

CITY OF BUFFALO, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2012

CITY OF BUFFALO, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2012**

Elected Officials

		<u>Term Expires</u>
Mayor	Brad Nauman	December 31, 2012
Council Member	Steve Downer	December 31, 2014
Council Member	Scott Enter	December 31, 2014
Council Member	Teri Lachermeier	December 31, 2012
Council Member	Paul Olson	December 31, 2012

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, 2012, 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.

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

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 as of December 31, 2012, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, and we expressed unmodified audit opinions on those audited financial statements in our report dated May 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 of Buffalo'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.

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

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

Other Matters (Continued)

Other Information (Continued)

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 May 31, 2013, 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

CliftonLarsonAllen LLP

Buffalo, Minnesota
May 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City of Buffalo exceeded its liabilities at the close of the most recent fiscal year by \$56,464,778 (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 \$640,502.
- The City's total net position decreased by \$3,067,038 from 2011.
- As of the close of the current fiscal year, the City of Buffalo's governmental funds reported a combined ending fund balance of \$4,554,659, an increase of \$1,227,182 in comparison with the prior year. The overall *unassigned fund balance* is a deficit \$2,799,189.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,547,558, or 39% of total 2012 general fund expenditures.
- The City of Buffalo's total bonded debt increased by \$4,358,123 or 4.7% 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 and liabilities, with the difference between the two 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, 2012**

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 store, 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, 2012**

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 37-66 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 budgetary comparison schedule and related notes can be found on pages 67-71 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 72-79.

CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

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 exceeded total liabilities by \$56,464,778 at the close of the most recent fiscal year compared to \$59,531,816 at the end of 2011.

By far the largest portion of the City of Buffalo's net position (84%) 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

ASSETS	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 12,151,469	\$ 10,729,759	\$ 5,883,826	\$ 5,582,112	\$ 18,035,295	\$ 16,311,871
Capital Assets	56,306,519	54,046,324	83,738,244	85,282,359	140,044,763	139,328,683
Total Assets	68,457,988	64,776,083	89,622,070	90,864,471	158,080,058	155,640,554
LIABILITIES						
Noncurrent Liabilities Outstanding	26,291,498	25,077,465	66,478,633	62,720,153	92,770,131	87,797,618
Other Liabilities	3,816,014	3,866,773	5,029,135	4,444,347	8,845,149	8,311,120
Total Liabilities	30,107,512	28,944,238	71,507,768	67,164,500	101,615,280	96,108,738
Net Position:						
Net Investment in Capital Assets	31,123,667	32,568,977	16,240,283	21,333,289	47,363,950	53,902,266
Restricted	9,741,330	8,063,468	-	-	9,741,330	8,063,468
Unrestricted	(2,514,521)	(4,800,600)	1,874,019	2,366,682	(640,502)	(2,433,918)
Total Net Position	<u>\$ 38,350,476</u>	<u>\$ 35,831,845</u>	<u>\$ 18,114,302</u>	<u>\$ 23,699,971</u>	<u>\$ 56,464,778</u>	<u>\$ 59,531,816</u>

The remaining balance of the City of Buffalo's net position are *restricted net position* (17%) 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.

Governmental Activities

Governmental activities increased the City of Buffalo's net position by \$2,518,631. 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.

CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-type activities decreased the City of Buffalo's net position by \$5,585,669, thereby accounting for 182% 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, 2012:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 3,222,472	\$ 3,064,170	\$ 21,528,775	\$ 20,889,075	\$ 24,751,247	\$ 23,953,245
Operating Grants and Contributions	466,781	616,348	-	-	466,781	616,348
Capital Grants and Contributions	397,335	1,257,947	403,715	126,928	801,050	1,384,875
General Revenues:						
Property Taxes	5,434,924	4,641,342	153,037	172,908	5,587,961	4,814,250
Tax Increments	297,202	288,463	-	-	297,202	288,463
Other Taxes	1,483	1,615	-	-	1,483	1,615
Grants and Contributions, Not Restricted	265,144	463,552	824	26,083	265,968	489,635
Unrestricted Investment Earnings (Loss)	8,622	252,164	14,864	(144)	23,486	252,020
Miscellaneous	25,772	96,605	126,038	79,382	151,810	175,987
Total Revenues	10,119,735	10,682,206	22,227,253	21,294,232	32,346,988	31,976,438
EXPENSES						
General Government	1,267,036	1,213,389	-	-	1,267,036	1,213,389
Public Safety	2,698,791	2,757,448	-	-	2,698,791	2,757,448
Highways and Streets	4,069,928	4,639,387	-	-	4,069,928	4,639,387
Culture and Recreation	2,632,565	2,700,295	-	-	2,632,565	2,700,295
Sanitation	760,232	739,634	-	-	760,232	739,634
Community Development	455,445	316,556	-	-	455,445	316,556
Interest on Long-Term Debt	983,301	1,341,013	-	-	983,301	1,341,013
Electric	-	-	10,767,968	10,659,603	10,767,968	10,659,603
Water	-	-	2,475,678	2,608,696	2,475,678	2,608,696
Sewer	-	-	4,321,610	4,365,411	4,321,610	4,365,411
Liquor Store	-	-	3,822,198	3,655,975	3,822,198	3,655,975
Golf Course	-	-	1,159,274	1,258,715	1,159,274	1,258,715
Total Expenses	12,867,298	13,707,722	22,546,728	22,548,400	35,414,026	36,256,122
Decrease in Net Position before Transfers	(2,747,563)	(3,025,516)	(319,475)	(1,254,168)	(3,067,038)	(4,279,684)
Transfers	5,266,194	1,514,645	(5,266,194)	(1,514,645)	-	-
CHANGE IN NET POSITION						
Net Position - Beginning of Year	35,831,845	37,342,716	23,699,971	26,468,784	59,531,816	63,811,500
NET POSITION - END OF YEAR	\$ 38,350,476	\$ 35,831,845	\$ 18,114,302	\$ 23,699,971	\$ 56,464,778	\$ 59,531,816

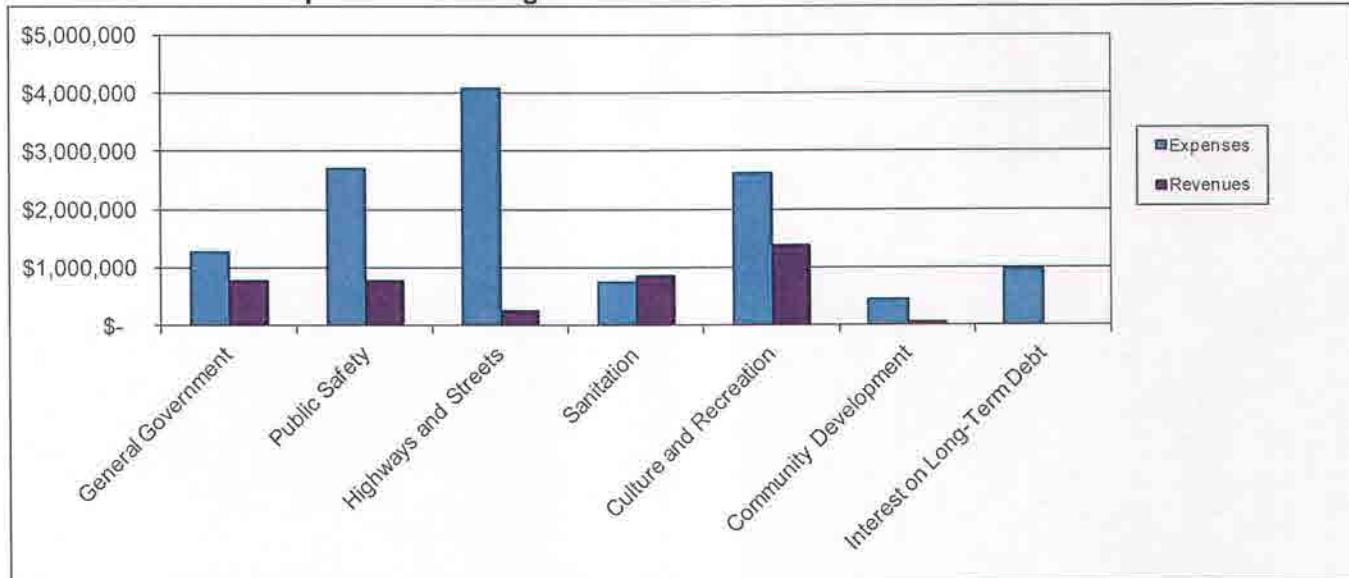
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

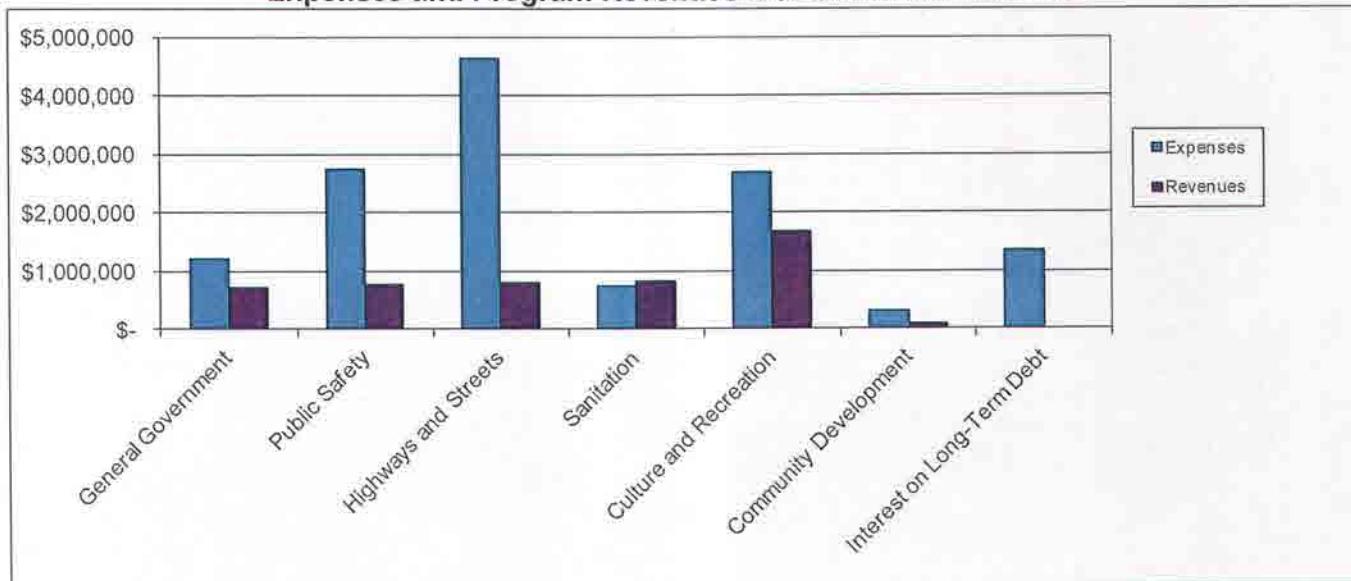
City of Buffalo's Changes in Net Position (Continued)

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.

**2012
Expenses and Program Revenues-Governmental Activities**



**2011
Expenses and Program Revenues-Governmental Activities**

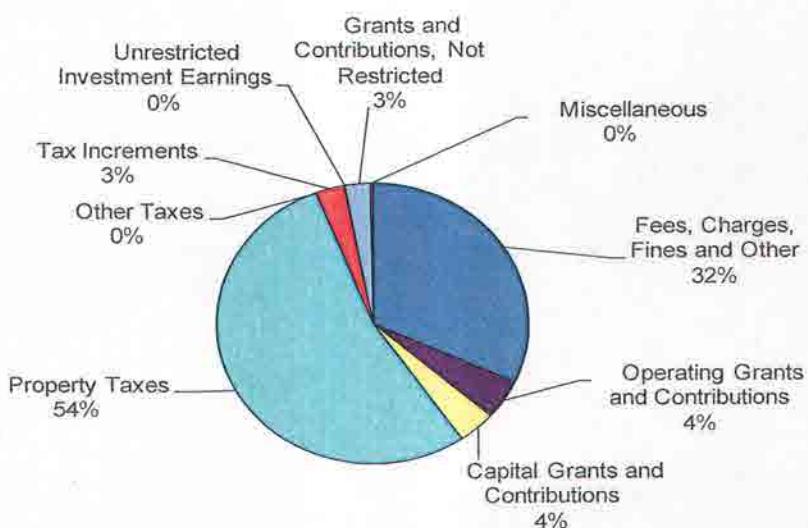


CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012

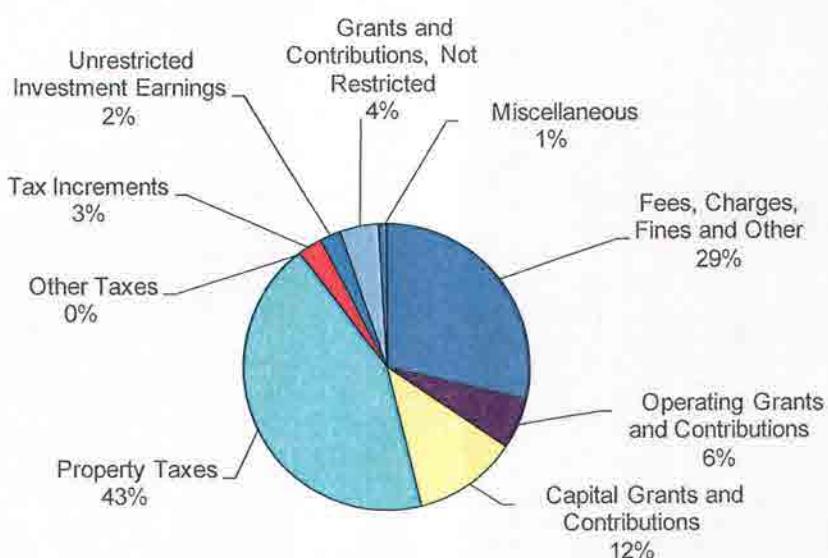
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

