268	797,268
Unassigned	<u>3,195,058</u>	<u>-</u>	<u>-</u>	<u>(1,916,122)</u>	<u>(3,020,775)</u>	<u>(1,741,839)</u>
Total Fund Balance	<u><u>\$ 3,213,186</u></u>	<u><u>\$ 4,403,807</u></u>	<u><u>\$ 1,953,722</u></u>	<u><u>\$ (1,916,122)</u></u>	<u><u>\$ (1,582,162)</u></u>	<u><u>\$ 6,072,431</u></u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 10 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

The City continues to carry commercial insurance for all other risks of loss, including disability and employee health insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 11 COMMITMENTS AND CONTINGENCIES

A. Federal and State Funds

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. Management is not aware of any disallowed claims at this time.

During 2010, the City received federal funding for an airport project. As part of that grant agreement the City is required to operate the airport as a licensed, municipally-owned public airport at all times of the year for a period of 20 years.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Electric Power Purchase Agreement

The City has entered into a contract with Minnesota Municipal Power Agency (MMPA) for the purchase of electric power and energy. The rates vary depending on numerous factors as outlined in the contract. The contract became effective January 1, 2006 and remains in effect through October 31, 2040. If not then terminated by five years written notice by either party, the contract continues in full force until so terminated.

C. Construction Commitments

The City entered into construction contracts for various construction projects started during the year. The following contracts had been entered into and were at various stages of completion at December 31, 2013:

Project	Contract Cost	Estimated Project Costs Incurred to Date *	Remaining Committed
Downtown Enhancement	\$ 1,015,949	\$ 517,498	\$ 498,451
Willow Creek Drainage	532,696	404,465	128,231
SE Area Reconstruction	1,379,910	761,932	617,978
Well #8 and Watermain	290,122	231,732	58,390
Watermain and N Loop	413,981	178,353	235,628
Total	<u>\$ 3,632,658</u>	<u>\$ 2,093,980</u>	<u>\$ 1,538,678</u>

* Includes Contracts Payable Amount

NOTE 12 CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued Industrial Revenue Bonds and other similar type Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 12 CONDUIT DEBT OBLIGATIONS (CONTINUED)

As of December 31, 2013, there were 14 series of Industrial Revenue Bonds and other similar type Revenue Bonds outstanding. The aggregate principal amount payable for the eight (8) series issued prior to January 4, 1997, could not be determined; however, their original issue amounts totaled \$26.165 million. An Industrial Revenue Note totaling \$2,750,000 and maturing in March, 2030 was issued in 2000. Three Industrial Revenue Notes totaling \$20,130,000 and maturing in March 2033 were issued in 2003. Two conduit debt issues were issued during 2006: (1) Health Care Refunding Revenue Bonds, Series 2006 totaling \$19,965,000 and (2) Educational Facilities Revenue Note, Series 2005A totaling \$5,500,000.

NOTE 13 PRIOR PERIOD ADJUSTMENT

The implementation of GASB No. 65, *Items Previously Reported as Assets and Liabilities*, resulted in January 1, 2013 net position being restated to reflect the elimination of bond issuance costs and bond underwriters discounts that were carried on the Statement of Net Position. The impact of this restatement is as follows:

		As Previously Reported	Adjustment	As Restated
Electric Fund	Net Position, 1/1/2013	\$ 12,078,300	\$ (105,350)	\$ 11,972,950
Water & Sewer Fund	Net Position, 1/1/2013	9,087,454	(837,255)	8,250,199
Golf Course Fund	Net Position, 1/1/2013	(4,320,373)	(29,615)	(4,349,988)
Liquor Fund	Net Position, 1/1/2013	1,268,921	-	1,268,921
Business-Type Activities	Net Position, 1/1/2013	<u>\$ 18,114,302</u>	<u>\$ (972,220)</u>	<u>\$ 17,142,082</u>
Governmental Activities	Net Position, 1/1/2013	<u>\$ 38,350,476</u>	<u>\$ (595,571)</u>	<u>\$ 37,754,905</u>

