

CITY OF BUFFALO, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

**CITY OF BUFFALO, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2014**

Elected Officials

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

Term Expires

Appointed Officials

Administrator and Clerk-Treasurer	Merton Auger
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FINANCIAL SECTION

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, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo, Minnesota as of December 31, 2014, 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 of as and for the year ended December 31, 2013, and we have expressed unmodified audit opinions on those audited financial statements in our report dated June 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 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 budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Matters (Continued)

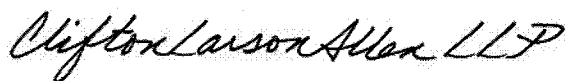
Other Information (Continued)

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

The Computation of legal Debt Margin, Tax Levies to Retire Bonded Indebtedness and Property Valuations, Levies and Collections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015, on our consideration of the City of Buffalo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Buffalo's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 1, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Buffalo exceeded its liabilities at the close of the most recent fiscal year by \$50,720,538 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is a deficit of \$2,622,313.
- The City's total net position decreased by \$1,587,330 from 2013.
- As of the close of the current fiscal year, the City of Buffalo's governmental funds reported a combined ending fund balance of \$4,800,543, a decrease of \$1,271,888 in comparison with the prior year. The overall *unassigned fund balance* is a deficit \$1,515,679.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,537,997, or 49% of total 2014 General Fund expenditures.
- The City of Buffalo's total bonded debt decreased by \$3,065,842 or 3.1% during the current fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 five 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 City uses an internal service fund to account for the City's self-insurance program for health insurance.

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 37-68 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information demonstrating* the City of Buffalo's compliance with its adopted budget for the General Fund. The General Fund budgetary comparison schedule and related notes can be found on pages 69-73 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 74-81.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City of Buffalo, total assets and deferred outflows of resources exceeded total liabilities by \$50,720,538 at the close of the most recent fiscal year compared to \$52,307,868 at the end of 2013.

By far, the largest portion of the City of Buffalo's net position (91%) reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City of Buffalo uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Buffalo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF BUFFALO'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and Other Assets	\$ 11,671,649	\$ 13,110,451	\$ 2,815,081	\$ 4,489,857	\$ 14,486,730	\$ 17,600,308
Capital Assets	55,725,018	56,365,992	83,837,449	82,974,251	139,562,467	139,340,243
Total Assets	67,396,667	69,476,443	86,652,530	87,464,108	154,049,197	156,940,551
DEFERRED OUTFLOWS OF RESOURCES						
Loss on Refunding of Bonds	41,017	45,687	405,980	470,540	446,997	516,227
LIABILITIES						
Noncurrent Liabilities Outstanding	25,976,467	28,455,959	68,245,956	67,555,121	94,222,423	96,011,080
Other Liabilities	4,678,121	3,868,369	4,875,112	5,269,461	9,553,233	9,137,830
Total Liabilities	30,654,588	32,324,328	73,121,068	72,824,582	103,775,656	105,148,910
Net Position:						
Net Investment in Capital Assets	33,343,229	33,072,698	12,651,454	13,928,354	45,994,683	47,001,052
Restricted	7,348,168	7,455,318	-	-	7,348,168	7,455,318
Unrestricted	(3,908,301)	(3,330,214)	1,285,988	1,181,712	(2,622,313)	(2,148,502)
Total Net Position	\$ 36,783,096	\$ 37,197,802	\$ 13,937,442	\$ 15,110,066	\$ 50,720,538	\$ 52,307,868

The remaining balance of the City of Buffalo's net position are *restricted net position* (14%) that can be used only for debt service or other purposes. The City reports a deficit for *unrestricted net position* that may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities decreased the City of Buffalo's net position by \$414,706. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Revenues and transfers received from business-type activities were less than expenses (which include depreciation of \$4.3 million), thus, decreasing net position by \$414,706.