2012
Revenues by Source-Governmental Activities



2011
Revenues by Source-Governmental Activities



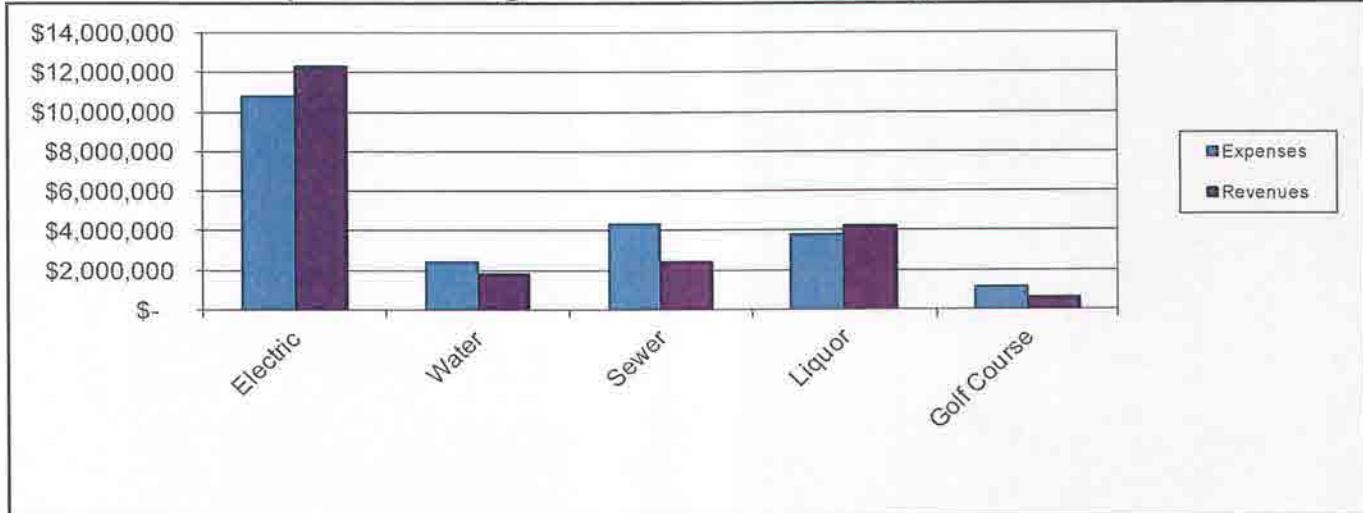
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

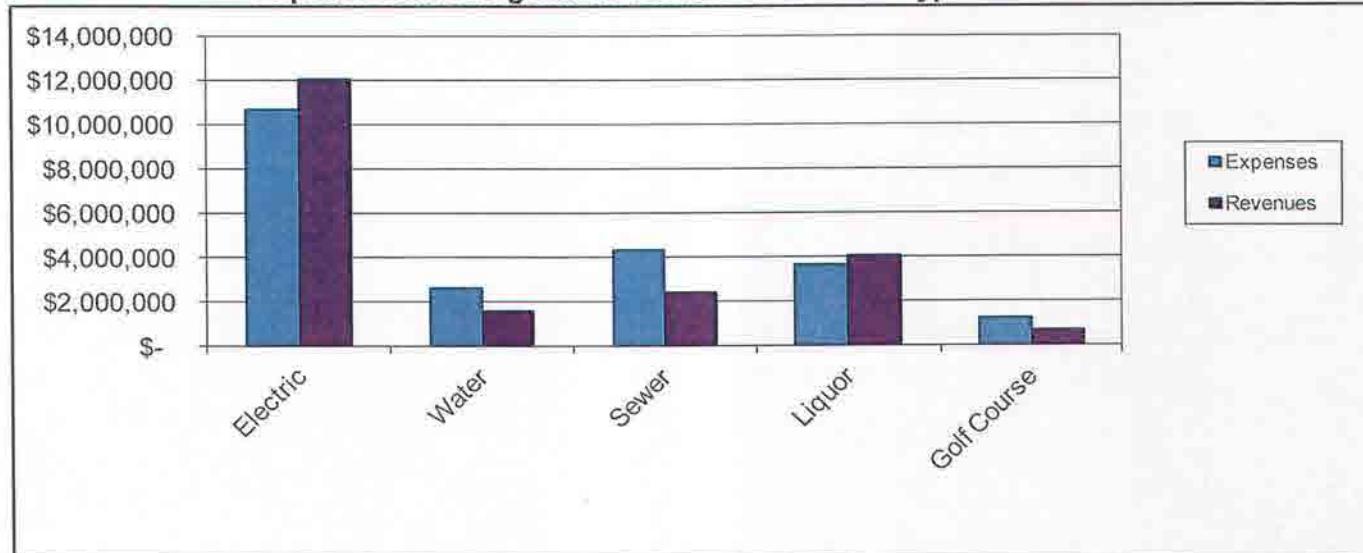
City of Buffalo's Changes in Net Position (Continued)

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.

**2012
Expenses and Program Revenues – Business-Type Activities**



**2011
Expenses and Program Revenues – Business-Type Activities**



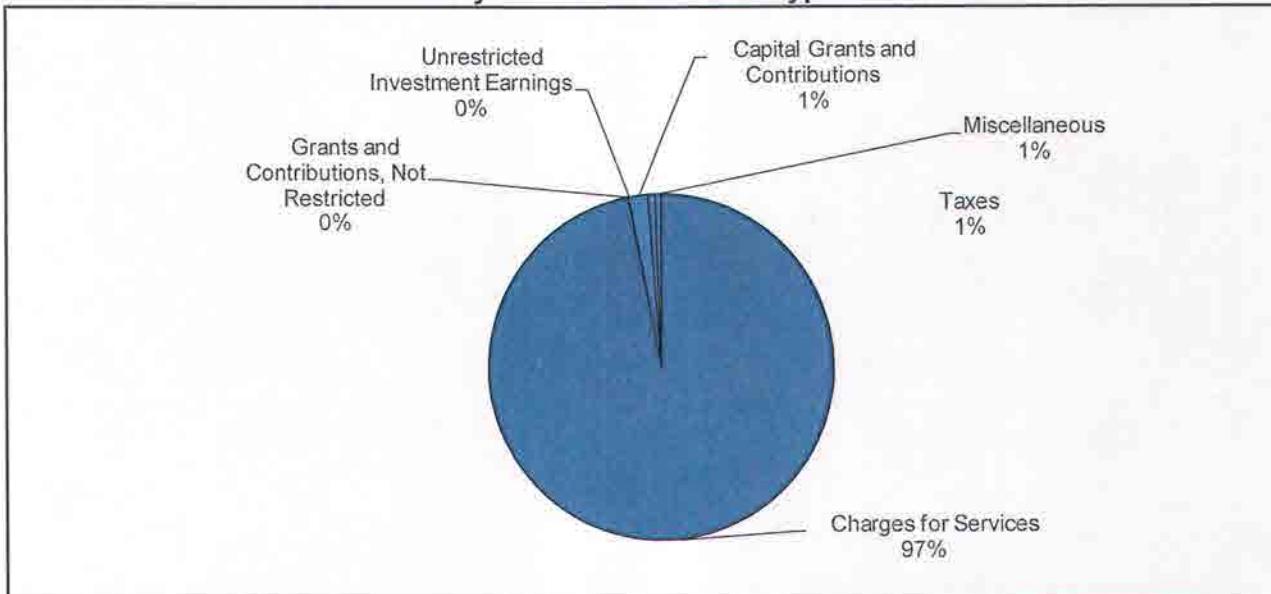
Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in program revenues in the above graphs.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

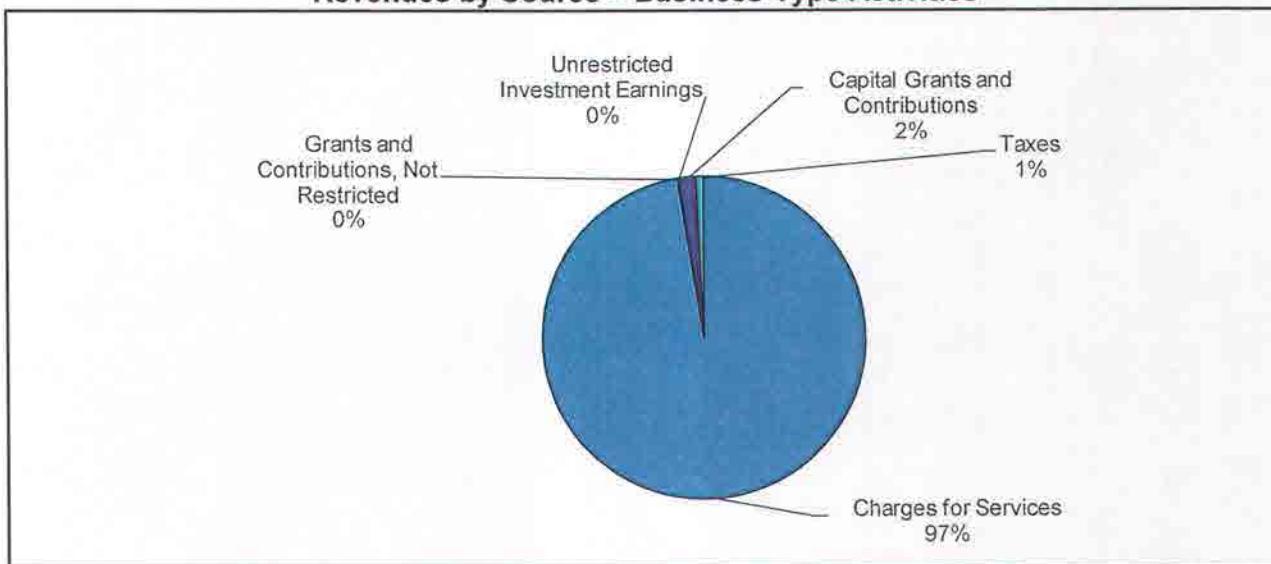
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

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



**2011
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.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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 \$4,554,659, an increase of \$1,227,182 in comparison with 2011. The City reported deficit unassigned fund balance in the amount of \$2,799,189. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending. At December 31, 2012 fund balances were as follows:

	Balance	Increase (Decrease) From 2011
General Fund	\$ 2,555,358	\$ 798,574
Debt Service Fund	4,646,982	1,736,402
Capital Project Fund	802,303	133,146
HRA Debt Service Fund	(1,918,419)	(1,918,698)
Other Governmental Funds	(1,531,565)	477,758
Total	<u>\$ 4,554,659</u>	<u>\$ 1,227,182</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 \$2,547,558.

During the current fiscal year, the City of Buffalo's general fund balance increased by \$798,574. The increase was a result of operating transfers from the water and sewer, electric and liquor funds and an increase in general property tax revenues.

Debt Service

The increase in the debt service fund balance was the result of the recognition of proceeds for the 2012 bond proceeds issued for the HRA project. A receivable from the HRA debt service is established.

Capital Project

The capital projects fund balance increased as a result of transfers from the general and debt service funds to close out capital projects.

HRA Debt Service

The decrease in the HRA debt service fund balance was due to a transfer of the Series 2012C bond proceeds to the HRA General Fund for the downtown enhancement project.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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 2012 was \$12,078,300, of which \$3,901,455 is unrestricted. Net position increased \$809,470 during the current year primarily due to an increase in operating revenue.

The water and sewer fund has total net position of \$9,087,454, of which \$1,332,878 is unrestricted. The decrease in net position of \$6,039,208 from 2011 was due to the fund contributing \$3,726,103 of capital to other funds and bonded debt interest expense not covered by operating revenues.

The liquor fund has total net position of \$1,268,921. It has unrestricted net position of \$179,571. Net position increased by \$183,223 from 2011. 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 \$(4,320,373) and unrestricted net position of \$(3,539,885) primarily due to operating losses incurred in the eight and one-half years of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$23,047 over budget due mainly to an increase in charges for services. Expenditures came in favorably under the budgeted amounts by \$43,011 which is mainly due to capital outlay being under budget. This resulted in a net fund balance increase of \$66,058 compared to budget for the fiscal year (excluding other financing sources and uses).