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2013**

	2013			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes:				
General Property Taxes	\$ 3,371,351	\$ 3,390,613	\$ 3,392,900	\$ 2,287
Other Taxes	1,650	120	1,830	1,710
Total Taxes	3,373,001	3,390,733	3,394,730	3,997
Licenses and Permits	161,020	261,164	261,664	500
Intergovernmental:				
Federal Grants	-	2,812	2,812	-
State:				
Local Government Aid	145,886	145,886	145,886	-
Market Value Credit	-	134	134	-
State Police Aid	103,000	121,715	121,715	-
State Highway Aid	150,000	177,648	177,648	-
Other	14,787	14,313	14,313	-
Total Intergovernmental	413,673	462,508	462,508	-
Charges for Services:				
General Government	106,044	112,956	112,935	(21)
Engineering	600	-	-	-
Public Safety	56,200	58,642	58,642	-
Streets	1,100	-	-	-
Sanitation	845,000	856,334	863,975	7,641
Storm Sewer	395,550	393,109	393,925	816
Total Charges for Services	1,404,494	1,421,041	1,429,477	8,436
Fines and Forfeits	35,000	32,703	32,703	-
Investment Earnings	1,500	3,284	3,284	-
Refunds/Reimbursements	-	41,647	41,647	-
Grants and Contributions	8,500	9,790	9,790	-
Miscellaneous	1,200	10,827	14,810	3,983
Total Revenues	5,398,388	5,633,697	5,650,613	16,916

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance from Final Budget
EXPENDITURES				
General Government:				
Mayor and Council:				
Current:				
Personal Services	\$ 65,290	\$ 25,038	\$ 25,038	\$ -
Capital Outlay	-	-	1,385	(1,385)
Total Mayor and Council	65,290	25,038	26,423	(1,385)
Financial Administration:				
Current:				
Salaries	273,360	254,076	254,076	-
Employee Benefits	56,452	53,132	53,190	(58)
Other Expenses:				
Audit / Accounting	9,200	8,150	8,150	-
Building Permits, Surcharges	9,000	12,011	12,011	-
Insurance	14,279	9,387	9,387	-
Planning and Zoning	97,702	116,835	117,527	(692)
Assessor	65,000	63,601	63,601	-
City Attorney	25,000	22,500	21,420	1,080
Professional Services	15,000	(11,523)	328	(11,851)
Elections	-	1,510	1,510	-
Other Expense	100,342	120,804	113,739	7,065
Capital Outlay	8,125	5,158	5,158	-
Capital Lease Payments:				
Principal	403	399	399	-
Total Financial Administration	673,863	656,040	660,496	(4,456)
MIS:				
Current:				
Salaries	46,897	52,013	52,013	-
Employee Benefits	29,351	28,632	26,769	1,863
Other Services and Charges	10,081	8,649	17,693	(9,044)
Capital Outlay	227,000	136,154	136,154	-
Capital Lease Payments:				
Principal	32,044	32,036	32,036	-
Interest	522	515	515	-
Total MIS	345,895	257,999	265,180	(7,181)
Engineering:				
Current:				
Salaries	111,180	110,413	110,413	-
Employee Benefits	26,296	25,962	25,962	-
Other Services and Charges	15,611	12,766	12,766	-
Capital Lease Payments:				
Interest	7	8	8	-
Total Engineering	153,094	149,149	149,149	-
Transportation:				
Current:				
Salaries	13,260	12,405	12,405	-
Employee Benefits	1,677	1,402	1,402	-
Other Services and Charges	21,896	22,570	22,566	4
Total Transportation	36,833	36,377	36,373	4
Total General Government	1,274,975	1,124,603	1,137,621	(13,018)