Business-Type Activities

Business-type activities decreased the City of Buffalo's net position by \$1,172,624, thereby accounting for 73% 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, 2014:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 3,418,630	\$ 3,417,959	\$ 22,400,727	\$ 22,036,230	\$ 25,819,357	\$ 25,454,189
Operating Grants and Contributions	526,392	489,657	163,549	-	689,941	489,657
Capital Grants and Contributions	2,074,658	627,005	356,776	290,019	2,431,434	917,024
General Revenues:						
Property Taxes	5,145,350	5,441,603	639,400	289,099	5,784,750	5,730,702
Tax Increments	137,744	245,253	-	-	137,744	245,253
Other Taxes	2,095	1,830	-	-	2,095	1,830
Grants and Contributions, Not Restricted	760,241	166,577	-	-	760,241	166,577
Unrestricted Investment Earnings (Loss)	3,416	80,915	31,264	6,434	34,680	87,349
Gain on Disposal of Capital Assets	-	360	-	-	-	360
Miscellaneous	83,402	29,104	17,001	87,849	100,403	116,953
Total Revenues	12,151,928	10,500,263	23,608,717	22,709,631	35,760,645	33,209,894
EXPENSES						
General Government	1,533,487	1,222,696	-	-	1,533,487	1,222,696
Public Safety	2,952,940	2,944,725	-	-	2,952,940	2,944,725
Highways and Streets	4,676,084	4,205,373	-	-	4,676,084	4,205,373
Culture and Recreation	2,604,422	2,553,652	-	-	2,604,422	2,553,652
Sanitation	758,092	731,827	-	-	758,092	731,827
Community Development	161,506	183,456	-	-	161,506	183,456
Interest on Long-Term Debt	675,889	872,144	-	-	675,889	872,144
Electric	-	-	11,371,393	11,015,306	11,371,393	11,015,306
Water	-	-	2,864,191	2,275,587	2,864,191	2,275,587
Sewer	-	-	4,472,785	4,555,992	4,472,785	4,555,992
Liquor Store	-	-	4,137,544	4,012,702	4,137,544	4,012,702
Golf Course	-	-	1,139,642	1,225,553	1,139,642	1,225,553
Total Expenses	13,362,420	12,713,873	23,985,555	23,085,140	37,347,975	35,799,013
Decrease in Net Position Before Transfers	(1,210,492)	(2,213,610)	(376,838)	(375,509)	(1,587,330)	(2,589,119)
Transfers	795,786	1,656,507	(795,786)	(1,656,507)	-	-
CHANGE IN NET POSITION	(414,706)	(557,103)	(1,172,624)	(2,032,016)	(1,587,330)	(2,589,119)
Net Position - Beginning of Year	37,197,802	38,350,476	15,110,066	18,114,302	52,307,868	56,464,778
Prior Period Adjustment	-	(595,571)	-	(972,220)	-	(1,567,791)
Net Position - Beginning of Year (as Restated)	37,197,802	37,754,905	15,110,066	17,142,082	52,307,868	54,896,987
NET POSITION - END OF YEAR	\$ 36,783,096	\$ 37,197,802	\$ 13,937,442	\$ 15,110,066	\$ 50,720,538	\$ 52,307,868

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

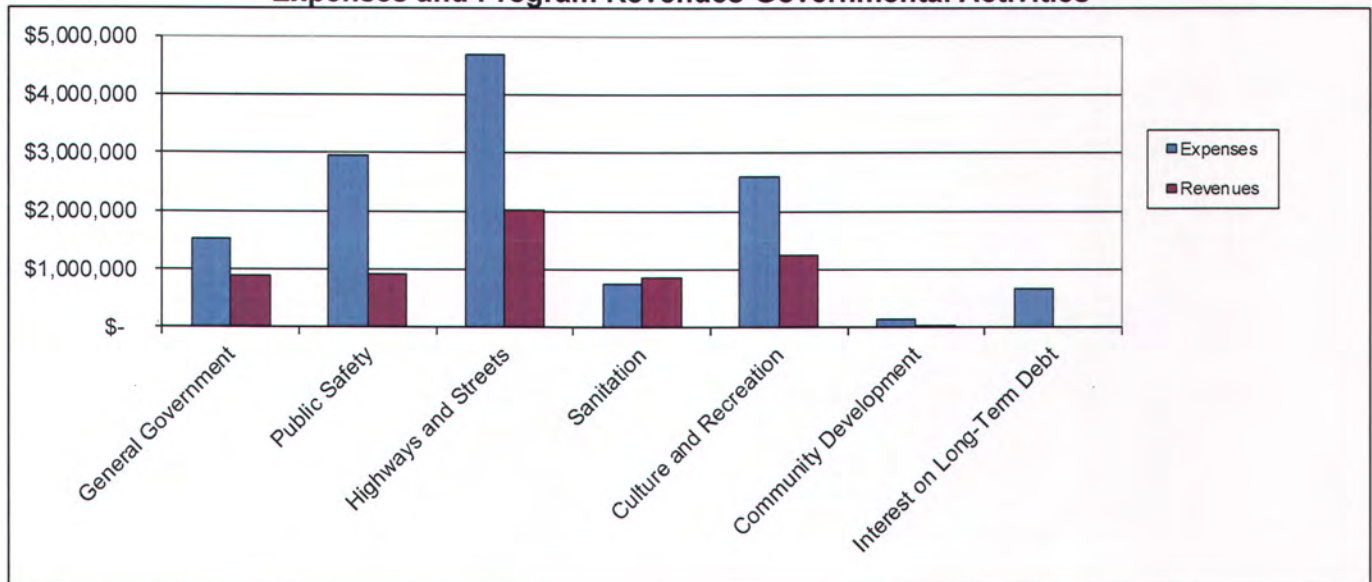
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.