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, 2012, amounts to \$140,044,763 (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 increase in the City of Buffalo's investment in capital assets (net of accumulated depreciation) was \$716,080 when compared to 2011. Most of this increase can be attributed to the completion of the Northwest Area Reconstruction project.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,724,784	\$ 1,234,845	\$ 2,534,091	\$ 2,534,091	\$ 4,258,875	\$ 3,768,936
Land Improvements	8,875,561	9,413,810	1,804,107	1,874,830	10,679,668	11,288,640
Buildings and Building Improvements	11,440,680	11,905,972	35,249,046	36,380,566	46,689,726	48,286,538
Improvements Other than Building	1,531,031	1,640,393	-	-	1,531,031	1,640,393
Vehicle	1,241,908	517,992	-	-	1,241,908	517,992
Equipment	1,687,659	1,727,297	2,359,595	2,602,737	4,047,254	4,330,034
Infrastructure	25,911,182	24,753,708	-	-	25,911,182	24,753,708
Utility Distribution Systems	-	-	41,519,597	40,001,747	41,519,597	40,001,747
Construction in Progress	3,893,714	2,852,307	271,808	1,888,388	4,165,522	4,740,695
Total	<u>\$ 56,306,519</u>	<u>\$ 54,046,324</u>	<u>\$ 83,738,244</u>	<u>\$ 85,282,359</u>	<u>\$ 140,044,763</u>	<u>\$ 139,328,683</u>

Long-Term Debt

At the end of the current fiscal year, the City of Buffalo had total bonded debt outstanding of \$96,715,640. Of this amount, \$21,900,000 comprises tax supported debt, \$2,185,000 is special assessment debt and \$68,834,197 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	
	2012	2011	2012	2011	2012	2011
G.O. Tax Supported Debt	\$ 17,840,000	\$ 18,300,000	\$ 4,060,000	\$ 4,240,000	\$ 21,900,000	\$ 22,540,000
G.O. Special Assessment Debt	2,185,000	1,425,000	-	-	2,185,000	1,425,000
G.O. Revenue Debt	7,074,780	7,357,793	61,759,417	58,197,404	68,834,197	65,555,197
Interest Accretion on Capital Appreciation Bonds	-	-	3,796,443	2,837,320	3,796,443	2,837,320
Total	<u>\$ 27,099,780</u>	<u>\$ 27,082,793</u>	<u>\$ 69,615,860</u>	<u>\$ 65,274,724</u>	<u>\$ 96,715,640</u>	<u>\$ 92,357,517</u>

The City of Buffalo's total bonded debt increased by \$4,358,123 or (4.7%) during the current fiscal year. There were three new bonds issued in the current fiscal year, a \$1,955,000 General Obligation Tax Abatement Bond, a \$1,555,000 General Obligation Refunding Bond, and a \$5,610,000 General Obligation Water and Sewer Revenue Bond (see Note 4).

The City of Buffalo maintained an "AA- Stable" rating from Standard & Poor's for general obligation debt.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Wright County is currently 6.3%, 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 is somewhat higher but values on homes are averaging slightly lower.
- Interest rates have remained low and the City's investment earnings have decreased accordingly.
- State budget problems could affect state aid payments. Lack of a state budget could adversely affect the City budget and operations needing communication with state agencies.

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, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

	2012			2011
	Governmental Activities	Business-Type Activities	Total	Total
ASSETS				
Cash and Investments	\$ 4,807,817	\$ 5,516,200	\$ 10,324,017	\$ 8,673,525
Cash and Investments with Fiscal Agent	487,204	-	487,204	320,447
Restricted Cash and Investments	402,325	-	402,325	402,325
Taxes Receivable	122,915	3,372	126,287	118,138
Special Assessments Receivable	1,159,150	-	1,159,150	1,279,328
Accounts Receivable	230,149	1,612,335	1,842,484	1,737,761
Hook-up Fees Receivable - Current	-	60,901	60,901	54,109
Due from Other Governments	506,872	1,283	508,155	356,344
Accrued Interest Receivable	89,183	763	89,946	66,260
Internal Balances	3,452,006	(3,452,006)	-	-
Inventory	12,459	1,506,949	1,519,408	1,419,865
Prepaid Items	332	-	332	64,065
Hook-up Fees Receivable - Noncurrent	-	156,483	156,483	199,281
Loans Receivable	491,167	-	491,167	618,946
Land Held for Resale	23,659	-	23,659	167,459
Bond Issuance Costs	366,231	477,546	843,777	834,018
Capital Assets:				
Land and Construction in Progress	5,618,498	2,805,899	8,424,397	8,509,631
Other Capital Assets, Net of Depreciation	<u>50,688,021</u>	<u>80,932,345</u>	<u>131,620,366</u>	<u>130,819,052</u>
Total Assets	68,457,988	89,622,070	158,080,058	155,640,554
LIABILITIES				
Accounts and Contracts Payable	1,007,850	1,166,531	2,174,381	1,968,691
Other Accrued Liabilities	90,025	156,248	246,273	211,127
Accrued Interest Payable	310,827	462,099	772,926	706,195
Due to Other Governmental Units	114,530	12,599	127,129	11,300
Escrow Deposits	71,119	111,480	182,599	186,859
Unearned Revenue	-	64,966	64,966	56,458
Long-Term Liabilities:				
Due within One Year	2,221,663	3,055,212	5,276,875	5,170,490
Due in More than One Year	<u>26,291,498</u>	<u>66,478,633</u>	<u>92,770,131</u>	<u>87,797,618</u>
Total Liabilities	<u>30,107,512</u>	<u>71,507,768</u>	<u>101,615,280</u>	<u>96,108,738</u>
Net Position				
Net Investment in Capital Assets	31,123,667	16,240,283	47,363,950	53,902,266
Restricted for:				
Debt Service	9,624,149	-	9,624,149	8,063,468
Federal Loan Programs	117,181	-	117,181	-
Unrestricted	<u>(2,514,521)</u>	<u>1,874,019</u>	<u>(640,502)</u>	<u>(2,433,918)</u>
Total Net Position	<u>\$ 38,350,476</u>	<u>\$ 18,114,302</u>	<u>\$ 56,464,778</u>	<u>\$ 59,531,816</u>

See accompanying Notes to Financial Statements.

CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

Functions/Programs	2012			
	Expenses	Program Revenues		
		Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,267,036	\$ 776,935	\$ -	\$ -
Public Safety	2,698,791	568,994	198,548	-
Highways and Streets	4,069,928	2,545	175,377	82,955
Sanitation	760,232	854,197	-	-
Culture and Recreation	2,632,565	986,699	92,856	295,566
Community Development	455,445	33,102	-	18,814
Interest on Long-Term Debt	983,301	-	-	-
Total Governmental Activities	12,867,298	3,222,472	466,781	397,335
Business-Type Activities:				
Electric	10,767,968	12,336,078	-	165,769
Water	2,475,678	1,796,758	-	22,898
Sewer	4,321,610	2,472,666	-	215,048
Liquor	3,822,198	4,298,307	-	-
Golf Course	1,159,274	624,966	-	-
Total Business-Type Activities	22,546,728	21,528,775	-	403,715
Total	\$ 35,414,026	\$ 24,751,247	\$ 466,781	\$ 801,050

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)

Insurance Proceeds

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

2012			
Net (Expense) Revenue and Changes in Net Position		2011	
Governmental Activities	Business-Type Activities	Total	Total
\$ (490,101)	\$ -	\$ (490,101)	\$ (481,226)
(1,931,249)	-	(1,931,249)	(1,965,835)
(3,809,051)	-	(3,809,051)	(3,834,725)
93,965	-	93,965	107,525
(1,257,444)	-	(1,257,444)	(1,027,093)
(403,529)	-	(403,529)	(226,890)
(983,301)	-	(983,301)	(1,341,013)
<u>(8,780,710)</u>	<u>-</u>	<u>(8,780,710)</u>	<u>(8,769,257)</u>
 - 1,733,879	 - 1,733,879	 1,733,879	 1,435,854
 - (656,022)	 - (656,022)	 (656,022)	 (1,017,890)
 - (1,633,896)	 - (1,633,896)	 (1,633,896)	 (1,858,604)
 - 476,109	 - 476,109	 476,109	 457,523
 - (534,308)	 - (534,308)	 (534,308)	 (549,280)
 <u>(614,238)</u>	 <u>(614,238)</u>	 <u>(614,238)</u>	 <u>(1,532,397)</u>
 (8,780,710)	 (614,238)	 (9,394,948)	 (10,301,654)
 5,434,924	 153,037	 5,587,961	 4,814,250
 297,202	 -	 297,202	 288,463
 1,483	 -	 1,483	 1,615
 265,144	 824	 265,968	 489,635
 8,622	 14,864	 23,486	 252,020
 -	 -	 -	 24,775
 25,772	 126,038	 151,810	 151,212
 <u>5,266,194</u>	 <u>(5,266,194)</u>	 <u>-</u>	 <u>-</u>
 <u>11,299,341</u>	 <u>(4,971,431)</u>	 <u>6,327,910</u>	 <u>6,021,970</u>
 <u>2,518,631</u>	 <u>(5,585,669)</u>	 <u>(3,067,038)</u>	 <u>(4,279,684)</u>
 <u>35,831,845</u>	 <u>23,699,971</u>	 <u>59,531,816</u>	 <u>63,811,500</u>
 <u>\$ 38,350,476</u>	 <u>\$ 18,114,302</u>	 <u>\$ 56,464,778</u>	 <u>\$ 59,531,816</u>

CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

	General Fund	Debt Service Fund	Capital Project Fund
ASSETS			
Cash and Investments	\$ -	\$ 2,197,836	\$ 226,330
Cash and Investments with Fiscal Agent	- -	487,204	-
Restricted Cash and Investments	- -	-	-
Taxes Receivable:			
Delinquent	71,711	44,704	-
Special Assessments Receivable:			
Delinquent	- -	100,736	-
Deferred	- -	1,058,414	-
Accounts Receivable	168,272	- -	-
Due from Other Governmental Units	64,538	20,916	72,291
Accrued Interest Receivable	- -	-	-
Due from Other Funds	2,733,135	25,462	818,480
Advances to Other Funds	- -	1,918,759	-
Interfund Lease Receivable	- -	-	-
Inventory	- -	-	-
Prepaid Expenses	- -	-	-
Loans Receivable, Net of Allowance	- -	-	-
Land Held for Resale	7,800	- -	-
Total Assets	\$ 3,045,456	\$ 5,854,031	\$ 1,117,101
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts and Contracts Payable	\$ 213,581	\$ 3,195	\$ 314,798
Other Accrued Liabilities	72,260	- -	-
Due to Other Governmental Units	67,925	- -	-
Due to Other Funds	- -	-	-
Advances From Other Funds	- -	-	-
Escrow Deposits	64,521	- -	-
Deferred Revenue	71,811	1,203,854	- -
Total Liabilities	490,098	1,207,049	314,798
FUND BALANCES (DEFICITS)			
Nonspendable	7,800	- -	-
Restricted	- -	4,646,982	802,303
Committed	- -	-	-
Assigned	- -	-	-
Unassigned	2,547,558	- -	-
Total Fund Balances (Deficits)	2,555,358	4,646,982	802,303
Total Liabilities and Fund Balances	\$ 3,045,456	\$ 5,854,031	\$ 1,117,101

See accompanying Notes to Financial Statements.

2012		2011	
HRA Debt Service Fund	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 58,901	\$ 2,324,750	\$ 4,807,817	\$ 3,254,702
-	-	487,204	320,447
402,325	-	402,325	402,325
	6,500	122,915	113,860
	-	100,736	89,288
	-	1,058,414	1,190,040
	61,877	230,149	237,771
	349,127	506,872	353,116
	89,183	89,183	63,183
29,140	-	3,606,217	3,666,189
	20,000	1,938,759	20,000
4,055,000	-	4,055,000	4,125,000
	12,459	12,459	14,286
	332	332	40,530
	491,167	491,167	618,946
	15,859	23,659	167,459
\$ 4,545,366	\$ 3,371,254	\$ 17,933,208	\$ 14,677,142

\$ -	\$ 476,276	\$ 1,007,850	\$ 662,468
-	17,765	90,025	89,604
-	46,605	114,530	3,550
3,140	3,573,937	3,577,077	3,636,086
2,376,505	194,388	2,570,893	652,134
-	6,598	71,119	75,379
4,084,140	587,250	5,947,055	6,230,444
6,463,785	4,902,819	13,378,549	11,349,665
	48,650	56,450	259,775
-	5,436	5,454,721	3,580,016
-	1,213,756	1,213,756	563,661
-	628,921	628,921	752,776
(1,918,419)	(3,428,328)	(2,799,189)	(1,828,751)
(1,918,419)	(1,531,565)	4,554,659	3,327,477
\$ 4,545,366	\$ 3,371,254	\$ 17,933,208	\$ 14,677,142

CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011)