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance from Final Budget
EXPENDITURES (CONTINUED)				
Public Safety:				
Police Protection:				
Current:				
Office Wages and Benefits	\$ 194,549	\$ 203,851	\$ 203,870	\$ (19)
Officer Wages and Benefits	1,387,943	1,332,062	1,332,062	-
Training	7,500	4,088	4,088	-
Legal Fees	61,750	63,035	63,035	-
Other Services and Charges	230,596	232,637	232,832	(195)
Capital Outlay	114,100	83,391	83,391	-
Capital Lease Payments:				
Principal	42,312	46,779	46,767	12
Interest	-	1,247	1,247	-
Total Police	2,038,750	1,967,090	1,967,292	(202)
Fire Protection	393,543	393,543	393,543	-
Civil Defense	329	250	250	-
Building Inspections	70,000	68,527	83,406	(14,879)
Total Public Safety	2,502,622	2,429,410	2,444,491	(15,081)
Public Works:				
Street Department:				
Current:				
Employee Benefits	101,349	94,429	94,429	-
Street Maintenance	567,670	516,574	516,729	(155)
Storm Sewer Maintenance	66,666	36,803	42,778	(5,975)
Snow and Ice Removal	86,179	94,735	94,735	-
Other	489,820	466,008	465,158	850
Capital Outlay - Streets	192,000	10,283	10,283	-
Capital Lease Payments:				
Principal	92,324	94,471	96,329	(1,858)
Interest	6,078	8,463	6,605	1,858
Total Public Works	1,602,086	1,321,766	1,327,046	(5,280)
Sanitation:	780,800	732,266	732,266	-
Total Expenditures	6,160,483	5,614,710	5,648,089	(33,379)
REVENUES OVER (UNDER) EXPENDITURES	(762,095)	18,987	2,524	(16,463)
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds	362,000	178,894	178,894	-
Transfer In	900,000	900,080	900,080	-
Transfer Out	(415,315)	(430,315)	(587,418)	(157,103)
Total Other Financing Sources (Uses)	846,685	648,659	491,556	(157,103)
NET CHANGE IN FUND BALANCE	<u>\$ 84,590</u>	<u>\$ 667,646</u>	494,080	<u>\$ (173,566)</u>
Fund Balance - Beginning of Year			3,374,186	
FUND BALANCE - END OF YEAR			<u>\$ 3,868,266</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2013

NOTE 1 BASIS OF ACCOUNTING

The General Fund budgetary comparison schedule is prepared on a budgetary basis of accounting. See Note 3 of the Notes to Required Supplementary Information for a reconciliation of the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures and Changes in Fund Balances.

NOTE 2 BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Council chambers at City Hall to obtain taxpayer comments, and the final budget is adopted and the tax levy certified.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are final, as amended by the City Council in 2013.
4. The City has legally adopted budgets for the General Fund, certain Special Revenue Funds, and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, capital outlay, etc.) within each program. All amounts over budget have been approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the capital projects or debt service funds.
5. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.
6. General government expenditures were \$1,137,621 which is \$13,018 over budget. Public Safety expenditures were \$2,444,491 which is \$15,081 over budget. Public Works expenditures were \$1,327,046 which were \$5,280 over budget. In addition, other financing uses were reported as \$587,418, which is \$157,103 over budget. These over budget expenditures and other financing uses were paid for with existing fund balance.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2013

NOTE 3 BUDGETARY COMPARISON SCHEDULE RECONCILIATION

For external reporting purposes, the General Fund includes revenues, expenditures, other financing sources and uses, and fund balances of other internally maintained funds. The General Fund, however, is budgeted based on the internally maintained General Fund. Therefore, the following reconciliation is necessary to reconcile the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures and Changes in Fund Balances.

	General Fund				
	Total Revenues	Total Expenditures	Other Financing Sources/Uses	Beginning Fund Balance	Ending Fund Balance
Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 5,810,432	\$ 6,554,520	\$ 1,401,916	\$ 2,555,358	\$ 3,213,186
Funds included in General Fund for GASB Statement No. 54 purposes:					
Park Fund	(140,973)	(740,476)	(750,360)	553,997	403,140
Community Center Fund	(18,846)	(165,955)	(160,000)	264,831	251,940
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	<u>\$ 5,650,613</u>	<u>\$ 5,648,089</u>	<u>\$ 491,556</u>	<u>\$ 3,374,186</u>	<u>\$ 3,868,266</u>

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SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL NONMAJOR GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013**