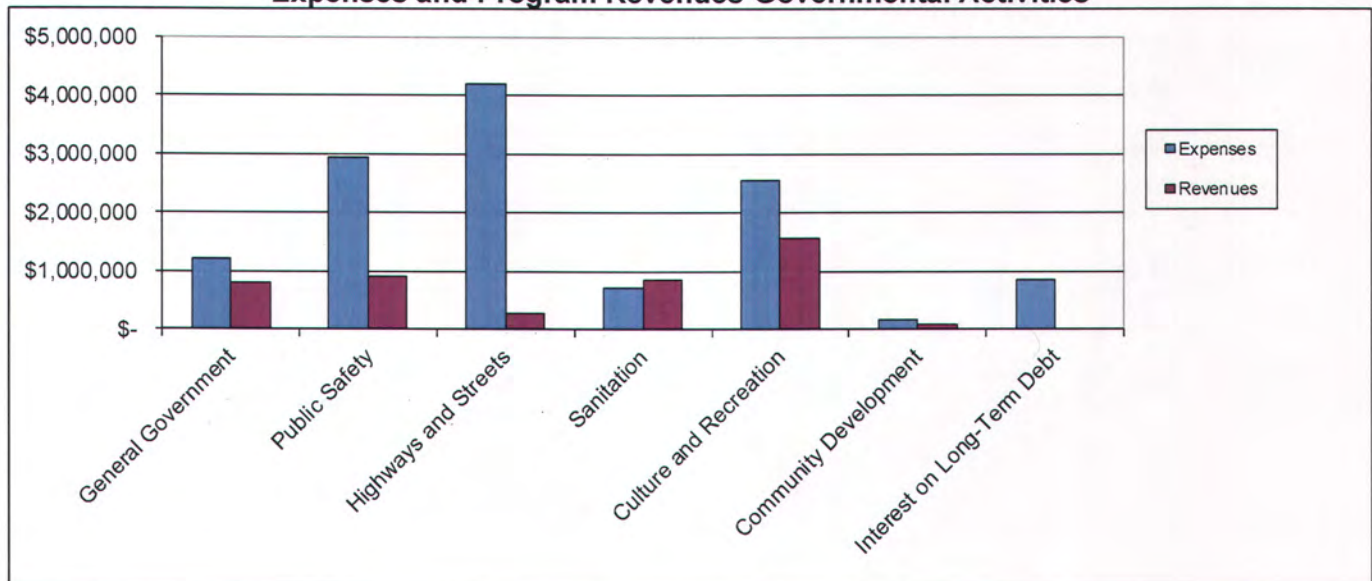
2014

Expenses and Program Revenues-Governmental Activities



2013

Expenses and Program Revenues-Governmental Activities



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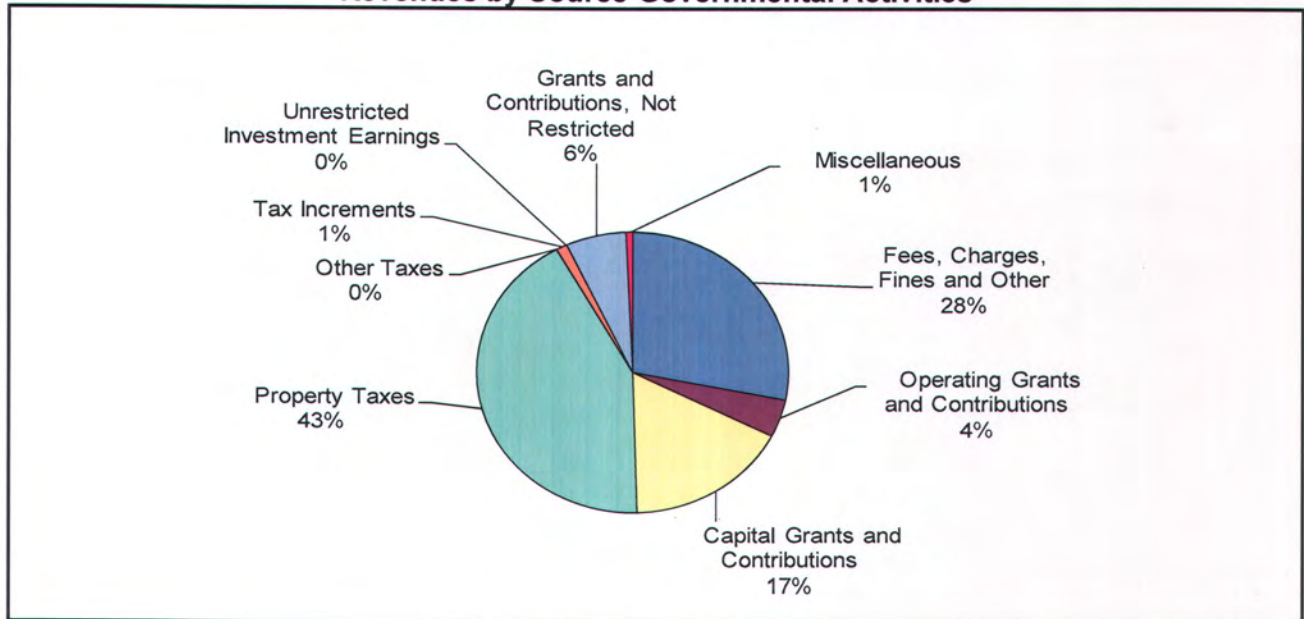