	<u>2012</u>	<u>2011</u>
Total Fund Balance for Governmental Funds	\$ 4,554,659	\$ 3,327,477
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	1,234,845
Construction in Progress	3,893,714	2,852,307
Land Improvements	12,500,860	12,486,965
Buildings and Improvements	17,319,679	17,357,426
Improvements Other than Buildings	2,638,449	2,630,649
Vehicles	3,139,327	2,485,674
Equipment	6,168,219	6,631,394
Infrastructure	71,373,159	67,873,230
Less: Accumulated Depreciation	(62,451,672)	(59,506,166)
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 revenue in the governmental funds.	5,947,055	6,230,444
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.	(310,827)	(320,681)
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	(27,099,780)	(27,082,793)
Unamortized Discounts and Premium and Bond Issuance Costs	479,223	511,715
Note Payable	(221,383)	(273,671)
Obligations Under Capital Leases	(943,000)	(246,912)
Compensated Absences Payable	(361,990)	(360,058)
Total Net Position of Governmental Activities	<u>\$ 38,350,476</u>	<u>\$ 35,831,845</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, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	General Fund	Debt Service Fund	Capital Project Fund
REVENUES			
General Property Taxes	\$ 3,203,650	\$ 2,120,731	\$ -
Tax Increments	- -	- -	- -
Other Taxes	1,483	- -	- -
Licenses and Permits	200,906	- -	- -
Intergovernmental	447,358	105,300	- -
Special Assessments	- -	143,131	- -
Charges for Services	1,449,647	- -	- -
Fines and Forfeits	30,756	- -	- -
Investment Earnings (Loss)	1,317	1,407	2,406
Refunds and Reimbursements	89,575	- -	- -
Grants and Contributions	35,654	- -	60,352
Miscellaneous	18,688	- -	6,600
Total Revenues	<u>5,479,034</u>	<u>2,370,569</u>	<u>69,358</u>
EXPENDITURES			
Current:			
General Government	923,680	- -	- -
Public Safety	2,167,897	- -	- -
Public Works	1,245,384	- -	- -
Sanitation	760,232	- -	- -
Culture and Recreation	821,822	- -	- -
Community Development	- -	- -	- -
Capital Outlay:			
General Government	20,798	- -	- -
Public Safety	32,261	- -	- -
Public Works	282,241	- -	230,066
Culture and Recreation	63,565	- -	- -
Community Development	- -	- -	- -
Capital Leases:			
Principal	175,034	- -	- -
Interest and Fiscal Charges	9,842	- -	- -
Debt Service:			
Principal	32,004	1,932,013	- -
Interest and Fiscal Charges	9,803	889,490	- -
Total Expenditures	<u>6,544,563</u>	<u>2,821,503</u>	<u>230,066</u>
Revenue Over (Under) Expenditures	<u>(1,065,529)</u>	<u>(450,934)</u>	<u>(160,708)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	1,707,142	96,566	300,376
Transfer Out	(196,491)	(184,496)	(6,522)
Bond Proceeds	- -	3,510,000	- -
Insurance Proceeds	- -	- -	- -
Capital Lease Proceeds	353,452	- -	- -
Payment of Refunded Bonds	- -	(1,295,000)	- -
Bond Premium	- -	60,266	- -
Total Other Financing Sources (Uses)	<u>1,864,103</u>	<u>2,187,336</u>	<u>293,854</u>
Net Change in Fund Balance	<u>798,574</u>	<u>1,736,402</u>	<u>133,146</u>
Fund Balance (Deficit) - Beginning of Year	<u>1,756,784</u>	<u>2,910,580</u>	<u>669,157</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 2,555,358</u>	<u>\$ 4,646,982</u>	<u>\$ 802,303</u>

See accompanying Notes to the Financial Statements.

2012		2011	
HRA Debt Service Fund	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ -	\$ 296,323	\$ 5,620,704	\$ 4,857,444
-	103,775	103,775	101,991
-	-	1,483	1,615
-	-	200,906	148,618
-	388,179	940,837	1,660,663
-	-	143,131	282,959
-	1,457,592	2,907,239	2,766,351
-	-	30,756	39,971
267,900	1,865	274,895	211,832
252,450	1,381	343,406	675,857
-	51,000	147,006	90,219
-	22,612	47,900	46,687
<u>520,350</u>	<u>2,322,727</u>	<u>10,762,038</u>	<u>10,884,207</u>
 - - - - -	 - - - - -	 923,680	 971,502
-	310,896	2,478,793	2,447,847
-	-	1,245,384	1,191,432
-	-	760,232	739,634
-	1,214,848	2,036,670	1,633,623
450	372,476	372,926	258,561
 - - - - -	 - - - - -	 20,798	 23,763
-	880,304	912,565	59,816
-	-	512,307	1,309,630
-	154,082	217,647	889,661
-	1,333,745	1,333,745	33,798
 - - - - -	 - - - - -	 45,859	 220,893
-	4,669	14,511	264,488
-	-	-	16,981
266,000	20,284	2,250,301	4,579,815
277,358	-	1,176,651	1,420,611
<u>543,808</u>	<u>4,337,163</u>	<u>14,477,103</u>	<u>15,841,162</u>
 (23,458)	 (2,014,436)	 (3,715,065)	 (4,956,955)
 23,519	 2,033,759	 4,161,362	 2,853,921
(1,918,759)	(105,094)	(2,411,362)	(914,718)
-	-	3,510,000	8,790,000
-	-	-	24,775
-	563,529	916,981	-
-	-	(1,295,000)	(8,310,000)
-	-	60,266	-
<u>(1,895,240)</u>	<u>2,492,194</u>	<u>4,942,247</u>	<u>2,443,978</u>
 (1,918,698)	 477,758	 1,227,182	 (2,512,977)
 279	 (2,009,323)	 3,327,477	 5,840,454
 <u>\$ (1,918,419)</u>	 <u>\$ (1,531,565)</u>	 <u>\$ 4,554,659</u>	 <u>\$ 3,327,477</u>

CITY OF BUFFALO, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012	2011
Net Change in Fund Balances-Total Governmental Funds	\$ 1,227,182	\$ (2,512,977)
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	2,866,992	1,097,009
Gain (Loss) on Disposal of Capital Assets	(56,735)	-
Capital Contributions	3,516,194	-
Depreciation Expense	(4,066,256)	(4,105,901)
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	(916,981)	-
Principal Payments for Capital Leases	220,893	264,488
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 issuance costs, premiums and discounts 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	(3,510,000)	(8,790,000)
Notes Payable	-	(250,000)
Payment of Refunded Bonds	1,295,000	8,310,000
Bond Discount/Premium	(55,875)	119,751
Bond Issuance Costs	92,153	124,281
Repayment of Bond Principal and Note Payable	2,250,301	4,579,815
Change in Accrued Interest Expense for General Obligation Bonds	9,854	84,098
Amortization of Bond Issuance Costs	(66,759)	(55,286)
Amortization of Bond Discount/Premium	(2,011)	(52,482)
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.	(283,389)	(302,348)
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).	(1,932)	(21,319)
Change in Net Position of Governmental Activities	<u>\$ 2,518,631</u>	<u>\$ (1,510,871)</u>

See accompanying Notes to the Financial Statements.

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

ASSETS	Electric	Water & Sewer
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,548,481	\$ 2,926,714
Accounts Receivable, Net of Allowance	1,213,979	391,080
Accrued Interest Receivable	763	-
Taxes Receivable	-	-
Sewer and Water Hook-up Fees Receivable - Current Portion	-	60,901
Due from Other Governments	-	-
Due from Other Funds	-	3,506,974
Inventory	825,876	8,335
Prepaid Expenses	-	-
Total Current Assets	<u>4,589,099</u>	<u>6,894,004</u>
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	156,483
Unamortized Bond Issuance Costs	66,885	381,046
Advance to Other Funds	174,388	300,000
Capital Assets:		
Land, Buildings, Infrastructure and Improvements	21,095,873	91,222,363
Equipment	4,720,406	1,168,396
Construction in Progress	-	271,808
Total Capital Assets	<u>25,816,279</u>	<u>92,662,567</u>
Less: Allowance for Depreciation	<u>(12,672,591)</u>	<u>(26,631,690)</u>
Total Net Capital Assets	<u>13,143,688</u>	<u>66,030,877</u>
Total Long-Term Assets	<u>13,384,961</u>	<u>66,868,406</u>
Total Assets	<u><u>\$ 17,974,060</u></u>	<u><u>\$ 73,762,410</u></u>

See accompanying Notes to the Financial Statements.

2012			2011	
Liquor	Golf Course	Total	Total	
\$ 41,005	\$ -	\$ 5,516,200	\$ 5,418,823	
2,694	4,582	1,612,335	1,499,990	
-	-	763	3,077	
3,372	-	3,372	4,278	
-	-	60,901	54,109	
1,283	-	1,283	3,228	
-	-	3,506,974	3,037,269	
641,022	31,716	1,506,949	1,405,579	
-	-	-	23,535	
689,376	36,298	12,208,777	11,449,888	
-	-	156,483	199,281	
-	29,615	477,546	493,181	
-	457,746	932,134	932,134	
2,006,276	3,270,853	117,595,365	114,403,145	
413,887	827,707	7,130,396	7,166,479	
-	-	271,808	1,888,388	
2,420,163	4,098,560	124,997,569	123,458,012	
(725,226)	(1,229,818)	(41,259,325)	(38,175,653)	
1,694,937	2,868,742	83,738,244	85,282,359	
1,694,937	3,356,103	85,304,407	86,906,955	
<u>\$ 2,384,313</u>	<u>\$ 3,392,401</u>	<u>\$ 97,513,184</u>	<u>\$ 98,356,843</u>	

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

LIABILITIES	Electric	Water & Sewer
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 623,722	\$ 421,242
Accrued Expenses	80,384	15,972
Due to Other Governments	1,433	6,735
Due to Other Funds	-	-
Accrued Interest	86,546	369,661
Deferred Revenue	23,981	-
Compensated Absences - Current Portion	54,869	50,414
Capital Lease Obligation - Current Portion	9,098	801
Interfund Lease Payable - Current Portion	-	-
Bonds Payable - Current Portion	1,025,000	1,792,987
Total Current Liabilities	<u>1,905,033</u>	<u>2,657,812</u>
LONG-TERM LIABILITIES		
Escrow Deposits	-	111,480
Compensated Absences - Long-Term	57,982	17,371
Capital Lease Obligation - Long-Term	-	-
Bonds Payable - Long-Term	3,932,745	61,888,293
Interfund Lease Payable	-	-
Advance from Other Funds	-	-
Total Long-Term Liabilities	<u>3,990,727</u>	<u>62,017,144</u>
Total Liabilities	5,895,760	64,674,956
NET POSITION		
Net Investment in Capital Assets	8,176,845	7,754,576
Unrestricted	3,901,455	1,332,878
Total Net Position	<u>12,078,300</u>	<u>9,087,454</u>
Total Liabilities and Net Position	<u><u>\$ 17,974,060</u></u>	<u><u>\$ 73,762,410</u></u>

See accompanying Notes to Financial Statements.

2012		2011	
Liquor	Golf Course	Total	Total
\$ 117,088	\$ 4,479	\$ 1,166,531	\$ 1,306,223
54,817	5,075	156,248	121,523
406	4,025	12,599	7,750
-	3,536,114	3,536,114	3,067,372
5,892	-	462,099	385,514
3,372	37,613	64,966	56,458
13,745	15,647	134,675	118,896
80,305	12,346	102,550	108,516
-	115,000	115,000	70,000
-	-	2,817,987	2,227,987
<u>275,625</u>	<u>3,730,299</u>	<u>8,568,769</u>	<u>7,470,239</u>
-	-	111,480	111,480
14,485	2,845	92,683	105,098
525,282	39,630	564,912	614,821
-	-	65,821,038	62,000,234
-	3,940,000	3,940,000	4,055,000
<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>300,000</u>
<u>839,767</u>	<u>3,982,475</u>	<u>70,830,113</u>	<u>67,186,633</u>
1,115,392	7,712,774	79,398,882	74,656,872
1,089,350	(780,488)	16,240,283	21,333,289
<u>179,571</u>	<u>(3,539,885)</u>	<u>1,874,019</u>	<u>2,366,682</u>
<u>1,268,921</u>	<u>(4,320,373)</u>	<u>18,114,302</u>	<u>23,699,971</u>
<u>\$ 2,384,313</u>	<u>\$ 3,392,401</u>	<u>\$ 97,513,184</u>	<u>\$ 98,356,843</u>

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	<u>Electric</u>	<u>Water & Sewer</u>
OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	- -	- -
Charges for Services	<u>12,336,078</u>	<u>4,269,424</u>
Total Gross Profit and Operating Revenues	<u>12,336,078</u>	<u>4,269,424</u>
OPERATING EXPENSES		
Cost of Sales and Services	8,461,820	1,283,269
Compensation and Employee Benefits	1,109,088	749,288
Depreciation	968,645	2,162,036
Total Operating Expenses	<u>10,539,553</u>	<u>4,194,593</u>
OPERATING INCOME (LOSS)	1,796,525	74,831
OTHER INCOME (EXPENSES)		
Interest Income (Loss)	4,463	14,979
Interest Expense	(228,415)	(2,602,695)
Taxes and Special Assessments	- -	- -
Intergovernmental Revenues	240	584
Access Fees	14,000	237,946
Refunds and Reimbursements	151,769	- -
Miscellaneous Revenue	3,067	69,162
Total Other Income (Expense)	<u>(54,876)</u>	<u>(2,280,024)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,741,649	(2,205,193)
CONTRIBUTIONS AND TRANSFERS		
Transfers Out	(950,000)	(300,000)
Capital Contributions to Other Funds	- -	(3,726,103)
Capital Contributed from Other Funds	17,821	192,088
Total Contributions and Transfers	<u>(932,179)</u>	<u>(3,834,015)</u>
CHANGE IN NET POSITION	809,470	(6,039,208)
Net Position - Beginning of Year	<u>11,268,830</u>	<u>15,126,662</u>
NET POSITION - END OF YEAR	<u>\$ 12,078,300</u>	<u>\$ 9,087,454</u>

See accompanying Notes to Financial Statements.