	2013			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
ASSETS				
Cash and Investments	\$ 5,450	\$ 835,037	\$ 134,503	\$ -
Delinquent Taxes Receivable	-	-	1,661	-
Accounts Receivable	-	-	-	70,632
Due from Other Governmental Units	-	-	366	9,833
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Advances to Other Funds	-	-	-	-
Inventory	-	-	-	-
Prepaid Items	-	-	-	332
Loans Receivable, Net of Allowance	115,114	-	-	-
Land Held for Resale	-	-	-	-
Total Assets	<u>\$ 120,564</u>	<u>\$ 835,037</u>	<u>\$ 136,530</u>	<u>\$ 80,797</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ 4,790	\$ 13,113	\$ 22,470
Other Accrued Liabilities	-	32,979	-	6,716
Due to Other Funds	-	-	-	2,883,866
Advances from Other Funds	-	-	-	-
Deposits - Escrow	-	-	-	-
Total Liabilities	<u>-</u>	<u>37,769</u>	<u>13,113</u>	<u>2,913,052</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	-	-	1,661	-
Unavailable Loans Receivables	115,114	-	-	-
Other Unavailable Resources	-	-	-	620
Total Deferred Inflows of Resources	<u>115,114</u>	<u>-</u>	<u>1,661</u>	<u>620</u>
FUND BALANCE (DEFICIT)				
Nonspendable	-	-	-	332
Restricted	5,450	-	-	-
Committed	-	-	121,756	-
Assigned	-	797,268	-	-
Unassigned	-	-	-	(2,833,207)
Total Fund Balance (Deficit)	<u>5,450</u>	<u>797,268</u>	<u>121,756</u>	<u>(2,832,875)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 120,564</u>	<u>\$ 835,037</u>	<u>\$ 136,530</u>	<u>\$ 80,797</u>

The HRA of Buffalo Fund	Airport Fund	2013 Total
\$ 512,044	\$ -	\$ 1,487,034
8,099	534	10,294
1,051	709	72,392
21,290	445,292	476,781
115,183	-	115,183
9,063	-	9,063
20,000	-	20,000
-	13,371	13,371
-	-	332
386,881	-	501,995
15,859	-	15,859
<u>\$ 1,089,470</u>	<u>\$ 459,906</u>	<u>\$ 2,722,304</u>

\$ 72,273	\$ 31,748	\$ 144,394
-	883	40,578
-	406,550	3,290,416
-	194,388	194,388
6,598	-	6,598
<u>78,871</u>	<u>633,569</u>	<u>3,676,374</u>

8,099	534	10,294
502,064	-	617,178
-	-	620
<u>510,163</u>	<u>534</u>	<u>628,092</u>

58,359	13,371	72,062
-	-	5,450
442,077	-	563,833
-	-	797,268
-	(187,568)	(3,020,775)
<u>500,436</u>	<u>(174,197)</u>	<u>(1,582,162)</u>

<u>\$ 1,089,470</u>	<u>\$ 459,906</u>	<u>\$ 2,722,304</u>
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**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
REVENUE				
General Property Taxes	\$ -	\$ -	\$ 80,992	\$ -
Tax Increments	-	-	-	-
Intergovernmental	-	115,729	-	-
Charges for Services	-	575,731	-	534,928
Investment Earnings (Loss)	14	735	124	(3,364)
Refunds and Reimbursements	-	65	-	400
Grants and Contributions	-	-	-	50,000
Miscellaneous	-	4,980	-	1,200
Total Revenue	14	697,240	81,116	583,164
EXPENDITURES				
Current:				
Public Safety:	-	387,699	-	-
Culture and Recreation	-	-	66,207	738,202
Community Development	-	-	-	-
Capital Outlay:				
Public Safety	-	11,942	-	-
Culture and Recreation	-	-	23,195	17,316
Community Development	-	-	-	-
Capital Leases:				
Principal	-	119,093	-	-
Interest and Fiscal Charges	-	10,159	-	-
Debt Service:				
Principal	-	-	-	-
Total Expenditures	-	528,893	89,402	755,518
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	14	168,347	(8,286)	(172,354)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	15,000	75,462
Transfer Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	15,000	75,462
NET CHANGE IN FUND BALANCE	14	168,347	6,714	(96,892)
Fund Balance (Deficit) - Beginning of Year	5,436	628,921	115,042	(2,735,983)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 5,450</u>	<u>\$ 797,268</u>	<u>\$ 121,756</u>	<u>\$ (2,832,875)</u>

The HRA of Buffalo Fund	Airport Fund	2013 Total
\$ 110,934	\$ 171	\$ 192,097
134,319	-	134,319
-	489,605	605,334
36,745	397,226	1,544,630
4,755	(579)	1,685
6,550	-	7,015
7,000	-	57,000
60	-	6,240
<u>300,363</u>	<u>886,423</u>	<u>2,548,320</u>
-	-	387,699
-	350,494	1,154,903
219,728	-	219,728
-	-	11,942
-	61,978	102,489
529,447	-	529,447
-	-	119,093
-	-	10,159
-	18,594	18,594
<u>749,175</u>	<u>431,066</u>	<u>2,554,054</u>
(448,812)	455,357	(5,734)
-	50,000	140,462
(185,325)	-	(185,325)
<u>(185,325)</u>	<u>50,000</u>	<u>(44,863)</u>
(634,137)	505,357	(50,597)
<u>1,134,573</u>	<u>(679,554)</u>	<u>(1,531,565)</u>
<u>\$ 500,436</u>	<u>\$ (174,197)</u>	<u>\$ (1,582,162)</u>

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**CITY OF BUFFALO, MINNESOTA
FIRE SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance with Budget
REVENUES				
Charges for Services:				
Fire Contracts and Charges	\$ 575,731	\$ 575,731	\$ 575,731	\$ -
Intergovernmental:				
State Aid and Grants	77,500	115,729	115,729	-
Investment Earnings	500	735	735	-
Refunds and Reimbursements	-	66	65	(1)
Miscellaneous	-	2,500	4,980	2,480
Total Revenues	653,731	694,761	697,240	2,479
EXPENDITURES				
Public Safety:				
Fire Relief	75,000	107,159	107,159	-
Wages and Benefits	125,455	114,121	114,121	-
Truck Expense	12,000	10,462	10,462	-
Supplies	13,600	2,876	2,876	-
Repairs and Maintenance	47,000	27,620	27,620	-
Radio and Telephone	8,500	6,721	6,721	-
Utilities	22,500	19,575	18,581	994
Insurance	45,000	30,924	30,924	-
Training	12,000	9,131	9,131	-
Other	64,316	60,106	60,104	2
Capital Outlay	58,000	11,942	11,942	-
Fire Station Lease Rental	9,513	10,135	-	10,135
Capital Lease Payments:				
Principal	109,835	119,089	119,093	(4)
Interest	13	16	10,159	(10,143)
Total Expenditures	602,732	529,877	528,893	984
NET CHANGE IN FUND BALANCE	<u>\$ 50,999</u>	<u>\$ 164,884</u>	168,347	<u>\$ (3,463)</u>
Fund Balance - Beginning of Year			628,921	
FUND BALANCE - END OF YEAR			<u>\$ 797,268</u>	

**CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
General Property Taxes	\$ 80,628	\$ 80,626	\$ 80,992	\$ 366
Investment Earnings	125	124	124	-
Total Revenues	80,753	80,750	81,116	366
EXPENDITURES				
Culture and Recreation:				
Wages and Benefits	1,150	980	980	-
Supplies and Maintenance	32,340	31,808	31,832	(24)
Insurance	2,100	629	629	-
Telephone	650	495	495	-
Utilities	30,000	29,786	29,363	423
Other	3,525	2,908	2,908	-
Capital Outlay - Equipment	9,460	23,195	23,195	-
Total Expenditures	79,225	89,801	89,402	399
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,528	(9,051)	(8,286)	765
OTHER FINANCING SOURCES				
Transfers in from General Fund	15,000	15,000	15,000	-
NET CHANGE IN FUND BALANCE	<u>\$ 16,528</u>	<u>\$ 5,949</u>	6,714	<u>\$ 765</u>
Fund Balance - Beginning of Year			<u>115,042</u>	
FUND BALANCE - END OF YEAR			<u>\$ 121,756</u>	

**CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Charges for Services:				
Ice Time	\$ 390,000	\$ 385,373	\$ 380,423	\$ (4,950)
Building Rent	15,000	13,556	13,556	-
Lease Payment	55,000	55,000	55,000	-
Gate Receipts and Concessions	70,350	67,741	75,104	7,363
Other	11,000	10,845	10,845	-
Grants and Contributions	50,000	50,000	50,000	-
Investment Earnings (Loss)	(4,500)	(3,364)	(3,364)	-
Refunds and Reimbursements	-	400	400	-
Miscellaneous	1,000	1,200	1,200	-
Total Revenues	<u>587,850</u>	<u>580,751</u>	<u>583,164</u>	<u>2,413</u>
EXPENDITURES				
Culture and Recreation:				
Wages and Benefits	232,758	224,667	224,667	-
Maintenance and Repair	35,000	42,746	34,639	8,107
Utilities	165,000	167,841	165,212	2,629
Other	57,860	63,915	59,790	4,125
Insurance	15,765	10,359	10,359	-
Lease Rent Payments	240,395	243,535	243,535	-
Capital Outlay	9,670	17,316	17,316	-
Total Expenditures	<u>756,448</u>	<u>770,379</u>	<u>755,518</u>	<u>14,861</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(168,598)	(189,628)	(172,354)	17,274
OTHER FINANCING SOURCES (USES)				
Transfer In	<u>50,000</u>	<u>75,462</u>	<u>75,462</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (118,598)</u>	<u>\$ (114,166)</u>	(96,892)	<u>\$ 17,274</u>
Fund Deficit - Beginning of Year			<u>(2,735,983)</u>	
FUND DEFICIT - END OF YEAR			<u>\$ (2,832,875)</u>	

**CITY OF BUFFALO, MINNESOTA
AIRPORT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2013**

	2013			
	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
General Property Taxes	\$ 20,284	\$ -	\$ 171	\$ 171
Intergovernmental:				
Federal Grants	310,828	441,356	480,577	39,221
State Aid and Grants	9,028	9,028	9,028	-
Total intergovernmental	319,856	450,384	489,605	39,221
Charges for Services	402,801	397,226	397,226	-
Investment Earnings (Loss)	(1,500)	(579)	(579)	-
Total Revenues	741,441	847,031	886,423	39,392
EXPENDITURES				
Culture and Recreation:				
Wages and Benefits	21,095	23,946	23,946	-
Other	353,776	327,644	326,548	1,096
Capital Outlay	-	31,320	61,978	(30,658)
Debt Service:				
Principal	16,903	18,594	18,594	-
Total Expenditures	391,774	401,504	431,066	(29,562)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	349,667	445,527	455,357	9,830
OTHER FINANCING SOURCES				
Transfer In	50,000	50,000	50,000	-
NET CHANGE IN FUND BALANCE	<u>\$ 399,667</u>	<u>\$ 495,527</u>	505,357	<u>\$ 9,830</u>
Fund Deficit - Beginning of Year			(679,554)	
FUND DEFICIT - END OF YEAR			<u>\$ (174,197)</u>	

**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

CITY OF BUFFALO, MINNESOTA
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2013
(UNAUDITED)

Market Valuation		<u>\$ 962,206,600</u>
Debt Limit - 3% of Market Valuation		\$ 28,866,198
Total Indebtedness	<u>\$ 93,967,197</u>	
Less:		
Other Deductions Allowed by Law:		
(1) Obligations Payable Wholly or Partly from Special Assessments	2,090,000	
(2) Obligations Issued for Acquisition and Improvement of Public Utilities and Conveniences from Which Revenue may be Derived	56,696,430	
(3) Obligations Payable Wholly from the Income from Revenue Producing Conveniences	<u>6,775,767</u>	
Total Deductions	<u>65,562,197</u>	
Total Amount of Debt Applied Against Debt Limit		<u>28,405,000</u>
Legal Debt Margin		<u>\$ 461,198</u>

CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2013
(UNAUDITED)

Year of Levy for Collection in the Following Year	General Obligation Improvement Bonds of 2000 Bond #83B	General Obligation Street Reconstruction Bonds of 2008 Series 2008D	General Obligation Refunding Bonds of 2009 Series 2009A	General Obligation Refunding Bonds of 2009 Series 2009D	General Obligation Improvement Bonds of 2010 Series 2010A	General Obligation Improvement Bonds of 2010 Series 2010C
2014	\$ 24,200	\$ 242,944	\$ 329,858	\$ 397,148	\$ 56,201	\$ 174,618
2015	-	240,004	-	121,364	54,783	419,268
2016	-	246,304	-	142,364	53,366	181,233
2017	-	241,395	-	152,234	51,949	178,516
2018	-	-	-	387,476	55,781	191,127
2019	-	-	-	510,024	54,206	187,168
2020	-	-	-	507,058	-	188,322
2021	-	-	-	513,726	-	178,679
2022	-	-	-	519,120	-	179,492
2023	-	-	-	1,288,560	-	190,423
2024	-	-	-	-	-	263,660
2025	-	-	-	-	-	265,655
2026	-	-	-	-	-	267,026
Total	<u>\$ 24,200</u>	<u>\$ 970,647</u>	<u>\$ 329,858</u>	<u>\$ 4,539,074</u>	<u>\$ 326,286</u>	<u>\$ 2,865,187</u>