2012		2011	
Liquor	Golf Course	Total	Total
\$ 4,298,307	\$ 83,566	\$ 4,381,873	\$ 4,180,902
(3,071,808)	(58,278)	(3,130,086)	(2,998,648)
<u>-</u>	<u>541,400</u>	<u>17,146,902</u>	<u>16,708,173</u>
<u>1,226,499</u>	<u>566,688</u>	<u>18,398,689</u>	<u>17,890,427</u>
 227,050	304,310	10,276,449	10,145,590
434,165	467,616	2,760,157	2,889,974
<u>62,061</u>	<u>148,647</u>	<u>3,341,389</u>	<u>3,425,207</u>
<u>723,276</u>	<u>920,573</u>	<u>16,377,995</u>	<u>16,460,771</u>
 503,223	(353,885)	2,020,694	1,429,656
 268	(4,846)	14,864	(144)
(27,114)	(180,423)	(3,038,647)	(3,088,981)
<u>153,037</u>	<u>-</u>	<u>153,037</u>	<u>172,908</u>
<u>-</u>	<u>-</u>	<u>824</u>	<u>26,083</u>
<u>-</u>	<u>-</u>	<u>251,946</u>	<u>83,900</u>
<u>-</u>	<u>-</u>	<u>151,769</u>	<u>43,028</u>
<u>53,809</u>	<u>-</u>	<u>126,038</u>	<u>79,382</u>
<u>180,000</u>	<u>(185,269)</u>	<u>(2,340,169)</u>	<u>(2,683,824)</u>
 683,223	(539,154)	(319,475)	(1,254,168)
 (500,000)	<u>-</u>	(1,750,000)	(1,939,203)
<u>-</u>	<u>-</u>	<u>(3,726,103)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>209,909</u>	<u>424,558</u>
<u>(500,000)</u>	<u>-</u>	<u>(5,266,194)</u>	<u>(1,514,645)</u>
 183,223	(539,154)	(5,585,669)	(2,768,813)
<u>1,085,698</u>	<u>(3,781,219)</u>	<u>23,699,971</u>	<u>26,468,784</u>
<u>\$ 1,268,921</u>	<u>\$ (4,320,373)</u>	<u>\$ 18,114,302</u>	<u>\$ 23,699,971</u>

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	Electric	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Service Users	\$ 12,216,831	\$ 4,275,945
Cash Paid to Suppliers	(8,485,828)	(1,303,358)
Cash Paid to Employees	(1,094,034)	(743,971)
Net Cash Provided (Used) by Operating Activities	<u>2,636,969</u>	<u>2,228,616</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund Borrowing	(950,000)	(300,000)
Interfund Note Receivable	-	-
Repayment of Advances from Other Funds	-	-
Advance to Other Funds	(540)	(469,705)
Advance From Other Funds	-	-
Property Tax Revenues	717	211
Water and Sewer Hook-up Fee Revenues	-	36,006
Miscellaneous Revenues	154,836	69,162
Intergovernmental Revenues	2,186	704
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(792,801)</u>	<u>(663,622)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Bonds	-	5,610,000
Interfund Lease Payable	-	-
Access Fees	14,000	237,946
Acquisition and Construction of Capital Assets	(546,482)	(4,665,196)
Interest Paid on Revenue Bonds	(202,748)	(1,504,367)
Interest Paid on Capital Lease Obligations	(602)	(64)
Principal Payments on Capital Lease Obligation	(11,723)	(2,224)
Principal Payments on Revenue Bonds	(1,010,000)	(1,172,987)
Net Cash Used by Capital and Related Financing Activities	<u>(1,757,555)</u>	<u>(1,496,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	<u>6,777</u>	<u>14,979</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	93,390	83,081
Cash and Cash Equivalents - Beginning of Year	<u>2,455,091</u>	<u>2,843,633</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
	<u>\$ 2,548,481</u>	<u>\$ 2,926,714</u>
NONCASH TRANSACTIONS		
Capital Lease Proceeds	\$ -	\$ -
Capital Contributed From Other Funds	17,821	192,088
Capital Contributed to Governmental Activities	-	(3,726,103)
Interest Accretion on Capital Appreciation Bonds	-	959,122
Amortized Bond Issue Costs, Premiums and Discounts	-	59,025
Total Noncash Investing, Capital and Financing Activities	<u>\$ 17,821</u>	<u>\$ (2,515,868)</u>

See accompanying Notes to Financial Statements.

2012			2011	
Liquor	Golf Course	Total	Total	
\$ 4,297,992	\$ 640,905	\$ 21,431,673	\$ 20,392,914	
(3,456,846)	(374,954)	(13,620,986)	(13,101,072)	
(424,667)	(464,358)	(2,727,030)	(2,852,198)	
<u>416,479</u>	<u>(198,407)</u>	<u>5,083,657</u>	<u>4,439,644</u>	
 (500,000)	469,282	(1,280,718)	(1,367,330)	
-	-	-	121,800	
-	-	-	(147,408)	
-	-	(470,245)	(3,146,117)	
-	-	-	300,000	
153,015	-	153,943	173,789	
-	-	36,006	49,135	
53,809	-	277,807	122,410	
(121)	-	2,769	25,403	
<u>(293,297)</u>	<u>469,282</u>	<u>(1,280,438)</u>	<u>(3,868,318)</u>	
 - -	-	5,610,000	3,575,000	
-	(70,000)	(70,000)	(55,000)	
-	-	251,946	83,900	
(50,880)	-	(5,262,558)	(3,724,632)	
(297)	-	(1,707,412)	(1,824,743)	
(26,702)	(175,809)	(203,177)	(184,545)	
(79,665)	(20,220)	(113,832)	(155,932)	
(45,000)	-	(2,227,987)	(2,162,990)	
<u>(202,544)</u>	<u>(266,029)</u>	<u>(3,723,020)</u>	<u>(4,448,942)</u>	
 268	(4,846)	17,178	2,198	
(79,094)	-	97,377	(3,875,418)	
120,099	-	5,418,823	9,294,241	
<u>\$ 41,005</u>	<u>\$ -</u>	<u>\$ 5,516,200</u>	<u>\$ 5,418,823</u>	
 \$ -	\$ 57,957	\$ 57,957	\$ -	
-	-	209,909	424,558	
-	-	(3,726,103)	-	
-	-	959,122	912,911	
-	-	59,025	49,799	
<u>\$ -</u>	<u>\$ 57,957</u>	<u>\$ (2,440,090)</u>	<u>\$ 1,387,268</u>	

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<hr/>		Water & Sewer
	Electric	Water & Sewer	
Operating Income (Loss)	\$ 1,796,525	\$ 74,831	
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	968,645	2,162,036	
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(118,108)	(214)	
(Increase) Decrease in Prepaid Items	12,638	6,480	
(Increase) Decrease in Inventory	(27,337)	-	
Increase (Decrease) in Accounts and Contracts Payable	(10,742)	(28,397)	
Increase (Decrease) in Accrued Expenses	18,620	1,828	
Increase (Decrease) in Due to Other Governments	1,433	6,735	
Increase (Decrease) in Due to Other Funds	-	-	
Increase in Deferred Revenue	(1,139)	-	
Increase (Decrease) in Accrued Compensated Absences	(3,566)	5,317	
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,636,969</u>	<u>\$ 2,228,616</u>	

See accompanying Notes to the Financial Statements.

2012			2011		
Liquor	Golf Course	Total		Total	
\$ 503,223	\$ (353,885)	\$ 2,020,694	\$ 1,429,656		
62,061	148,647	3,341,389	3,425,207		
(337)	6,314	(112,345)	(98,136)		
3,148	1,269	23,535	6,212		
(65,473)	(8,560)	(101,370)	(76,895)		
(95,478)	(5,075)	(139,692)	113,103		
12,345	1,932	34,725	40,679		
(185)	(3,134)	4,849	-		
-	-	-	(390,000)		
22	9,625	8,508	(8,025)		
(2,847)	4,460	3,364	(2,157)		
<u>\$ 416,479</u>	<u>\$ (198,407)</u>	<u>\$ 5,083,657</u>	<u>\$ 4,439,644</u>		

NOTES TO FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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.

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, 2012

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, 2012**

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, 2012**

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, 2012

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, Liabilities, 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.

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.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

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 revenue 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.

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, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

4. Special Assessment Revenue Recognition (Continued)

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.

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, 2012 for the HRA loans is \$52,864 and the estimated allowance for the revolving loan program is \$100,430.

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.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

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.

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 severance payable and in the government-wide financial statements as a component of long-term debt.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

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 deferred and amortized over the life of the bonds using the straight-line method. Bond issue costs, if material, are reported as prepaid items and amortized over the term of the related debt using the straight-line method.

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. 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.

14. 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.

15. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations. Certain 2011 comparative information has been reclassified to conform to 2012 presentation.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

16. 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.

17. 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.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Fund Balances (Continued)

17. Fund Balance (Continued)

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.

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, 2012, 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 2012 were \$12,508.

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, 2012

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, 2012, 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	36.93%
US Treasury NT	Aaa	1/31/2013	82,685	7.59%
US Treasury State and Local	AAA	2/1/2013	404,519	37.13%
Negotiable Certificates of Deposit:				
Everbank	NR	1/9/2013	200,000	18.36%
			\$ 1,089,529	

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, 2012

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	\$ 8,540,306
Money Market Accounts	7,544
Non-Negotiable Certificates of Deposits	1,576,167
Investments	<u>1,089,529</u>
 Total Cash and Investments	 <u>\$ 11,213,546</u>
 Cash and Investments	 \$ 10,324,017
Cash and Investments with Fiscal Agent	487,204
Restricted Cash and Investments	<u>402,325</u>
 Total Cash and Investments	 <u>\$ 11,213,546</u>

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,234,845	\$ 489,939	\$ -	\$ -	\$ 1,724,784
Construction in Progress	2,852,307	1,609,821	(568,414)	-	3,893,714
Total Capital Assets, Not Being Depreciated	<u>4,087,152</u>	<u>2,099,760</u>	<u>(568,414)</u>	<u>-</u>	<u>5,618,498</u>
Capital Assets, Being Depreciated:					
Land Improvements	12,486,965	44,977	(31,082)	-	12,500,860
Buildings and Building Improvements	17,357,426	14,653	(52,400)	-	17,319,679
Improvements Other than Buildings	2,630,649	7,800	-	-	2,638,449
Vehicles	2,485,674	824,558	(188,414)	17,509	3,139,327
Equipment	6,631,394	443,658	(849,977)	(56,856)	6,168,219
Infrastructure	<u>67,873,230</u>	<u>-</u>	<u>(16,266)</u>	<u>3,516,195</u>	<u>71,373,159</u>
Total Capital Assets, Being Depreciated	<u>109,465,338</u>	<u>1,335,646</u>	<u>(1,138,139)</u>	<u>3,476,848</u>	<u>113,139,693</u>
Accumulated Depreciation for:					
Land Improvements	(3,073,155)	(552,144)	-	-	(3,625,299)
Buildings and Building Improvements	(5,451,454)	(470,558)	43,013	-	(5,878,999)
Improvements Other than Buildings	(990,256)	(117,162)	-	-	(1,107,418)
Vehicles	(1,967,682)	(100,642)	188,414	(17,509)	(1,897,419)
Equipment	(4,904,097)	(483,295)	849,977	56,855	(4,480,560)
Infrastructure	<u>(43,119,522)</u>	<u>(2,342,455)</u>	<u>-</u>	<u>-</u>	<u>(45,461,977)</u>
Total Accumulated Depreciation	<u>(59,506,166)</u>	<u>(4,066,256)</u>	<u>1,081,404</u>	<u>39,346</u>	<u>(62,451,672)</u>
Total Capital Assets, Being Depreciated, Net	<u>49,959,172</u>	<u>(2,730,610)</u>	<u>(56,735)</u>	<u>3,516,194</u>	<u>50,688,021</u>
Governmental Activities Capital Assets, Net	<u>\$ 54,046,324</u>	<u>\$ (630,850)</u>	<u>\$ (625,149)</u>	<u>\$ 3,516,194</u>	<u>\$ 56,306,519</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:

General Government	\$ 189,931
Public Safety	307,881
Public Works	2,792,684
Parks, Culture and Recreation	<u>775,760</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 4,066,256</u>

In 2012, \$3,516,194 (net) of infrastructure assets were contributed to governmental activities from business-type activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	1,888,388	4,428,711	(2,336,492)	(3,708,799)	271,808
Total Capital Assets, Not Being Depreciated	<u>4,422,479</u>	<u>4,428,711</u>	<u>(2,336,492)</u>	<u>(3,708,799)</u>	<u>2,805,899</u>
Capital Assets, Being Depreciated:					
Land Improvements	2,667,457	-	-	-	2,667,457
Buildings and Building Improvements	49,583,706	90,590	(7,754)	-	49,666,542
Utility Distributions Systems	59,617,892	2,916,376	-	192,087	62,726,355
Machinery and Shop Equipment	7,166,478	218,691	(293,717)	39,864	7,131,316
Total Capital Assets, Being Depreciated	<u>119,035,533</u>	<u>3,225,657</u>	<u>(301,471)</u>	<u>231,951</u>	<u>122,191,670</u>
Accumulated Depreciation for:					
Land Improvements	(792,627)	(70,723)	-	-	(863,350)
Buildings and Building Improvements	(13,203,140)	(1,222,110)	7,754	-	(14,417,496)
Utility Distributions Systems	(19,616,146)	(1,590,612)	-	-	(21,206,758)
Machinery and Shop Equipment	(4,563,740)	(457,944)	289,309	(39,346)	(4,771,721)
Total Accumulated Depreciation	<u>(38,175,653)</u>	<u>(3,341,389)</u>	<u>297,063</u>	<u>(39,346)</u>	<u>(41,259,325)</u>
Total Capital Assets, Being Depreciated, Net	<u>80,859,880</u>	<u>(115,732)</u>	<u>(4,408)</u>	<u>192,605</u>	<u>80,932,345</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 85,282,359</u></u>	<u><u>\$ 4,312,979</u></u>	<u><u>\$ (2,340,900)</u></u>	<u><u>\$ (3,516,194)</u></u>	<u><u>\$ 83,738,244</u></u>

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

Business-Type Activities:

Electric Fund	\$ 968,645
Water and Sewer Fund	2,162,036
Liquor Fund	62,061
Golf Course Fund	<u>148,647</u>
Total Depreciation Expense, Business-Type Activities	<u><u>\$ 3,341,389</u></u>

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2012 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2003 G.O. Capital Improvement Bond #2003B	\$ 6,000,000	2024	3.50-5.00%	\$ 155,000
2006 G.O. Capital Improvement City Facilities #2006B	910,000	2017	4.00-4.30%	495,000
2008 G.O. Street Reconstruction Bonds #2008D	1,715,000	2019	3.50-4.50%	1,375,000
2009 G.O. Refunding Bonds #2009A	2,460,000	2016	2.00-3.00%	1,520,000
2009 G.O. Bonds #2009D	3,685,000	2025	3.00-4.00%	3,685,000
2010 G.O. Bonds #2010A	1,070,000	2021	2.00-4.00%	720,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80%	2,145,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80%	425,000
2011 G.O. Capital Improvement Refunding #2011A	5,925,000	2024	0.40-3.15%	5,765,000
2012 G.O. Refunding #2012B	1,555,000	2020	2.00%	1,555,000
Total Governmental Activities - G.O. Bonds	25,890,000			17,840,000
Business-Type Activities:				
2008 G.O. Equipment Certificates #2008A	775,000	2015	3.29%	355,000
2010 G.O. Bonds #2010A	2,385,000	2026	2.00-4.00%	2,385,000
2010 G.O. Bonds #2010C	1,320,000	2019	2.00-3.80%	1,320,000
Total Business-Type Activities - G.O. Bonds	4,480,000			4,060,000
Total General Obligation Bonds	<u>\$ 30,370,000</u>			<u>\$ 21,900,000</u>
Special Assessments and Tax Abatement Bonds:				
Governmental Activities:				
1997 Improvement Bonds	\$ 515,000	2013	5.00-5.30%	\$ 50,000
2000 Improvement Bonds #2000D	345,000	2016	4.70-5.20%	120,000
2005 Improvement Bonds #2005B	975,000	2016	3.25-4.00%	60,000
2012 G.O. Tax Abatement Bonds #2012C	1,955,000	2033	0.65-3.20%	1,955,000
Total Special Assessment Bonds	<u>\$ 3,790,000</u>			<u>\$ 2,185,000</u>

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2008 Vehicles	\$ 173,902	2013	3.95%	\$ 37,590
2009 Technology	344,776	2012	3.85%	68,835
2012 Street and Parks Vehicles	95,937	2016	2.97%	80,846
2012 Fire and Street Equipment	821,044	2017	2.03%	755,729
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 1,435,659</u>			<u>\$ 943,000</u>
Note Payable:				
Governmental Activities:				
Note Payable - State of Minnesota	\$ 202,841	2013	0.00%	\$ 18,594
Note Payable - ISD 877	250,000	2018	4.25%	202,789
Total Notes Payable	<u>\$ 452,841</u>			<u>\$ 221,383</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
2002 Electric Revenue Bond #2002C	\$ 1,295,000	2015	4.45-5.00%	\$ 485,000
2004 Refunding Wastewater Revenue Bonds #2004F	5,920,000	2017	3.25-4.00%	3,345,000
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%	785,000
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%	13,775,000
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%	1,265,000
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75%	2,478,218
2009 G.O. Water and Sewer Rev. Refunding Bonds #2009F	870,000	2016	1.00-2.65%	540,000
2010 Electric Revenue Bonds #2010B	955,000	2021	2.50-3.70%	955,000
2011 G.O. Water and Sewer Revenue Bonds, #2011B	3,575,000	2032	0.65-4.30%	3,575,000
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>76,240,393</u>			<u>61,759,417</u>
Governmental Activities:				
2005 Wild Marsh Revenue Bonds	4,380,000	2027	3.50-4.50%	4,055,000
2009 G.O. Utility Revenue Bonds #2009E	220,806	2024	2.00-3.75%	186,780
2009 HRA Revenue Bond	178,000	2020	4.82%	148,000
2011 Public Facility Lease Revenue Bonds #2011A	2,865,000	2027	0.65-4.60%	2,685,000
Total Governmental Activities Revenue Bonds	<u>7,643,806</u>			<u>7,074,780</u>
Total Revenue Bonds	<u>\$ 83,884,199</u>			<u>\$ 68,834,197</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 605,587
2009 Technology	50,595	2012	3.85%	9,899
2012 Wild Marsh Aerator	20,478	2016	2.97%	17,257
2012 Golf Course Equipment	37,479	2017	2.03%	34,719
Total Revenue Lease Purchase Obligations	<u>\$ 1,303,552</u>			<u>\$ 667,462</u>

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2012:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 18,300,000	\$ 1,555,000	\$ 2,015,000	\$ 17,840,000	\$ 1,300,000
Special Assessment Debt with Governmental Commitments	1,425,000	1,955,000	1,195,000	2,185,000	95,000
General Obligation Revenue Bond Bond Subtotal	7,357,793	-	283,013	7,074,780	299,013
Bond Premium	27,082,793	3,510,000	3,493,013	27,099,780	1,694,013
Bond Discount	95,025	60,266	20,496	134,795	-
Net Bond Subtotal	(265,903)	(4,391)	(22,507)	(247,787)	-
Capital Lease Obligations	26,911,915	3,565,875	3,491,002	26,986,788	1,694,013
Note Payable	246,912	916,981	220,893	943,000	288,292
Compensated Absences	273,671	-	52,288	221,383	52,020
Total Governmental Activities	360,058	232,550	230,618	361,990	187,338
	27,792,556	4,715,406	3,994,801	28,513,161	2,221,663
Business-Type Activities:					
General Obligation Bonds	4,240,000	-	180,000	4,060,000	520,000
General Obligation Revenue Bonds	52,672,404	5,610,000	1,172,987	57,109,417	1,387,987
Electric Revenue Bonds Bond Subtotal	5,825,000	-	875,000	4,650,000	910,000
Interest Accretion on Capital Appreciation Bonds	62,437,404	5,610,000	2,227,987	65,819,417	2,817,987
Bond Premium	2,837,320	959,123	-	3,796,443	-
Bond Discount	56,355	-	4,863	51,492	-
Net Bond Subtotal	(1,102,858)	(41,260)	(115,791)	(1,028,327)	-
Revenue Lease Purchase Obligations	64,228,221	6,527,863	2,117,059	68,639,025	2,817,987
Compensated Absences	723,337	57,957	113,832	667,462	102,550
Total Business-Type Activities	223,994	121,831	118,467	227,358	134,675
Total Debt	65,175,552	6,707,651	2,349,358	69,533,845	3,055,212
	\$ 92,968,108	\$ 11,423,057	\$ 6,344,159	\$ 98,047,006	\$ 5,276,875

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	1,428,230	1,425,753
Subtotal	1,428,230	6,249,705
Less: Accumulated Depreciation	(401,545)	(1,455,135)
Total	\$ 1,026,685	\$ 4,794,570

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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				Totals
	Long-Term Debt		Notes and Capital Leases		
	Principal	Interest	Principal	Interest	
2013	\$ 1,694,013	\$ 962,809	\$ 340,312	\$ 26,281	\$ 3,023,415
2014	1,999,013	783,194	220,637	18,939	3,021,783
2015	2,100,213	730,242	226,189	13,387	3,070,031
2016	2,121,214	673,236	216,857	7,801	3,019,108
2017	2,017,214	612,657	139,924	2,594	2,772,389
2018-2022	8,603,276	2,158,234	20,464	440	10,782,414
2023-2027	7,599,837	1,479,965	-	-	9,079,802
2028-2032	835,000	166,556	-	-	1,001,556
2033	130,000	2,080	-	-	132,080
Totals	\$ 27,099,780	\$ 7,568,973	\$ 1,164,383	\$ 69,442	\$ 35,902,578

Years	Business-Type Activities				Totals
	Long-Term Debt		Capital Leases		
	Principal	Interest	Principal	Interest	
2013	\$ 2,817,987	\$ 1,770,290	\$ 102,550	\$ 24,074	\$ 4,714,901
2014	3,052,989	1,606,401	99,339	20,319	4,779,048
2015	3,011,786	1,516,888	103,067	16,592	4,648,333
2016	3,041,786	1,408,935	103,691	12,783	4,567,195
2017	3,006,786	1,299,666	101,927	9,137	4,417,516
2018-2022	22,195,638	6,856,343	156,888	6,026	29,214,895
2023-2027	19,500,590	16,928,300	-	-	36,428,890
2028-2032	7,791,855	5,347,732	-	-	13,139,587
2033	1,400,000	42,000	-	-	1,442,000
Totals	\$ 65,819,417	\$ 36,776,555	\$ 667,462	\$ 88,931	\$ 103,352,365

The annual requirements to amortize all long-term debt outstanding as of December 31, 2012, including interest of \$44,503,901 are as follows:

Year	Amount
2013	\$ 7,738,316
2014	7,800,831
2015	7,718,364
2016	7,586,303
2017	7,189,905
2018-2022	39,997,309
2023-2027	45,508,692
2028-2032	14,141,143
2033	1,574,080
Total	\$ 139,254,943

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

During 2012, the City issued \$5,610,000 in General Obligation Sewer and Water Revenue Bonds (Series 2012A) for the purpose of financing the construction of various utility system improvements within the City.

The City then 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 is \$149,761 with a net present value of approximately \$142,049.

In addition, the City issued \$1,955,000 General Obligation Tax Abatement Bonds, (Series 2012C) for the Downtown Enhancement project.

As of December 31, 2012, the City had funds held with an escrow agent for the repayment of 2003B G.O. Capital Improvement Bonds, with an outstanding balance of \$5,380,000, which were defeased as part of advance refunding issuances in 2011 and, therefore, neither the cash nor the debt is shown on the financial statements of the City. The market value of funds held with escrow at December 31, 2012 was \$5,483,891.

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, 2012

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 GERC 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 GERC 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, 2012**

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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. The City of Buffalo is required to contribute the following percentages of annual covered payroll: 11.78% for GERF Basic Plan members, 7.25% for GERF 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, 2012, 2011 and 2010 were \$269,543, \$278,198, and \$266,680, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2012, 2011 and 2010 were \$136,569, \$135,656, and \$128,590, 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, 2012, 2011 and 2010 were \$34,425, \$75,448 and \$76,198, respectively, equal to the required contributions for each year.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2012 as follows:

Governmental Funds:	
HRA Debt Service	\$ (1,918,419)
Other Governmental Funds:	
Civic Center Fund	(2,735,983)
Airport Fund	(679,554)
Proprietary Funds:	
Golf Course Fund	(4,320,373)

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, 2012 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2012 totaled \$18,229,548.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2012 are as follows:

Fund	Due from Other Funds	Due to Other Funds	Description
General Fund	\$ 2,733,135	\$ -	Eliminate Deficit Cash
Capital Project Fund	818,480	-	Eliminate Deficit Cash
Debt Service Fund	25,462	-	Lease Purchase Funding
HRA Debt Service Fund	29,140	3,140	Lease Purchase Funding
Other Governmental Funds	-	3,573,937	Eliminate Deficit Cash
Proprietary Funds:			
Water and Sewer Fund	3,506,974	-	Eliminate Deficit Cash
Golf Course Fund	-	3,536,114	Lease Purchase/Deficit Cash
Total Due To/From	<u>\$ 7,113,191</u>	<u>\$ 7,113,191</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	300,000	-
Liquor Fund	-	300,000
Golf Course Fund	457,746	-
Total Advances	<u>\$ 2,870,893</u>	<u>\$ 2,870,893</u>

The advance in the amount of \$300,000 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, 2012

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

C. Interfund Receivables/ Payables

Fund	Interfund Lease Receivable	Interfund Lease Payable
HRA Debt Service Fund	\$ 4,055,000	\$ -
Proprietary Funds:		
Wild Marsh Golf Course	-	4,055,000
Total Interfund Leases	<u>\$ 4,055,000</u>	<u>\$ 4,055,000</u>
Total Interfund Receivables/Payables	<u>\$ 14,039,084</u>	<u>\$ 14,039,084</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 \$115,000 is due in 2013.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

D. Transfers

Transfers between funds during 2012 are as follows:

<u>Major Governmental Funds</u>	<u>Amount</u>	<u>Description</u>
Transfers to General Fund from:		
Debt Service Fund	\$ 7,142	Defeased Bonds
Electric Fund	900,000	Annual Contribution
Water and Sewer Fund	300,000	Annual Contribution
Liquor Fund	500,000	Annual Contribution
Total Transfers to General Fund	<u>1,707,142</u>	
Transfers to Debt Service Fund from:		
General Fund	8,469	Transfer of Debt Payment
Capital Project Fund	6,522	Transfer of Project Costs
HRA Fund	81,575	Transfer of Debt Payment
Total Transfers to Debt Service Fund	<u>96,566</u>	
Transfer to Capital Projects Fund from:		
General Fund	123,022	Close Project Funds
Debt Service Fund	177,354	Final Project Payment
Total Transfer to Capital Projects Fund	<u>300,376</u>	
Transfer to HRA Debt Service Fund from:		
HRA Fund	<u>23,519</u>	Transfer of Debt Payment
Total Transfers to Major Funds	<u>2,127,603</u>	
<u>Nonmajor Governmental Funds</u>		
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfers to HRA Fund from		
HRA Debt Service Fund	1,918,759	Downtown Enhancement Project
Transfer to Civic Center Fund from:		
Electric Fund	50,000	Annual Contribution
Transfer to Airport Fund from:		
General Fund	<u>50,000</u>	Annual Contribution
Total Transfers to Nonmajor Governmental Funds	<u>2,033,759</u>	
Total Interfund Transfers	<u><u>\$ 4,161,362</u></u>	

Also reported on the government-wide statement of activities, from the business-type activities to the governmental activities, is a transfer of \$3,516,194. This is the transfer of capital assets from the business-type activities to the governmental activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9 FUND BALANCE CLASSIFICATIONS

The fund balance classifications of the governmental funds as of December 31, 2012, were as follows:

	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable						
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 12,459	\$ 12,459
Prepaid Expenses	-	-	-	-	332	332
Loan Commitments	-	-	-	-	30,000	30,000
Advance to Other Funds	-	1,918,759	-	-	20,000	1,938,759
Land Held for Resale	7,800	-	-	-	15,859	23,659
Total Nonspendable	7,800	1,918,759	-	-	78,650	2,005,209
Restricted						
Federal Programs	-	-	-	-	5,436	5,436
Debt Service	-	4,646,982	-	-	-	4,646,982
Capital Projects	-	-	802,303	-	-	802,303
Total Restricted	-	4,646,982	802,303	-	5,436	5,454,721
Committed						
Library	-	-	-	-	115,042	115,042
The Buffalo HRA	-	-	-	-	1,098,714	1,098,714
Total Committed	-	-	-	-	1,213,756	1,213,756
Assigned						
Fire Operations	-	-	-	-	628,921	628,921
Unassigned	2,547,558	-	-	(1,918,419)	(3,428,328)	(2,799,189)
Total Fund Balance	\$ 2,555,358	\$ 6,565,741	\$ 802,303	\$ (1,918,419)	\$ (1,501,565)	\$ 6,503,418

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012

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, 2012:

Project	Contract Cost	Estimated	
		Project Costs Incurred to Date *	Remaining Committed
Downtown Enhancement	\$ 1,431,456	\$ 636,702	\$ 794,754
NW Area Reconstruction	4,808,385	4,767,599	40,786
Total	\$ 6,239,841	\$ 5,404,301	\$ 835,540

* 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.