General Obligation Capital Improvement Refunding Bonds of 2011 Series 2010A	General Obligation Refunding Bonds of 2012 Series 2012B	General Obligation Bonds of 2013 Series 2013A	Total
\$ 370,548	\$ 254,503	\$ 437,325	\$ 2,287,345
734,740	249,358	430,080	2,249,597
740,226	144,463	433,335	1,941,291
738,646	141,313	420,630	1,924,683
735,601	117,810	418,530	1,906,325
741,229	-	416,325	1,908,952
745,030	-	408,765	1,849,175
747,261	-	406,455	1,846,121
741,906	-	398,790	1,839,308
-	-	401,625	1,880,608
-	-	-	263,660
-	-	-	265,655
-	-	-	267,026
<u>\$ 6,295,187</u>	<u>\$ 907,447</u>	<u>\$ 4,171,860</u>	<u>\$ 20,429,746</u>

CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS
DECEMBER 31, 2013
(UNAUDITED)

Fiscal Year	Rates*	Valuations*	Total Certified Tax Levy	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1979	10.79	\$ 11,576,236	\$ 124,965	\$ 127,813	102.28 %
1980	12.37	13,819,727	170,964	171,623	100.39
1981	13.75	16,142,519	222,028	216,132	97.34
1982	13.48	18,498,138	249,384	237,056	95.06
1983	21.40	20,013,461	428,288	426,538	99.59
1984	30.28	19,549,847	592,002	574,495	97.04
1985	30.29	19,875,866	601,578	626,693	104.17
1986	28.36	21,284,079	603,732	616,448	102.11
1987	28.46	21,224,993	604,000	607,569	100.59
1988	29.86	22,242,558	664,241	651,950	98.15
1989	21.25	2,153,956	619,264	619,661	100.06
1990	18.48	2,233,832	706,246	695,092	98.42
1991	19.05	2,497,205	757,899	763,959	100.80
1992	21.04	2,565,265	838,848	849,162	101.23
1993	22.96	2,648,066	924,195	935,044	101.17
1994	22.08	2,735,764	924,125	929,228	100.55
1995	19.25	3,220,130	940,099	937,697	99.74
1996	18.95	3,680,238	1,007,952	1,009,108	100.11
1997	19.34	4,252,834	1,136,543	1,151,823	101.34
1998	28.60	4,246,436	1,214,359	1,240,000	102.11
1999	30.11	4,423,493	1,331,844	1,424,922	106.99
2000	26.91	5,019,161	1,350,600	1,395,899	103.35
2001	22.39	5,672,315	1,269,863	1,342,795	105.74
2002	24.62	5,287,909	1,302,028	1,351,822	103.82
2003	24.18	6,244,335	1,510,102	1,570,238	103.98
2004	28.22	7,344,065	2,072,633	2,121,480	102.36
2005	24.46	8,585,484	2,100,000	2,123,057	101.10
2006	23.68	11,518,870	2,727,940	2,704,890	99.16
2007	23.61	13,380,144	3,159,243	3,289,327	104.12
2008	25.40	14,500,710	3,648,829	3,785,027	103.73
2009	28.77	14,520,075	4,412,674	4,370,571	99.05
2010	35.99	13,522,253	5,303,837	4,978,294	93.86
2011	38.45	12,379,321	5,283,937	5,025,618	95.11
2012	47.08	11,075,696	5,731,862	5,670,074	98.92
2013	51.81	10,280,667	5,811,712	5,621,583	96.73

* Amounts from Wright County's Auditors office.

Note: Total tax collections is total levy collected by the City minus the tax increment dollars collected.
All other amounts are from the county confirmation.

OTHER REPORT SECTION

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE


Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, Minnesota

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo (the City), Minnesota, as of December 31, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 4, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and city and county miscellaneous provisions.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Buffalo, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* §6.65. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Buffalo, Minnesota's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 4, 2014

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