As of December 31, 2012, 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.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 SUBSEQUENT EVENTS

On January 2, 2013, the City issued \$5,030,000 in General Obligation Capital Improvement Bonds (Series 2013A) for the purpose of financing street construction projects and to finance the acquisition of a capital equipment project. The interest rate on this bond is 2.0% and is set to mature in 2024.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 3,218,102	\$ 3,202,005	\$ 3,203,650	\$ 1,645	\$ 2,852,603
Other Taxes	1,850	1,483	1,483	-	1,615
Total Taxes	<u>3,219,952</u>	<u>3,203,488</u>	<u>3,205,133</u>	<u>1,645</u>	<u>2,854,218</u>
Licenses and Permits	138,930	200,906	200,906	-	148,618
Intergovernmental:					
Federal Grants	-	2,430	2,430	-	6,067
State:					
Local Government Aid	145,886	148,049	148,049	-	145,886
Market Value Credit	-	104	104	-	58,676
State Police Aid	103,000	105,765	105,765	-	107,730
State Highway Aid	145,000	175,377	175,377	-	162,976
Other	14,868	14,833	14,833	-	33,518
Total Intergovernmental	<u>408,754</u>	<u>446,558</u>	<u>446,558</u>	<u>-</u>	<u>514,853</u>
Charges for Services:					
General Government	100,689	107,523	107,523	-	107,506
Engineering	600	-	-	-	-
Public Safety	55,500	56,192	74,417	18,225	54,866
Streets	1,100	-	-	-	138
Sanitation	843,000	854,126	854,197	71	847,159
Storm Sewer	393,000	391,484	391,501	17	389,943
Total Charges for Services	<u>1,393,889</u>	<u>1,409,325</u>	<u>1,427,638</u>	<u>18,313</u>	<u>1,399,612</u>
Fines and Forfeits	39,000	29,322	30,756	1,434	37,120
Investment Earnings	6,000	2,088	3,055	967	7,312
Refunds/Reimbursements	-	36,987	74,892	37,905	83,702
Grants and Contributions	8,500	8,070	8,570	500	12,925
Miscellaneous	1,200	54,496	16,779	(37,717)	32,186
Total Revenues	5,216,225	5,391,240	5,414,287	23,047	5,090,546

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, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012				2011
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES					
General Government:					
Mayor and Council:					
Current:					
Personal Services	\$ 76,682	\$ 36,671	\$ 36,671	\$ -	\$ 45,768
Financial Administration:					
Current:					
Salaries	277,481	268,047	268,047	-	278,407
Employee Benefits	61,716	56,305	56,305	-	70,020
Other Expenses:					
Audit / Accounting	9,600	9,030	9,030	-	9,060
Building Permits, Surcharges	4,000	8,873	8,873	-	8,677
Insurance	14,750	10,249	10,249	-	11,874
Planning and Zoning	90,745	91,734	91,861	(127)	86,517
Assessor	64,000	63,294	63,294	-	63,221
City Attorney	25,000	13,395	13,395	-	13,723
Professional Services	25,000	1,657	1,657	-	9,788
Elections	13,000	12,735	13,190	(455)	760
Other Expense	109,450	86,878	88,661	(1,783)	93,468
Capital Outlay	30,000	16,771	16,384	387	-
Capital Lease Payments:					
Principal	540	516	516	-	7,755
Interest	-	-	-	-	115
Total Financial Administration	<u>725,282</u>	<u>639,484</u>	<u>641,462</u>	<u>(1,978)</u>	<u>653,385</u>
MIS:					
Current:					
Salaries	55,111	47,121	47,121	-	56,121
Employee Benefits	20,499	22,307	22,307	-	21,255
Other Services and Charges	15,625	9,279	9,354	(75)	15,190
Capital Outlay	38,000	5,440	3,569	1,871	22,566
Capital Lease Payments:					
Principal	41,267	41,267	41,267	-	39,665
Interest	2,120	2,120	2,120	-	3,722
Total MIS	<u>172,622</u>	<u>127,534</u>	<u>125,738</u>	<u>1,796</u>	<u>158,519</u>
Engineering:					
Current:					
Salaries	106,649	108,343	108,343	-	107,980
Employee Benefits	25,620	25,516	25,516	-	26,040
Other Services and Charges	11,325	14,258	14,425	(167)	19,517
Capital Outlay	-	845	845	-	1,197
Capital Lease Payments:					
Principal	2,389	2,389	2,389	-	6,964
Interest	21	48	48	-	312
Total Engineering	<u>146,004</u>	<u>151,399</u>	<u>151,566</u>	<u>(167)</u>	<u>162,010</u>
Transportation:					
Current:					
Salaries	11,917	12,685	12,685	-	12,025
Employee Benefits	1,776	1,443	1,443	-	1,455
Other Services and Charges	20,345	21,233	21,253	(20)	20,636
Total Transportation	<u>34,038</u>	<u>35,361</u>	<u>35,381</u>	<u>(20)</u>	<u>34,116</u>
Total General Government	1,154,628	990,449	990,818	(369)	1,053,798

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, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES (CONTINUED)					
Public Safety:					
Police Protection:					
Current:					
Office Wages and Benefits	\$ 186,138	\$ 193,171	\$ 193,171	\$ -	\$ 189,672
Officer Wages and Benefits	1,332,019	1,286,260	1,286,507	(247)	1,291,091
Training	7,500	5,737	5,737	-	6,099
Legal Fees	63,550	67,232	66,034	1,198	61,362
Other Services and Charges	232,250	210,339	211,982	(1,643)	216,928
Capital Outlay	85,600	30,511	30,511	-	-
Capital Lease Payments:					
Principal	58,264	55,471	55,471	-	59,908
Interest	-	2,794	2,794	-	5,154
Total Police	1,965,321	1,851,515	1,852,207	(692)	1,830,214
Fire Protection	314,591	314,591	314,591	-	296,882
Civil Defense	12,350	1,971	1,971	-	-
Building Inspections	52,500	96,439	89,875	6,564	29,424
Total Public Safety	2,344,762	2,264,516	2,258,644	5,872	2,156,520
Public Works:					
Street Department:					
Current:					
Employee Benefits	91,659	102,899	102,899	-	98,879
Street Maintenance	518,674	569,859	577,200	(7,341)	519,922
Storm Sewer Maintenance	59,025	43,851	43,857	(6)	42,320
Snow and Ice Removal	101,181	56,157	56,157	-	61,827
Other	493,841	462,228	465,050	(2,822)	468,484
Capital Outlay - Equipment	-	305,188	257,515	47,673	-
Capital Outlay - Streets	35,000	24,726	24,726	-	58,699
Capital Lease Payments:					
Principal	41,536	67,798	67,798	-	80,610
Interest	127	4,880	4,880	-	5,976
Total Public Works	1,341,043	1,637,586	1,600,082	37,504	1,336,717
Sanitation:	824,050	760,236	760,232	4	739,634
Total Expenditures	5,664,483	5,652,787	5,609,776	43,011	5,286,669
REVENUES OVER (UNDER) EXPENDITURES	(448,258)	(261,547)	(195,489)	66,058	(196,123)
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	47,673	306,067	305,188	(879)	-
Transfer In	1,200,000	1,207,142	1,207,142	-	937,381
Transfer Out	(530,000)	(531,491)	(866,491)	(335,000)	(106,868)
Total Other Financing Sources (Uses)	717,673	981,718	645,839	(335,879)	830,513
NET CHANGE IN FUND BALANCE	\$ 269,415	\$ 720,171	\$ 450,350	\$ (269,821)	\$ 634,390
Fund Balance - Beginning of Year			2,923,836		2,286,595
FUND BALANCE - END OF YEAR			\$ 3,374,186		\$ 2,920,985

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, 2012

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 2012.
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 \$990,818 which is \$369 over budget. In addition, other financing uses were reported as \$866,491, which is \$335,000 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, 2012

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	\$ 5,479,034	\$ 6,544,563	\$ 1,864,103	\$ 1,756,784	\$ 2,555,358
Funds included in General Fund for GASB Statement No. 54 purposes:					
Park Fund	(44,081)	(770,806)	(1,218,264)	1,045,536	553,997
Community Center Fund	(20,666)	(163,981)	-	121,516	264,831
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	<u>\$ 5,414,287</u>	<u>\$ 5,609,776</u>	<u>\$ 645,839</u>	<u>\$ 2,923,836</u>	<u>\$ 3,374,186</u>

SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

	2012			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
ASSETS				
Cash and Investments	\$ 51,825	\$ 651,302	\$ 119,406	\$ -
Delinquent Taxes Receivable	-	-	1,881	-
Accounts Receivable	-	-	-	60,623
Due from Other Governmental Units	-	-	635	32,229
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Advances to Other Funds	-	-	-	-
Inventory	-	-	-	-
Prepaid Items	-	-	-	332
Loans Receivable, Net of Allowance	111,745	-	-	-
Land Held for Resale	-	-	-	-
 Total Assets	 \$ 163,570	 \$ 651,302	 \$ 121,922	 \$ 93,184
LIABILITIES AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ 10,193	\$ 4,986	\$ 50,224
Other Accrued Liabilities	-	12,188	13	5,094
Due to Other Funds	-	-	-	2,773,257
Due to Other Governments	46,389	-	-	192
Advances from Other Funds	-	-	-	-
Deferred Revenue	111,745	-	1,881	400
Deposits - Escrow	-	-	-	-
 Total Liabilities	 158,134	 22,381	 6,880	 2,829,167
FUND BALANCE (DEFICIT)				
Nonspendable	-	-	-	332
Restricted	5,436	-	-	-
Committed	-	-	115,042	-
Assigned	-	628,921	-	-
Unassigned	-	-	-	(2,736,315)
 Total Fund Balance (Deficit)	 5,436	 628,921	 115,042	 (2,735,983)
 Total Liabilities and Fund Balance (Deficit)	 \$ 163,570	 \$ 651,302	 \$ 121,922	 \$ 93,184

The HRA of Buffalo Fund	Airport Fund	2012 Total	2011 Total
\$ 1,502,217	\$ -	\$ 2,324,750	\$ -
4,548	71	6,500	2,257
-	1,254	61,877	69,432
1,516	314,747	349,127	179,703
89,183	-	89,183	63,183
-	-	-	1,423,159
20,000	-	20,000	20,000
-	12,459	12,459	14,286
-	-	332	4,225
379,422	-	491,167	618,946
<u>15,859</u>	<u>-</u>	<u>15,859</u>	<u>159,659</u>
<u>\$ 2,012,745</u>	<u>\$ 328,531</u>	<u>\$ 3,371,254</u>	<u>\$ 2,554,850</u>

\$ 398,421	\$ 12,452	\$ 476,276	\$ 169,949
-	470	17,765	21,143
-	800,680	3,573,937	3,487,645
-	24	46,605	-
-	194,388	194,388	194,388
473,153	71	587,250	684,450
6,598	-	6,598	6,598
<u>878,172</u>	<u>1,008,085</u>	<u>4,902,819</u>	<u>4,564,173</u>

35,859	12,459	48,650	215,670
-	-	5,436	-
1,098,714	-	1,213,756	563,661
-	-	628,921	752,776
-	(692,013)	(3,428,328)	(3,541,430)
<u>1,134,573</u>	<u>(679,554)</u>	<u>(1,531,565)</u>	<u>(2,009,323)</u>
<u>\$ 2,012,745</u>	<u>\$ 328,531</u>	<u>\$ 3,371,254</u>	<u>\$ 2,554,850</u>

CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
REVENUE				
General Property Taxes	\$ -	\$ -	\$ 81,115	\$ -
Tax Increments	- -	- -	- -	- -
Intergovernmental	- -	86,207	- -	- -
Charges for Services	- -	462,566	- -	535,519
Investment Earnings (Loss)	- -	846	125	(4,106)
Refunds and Reimbursements	- -	1,255	- -	- -
Grants and Contributions	- -	1,000	- -	50,000
Miscellaneous	18,814	2,470	- -	1,253
Total Revenue	<u>18,814</u>	<u>554,344</u>	<u>81,240</u>	<u>582,666</u>
EXPENDITURES				
Current:				
Public Safety:	- -	310,896	- -	- -
Culture and Recreation	- -	- -	74,361	756,772
Community Development	152,800	- -	- -	- -
Capital Outlay:				
Public Safety	- -	880,304	- -	- -
Culture and Recreation	- -	- -	- -	15,545
Community Development	- -	- -	- -	- -
Capital Leases:				
Principal	- -	45,859	- -	- -
Interest and Fiscal Charges	- -	4,669	- -	- -
Debt Service:				
Principal	- -	- -	- -	- -
Total Expenditures	<u>152,800</u>	<u>1,241,728</u>	<u>74,361</u>	<u>772,317</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(133,986)	(687,384)	6,879	(189,651)
OTHER FINANCING SOURCES (USES)				
Transfer In	- -	- -	15,000	50,000
Transfer Out	- -	- -	- -	- -
Insurance Proceeds	- -	- -	- -	- -
Capital Lease Proceeds	- -	563,529	- -	- -
Total Other Financing Sources (Uses)	<u>- -</u>	<u>563,529</u>	<u>15,000</u>	<u>50,000</u>
NET CHANGE IN FUND BALANCE	(133,986)	(123,855)	21,879	(139,651)
Fund Balance (Deficit) - Beginning of Year	<u>139,422</u>	<u>752,776</u>	<u>93,163</u>	<u>(2,596,332)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 5,436</u>	<u>\$ 628,921</u>	<u>\$ 115,042</u>	<u>\$ (2,735,983)</u>

The HRA of Buffalo Fund	Airport Fund	2012 Total	2011 Total
\$ 194,835	\$ 20,373	\$ 296,323	\$ 281,799
103,775	-	103,775	101,991
4	301,968	388,179	857,647
45,145	414,362	1,457,592	1,347,001
6,238	(1,238)	1,865	(2,707)
-	126	1,381	25,408
-	-	51,000	52,840
75	-	22,612	1,869
350,072	735,591	2,322,727	2,665,848
-	-	310,896	356,389
-	383,715	1,214,848	868,535
219,676	-	372,476	257,561
-	-	880,304	59,816
-	138,537	154,082	883,473
1,333,745	-	1,333,745	33,798
-	-	45,859	30,314
-	-	4,669	713
-	20,284	20,284	18,594
1,553,421	542,536	4,337,163	2,509,193
(1,203,349)	193,055	(2,014,436)	156,655
1,918,759	50,000	2,033,759	115,000
(105,094)	-	(105,094)	(699,529)
-	-	-	24,775
-	-	563,529	-
1,813,665	50,000	2,492,194	(559,754)
610,316	243,055	477,758	(403,099)
524,257	(922,609)	(2,009,323)	(1,606,224)
\$ 1,134,573	\$ (679,554)	\$ (1,531,565)	\$ (2,009,323)

CITY OF BUFFALO, MINNESOTA
FIRE SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012				2011
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
REVENUES					
Charges for Services:					
Fire Contracts and Charges	\$ 462,566	\$ 462,566	\$ 462,566	\$ -	\$ 471,446
Intergovernmental:					
Federal Disaster Aid	-	1,700	1,700	-	26,094
State Aid and Grants	77,500	84,507	84,507	-	80,043
Grants and Contributions	-	1,000	1,000	-	2,840
Investment Earnings	1,800	610	846	236	2,455
Refunds and Reimbursements	-	1,255	1,255	-	25,408
Miscellaneous	-	2,470	2,470	-	10
Total Revenues	<u>541,866</u>	<u>554,108</u>	<u>554,344</u>	<u>236</u>	<u>608,296</u>
EXPENDITURES					
Public Safety:					
Fire Relief	75,000	77,862	77,862	-	74,968
Wages and Benefits	93,156	84,406	84,406	-	78,620
Truck Expense	10,000	10,366	10,366	-	4,943
Supplies	11,150	4,769	4,769	-	9,816
Repairs and Maintenance	48,000	21,378	21,378	-	33,853
Radio and Telephone	8,200	6,317	6,317	-	4,933
Utilities	22,500	17,777	17,682	95	19,793
Insurance	33,612	31,674	31,674	-	29,793
Training	12,000	8,548	8,548	-	7,314
Other	60,663	47,894	47,894	-	92,636
Capital Outlay	875,000	880,304	880,304	-	59,816
Fire Station Lease Rental	112,200	-	-	-	-
Capital Lease Payments:					
Principal	41,032	45,859	45,859	-	992
Interest	53	4,669	4,669	-	40,354
Total Expenditures	<u>1,402,566</u>	<u>1,241,823</u>	<u>1,241,728</u>	<u>95</u>	<u>457,551</u>
EXCESS (DEFICIENCY) OF REVENUE AND OVER (UNDER) EXPENDITURES					
	(860,700)	(687,715)	(687,384)	(331)	150,745
OTHER FINANCING SOURCES (USES)					
Transfers Out	-	-	-	-	(16,775)
Capital Lease Proceeds	<u>550,000</u>	<u>563,529</u>	<u>563,529</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (310,700)</u>	<u>\$ (124,186)</u>	<u>(123,855)</u>	<u>\$ (331)</u>	<u>133,970</u>
Fund Balance - Beginning of Year			752,776		618,806
FUND BALANCE - END OF YEAR			<u>\$ 628,921</u>		<u>\$ 752,776</u>

CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012				2011	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual	
REVENUES						
General Property Taxes	\$ 80,628	\$ 81,115	\$ 81,115	\$ -	\$ 76,341	
Intergovernmental	-	-	-	-	1,575	
Investment Earnings	225	87	125	38	277	
Miscellaneous	500	-	-	-	-	
Total Revenues	81,353	81,202	81,240	38	78,193	
EXPENDITURES						
Culture and Recreation:						
Wages and Benefits	26,932	12,687	12,687	-	27,783	
Supplies and Maintenance	21,650	29,018	29,018	-	17,146	
Insurance	2,200	1,523	1,523	-	1,875	
Telephone	780	586	586	-	609	
Utilities	31,000	27,689	27,689	-	28,492	
Other	3,455	2,861	2,858	3	3,190	
Capital Outlay - Equipment	-	-	-	-	1,868	
Total Expenditures	86,017	74,364	74,361	3	80,963	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,664)	6,838	6,879	41	(2,770)	
OTHER FINANCING SOURCES						
Transfers in from General Fund	15,000	15,000	15,000	-	15,000	
NET CHANGE IN FUND BALANCE	\$ 10,336	\$ 21,838	21,879	\$ 41	12,230	
Fund Balance - Beginning of Year			93,163			80,933
FUND BALANCE - END OF YEAR	\$ 115,042				\$ 93,163	

CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Charges for Services:					
Ice Time	\$ 366,000	\$ 380,513	\$ 380,333	\$ (180)	\$ 359,982
Building Rent	15,000	14,976	14,976	-	13,278
Lease Payment	55,000	55,000	55,000	-	55,000
Gate Receipts and Concessions	77,000	66,011	73,005	6,994	75,430
Other	12,000	12,205	12,205	-	10,723
Grants and Contributions	50,000	50,000	50,000	-	50,000
Investment Earnings (Loss)	-	-	(4,106)	(4,106)	(10,651)
Miscellaneous	1,500	1,253	1,253	-	1,604
Total Revenues	576,500	579,958	582,666	2,708	555,366
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	228,907	225,667	225,667	-	225,619
Maintenance and Repair	23,500	40,236	40,236	-	50,161
Utilities	170,000	149,607	149,607	-	163,906
Other	69,445	58,062	57,906	156	67,634
Insurance	17,493	11,176	11,176	-	14,872
Interest Expense	25,000	2,922	-	2,922	-
Lease Rent Payments	271,730	272,180	272,180	-	-
Capital Outlay	5,000	14,653	15,545	(892)	3,612
Total Expenditures	811,075	774,503	772,317	2,186	525,804
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(234,575)	(194,545)	(189,651)	4,894	29,562
OTHER FINANCING SOURCES (USES)					
Transfer In	50,000	50,000	50,000	-	50,000
Transfer Out	-	-	-	-	(213,883)
Insurance Proceeds	-	-	-	-	24,775
Total Other Financing Sources (Uses)	50,000	50,000	50,000	-	(139,108)
NET CHANGE IN FUND BALANCE	\$ (184,575)	\$ (144,545)	(139,651)	\$ 4,894	(109,546)
Fund Deficit - Beginning of Year			(2,596,332)		(2,486,786)
FUND DEFICIT - END OF YEAR			\$ (2,735,983)		\$ (2,596,332)

CITY OF BUFFALO, MINNESOTA
AIRPORT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ -	\$ 20,362	\$ 20,373	\$ 11	\$ 19,180
Intergovernmental:					
Federal Grants	313,540	60,599	263,688	203,089	589,338
State Aid and Grants	9,028	24,035	38,280	14,245	148,020
Total intergovernmental	322,568	84,634	301,968	217,334	737,358
Charges for Services	270,151	414,362	414,362	-	282,254
Investment Earnings (Loss)	(10,250)	(879)	(1,238)	(359)	(2,210)
Refunds and Reimbursement	-	126	126	-	-
Total Revenues	582,469	518,605	735,591	216,986	1,036,582
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	27,053	21,404	21,404	-	24,521
Other	248,649	360,612	362,311	(1,699)	242,727
Capital Outlay	-	148,019	138,537	9,482	877,993
Capital Lease Payments:					
Principal	-	-	-	-	29,322
Interest	-	-	-	-	620
Debt Service:					
Principal	20,284	20,284	20,284	-	18,594
Total Expenditures	295,986	550,319	542,536	7,783	1,193,777
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	286,483	(31,714)	193,055	224,769	(157,195)
OTHER FINANCING SOURCES					
Transfer In	50,000	50,000	50,000	-	50,000
Transfer Out	-	-	-	-	(315,546)
Total Other Financing Sources (Uses)	50,000	50,000	50,000	-	(265,546)
NET CHANGE IN FUND BALANCE					
	<u>\$ 336,483</u>	<u>\$ 18,286</u>	<u>243,055</u>	<u>\$ 224,769</u>	<u>(422,741)</u>
Fund Deficit - Beginning of Year			(922,609)		(499,868)
FUND DEFICIT - END OF YEAR			<u>\$ (679,554)</u>		<u>\$ (922,609)</u>

**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

CITY OF BUFFALO, MINNESOTA
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2012
(UNAUDITED)

Market Valuation	<u>\$ 1,068,816,300</u>
Debt Limit - 3% of Market Valuation	\$ 32,064,489
Total Indebtedness	<u>\$ 92,919,197</u>
Less:	
Other Deductions Allowed by Law:	
(1) Obligations Payable Wholly or Partly from Special Assessments	2,185,000
(2) Obligations Issued for Acquisition and Improvement of Public Utilities and Conveniences from Which Revenue may be Derived	61,759,417
(3) Obligations Payable Wholly from the Income from Revenue Producing Conveniences	<u>7,074,780</u>
Total Deductions	<u>71,019,197</u>
Total Amount of Debt Applied Against Debt Limit	<u>21,900,000</u>
Legal Debt Margin	<u>\$ 10,164,489</u>

CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2012
(UNAUDITED)

Year of Levy for Collection in the Following Year	General Obligation Improvement Bonds of 2000 Bond #83B	General Obligation Equipment Certificates of 2008 Series 2008A	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
2013	\$ 25,800	\$ 130,200	\$ 245,674	\$ 422,530	\$ 253,769	\$ 57,619
2014	24,200	-	242,944	329,858	397,148	56,201
2015	-	-	240,004	-	121,364	54,783
2016	-	-	246,304	-	142,364	53,366
2017	-	-	241,395	-	152,234	51,949
2018	-	-	-	-	387,476	55,781
2019	-	-	-	-	510,024	54,206
2020	-	-	-	-	507,058	-
2021	-	-	-	-	513,726	-
2022	-	-	-	-	519,120	-
2023	-	-	-	-	1,288,560	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
Total	\$ 50,000	\$ 130,200	\$ 1,216,321	\$ 752,388	\$ 4,792,843	\$ 383,905

General Obligation Improvement Bonds of 2010	General Obligation Capital Improvement Refunding Bonds of 2011	General Obligation Refunding Bonds of 2012	Total
Series 2010C	Series 2010A	Series 2012B	
\$ 208,848	\$ 383,639	\$ 243,583	\$ 1,971,662
174,618	370,548	254,503	1,850,020
419,268	734,740	249,358	1,819,517
181,233	740,226	144,463	1,507,956
178,516	738,646	141,313	1,504,053
191,127	735,601	117,810	1,487,795
187,168	741,229	-	1,492,627
188,322	745,030	-	1,440,410
178,679	747,261	-	1,439,666
179,492	741,906	-	1,440,518
190,423	-	-	1,478,983
263,660	-	-	263,660
265,655	-	-	265,655
267,026	-	-	267,026
\$ 3,074,035	\$ 6,678,826	\$ 1,151,030	\$ 18,229,548

CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS
DECEMBER 31, 2012
(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

* 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



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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, 2012 and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents and have issued our report thereon dated May 31, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Buffalo, Minnesota
May 31, 2013



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