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

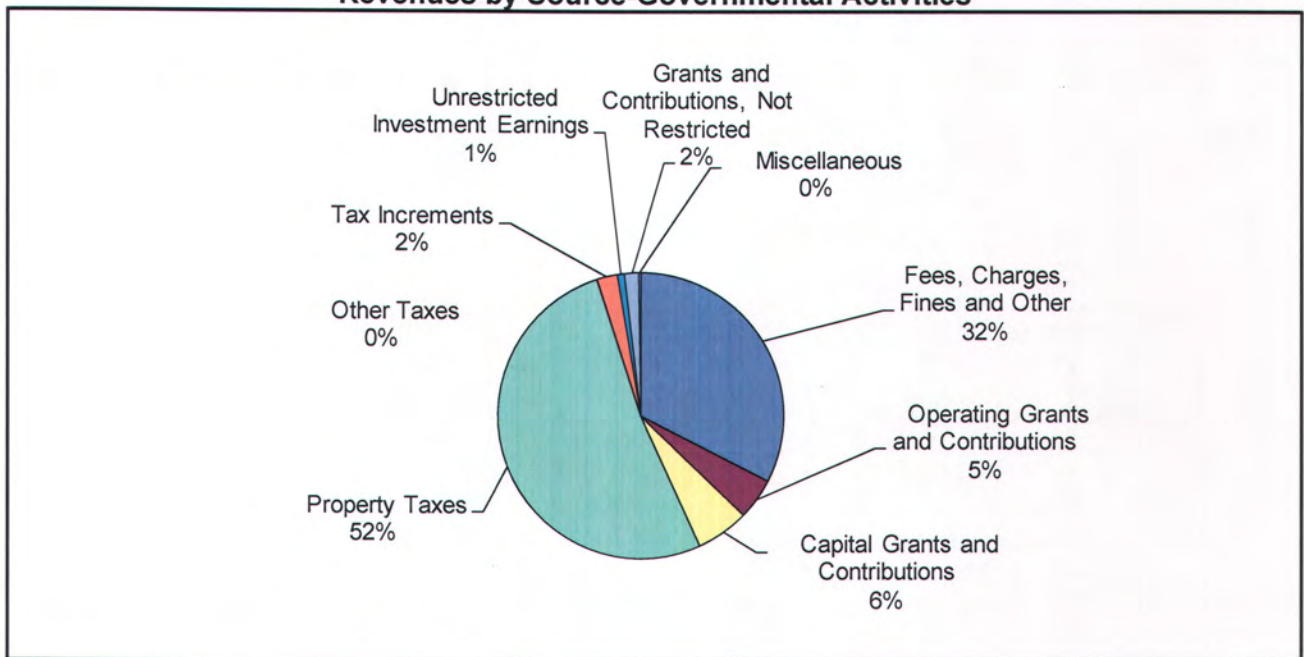
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Revenues by Source-Governmental Activities



2013

Revenues by Source-Governmental Activities



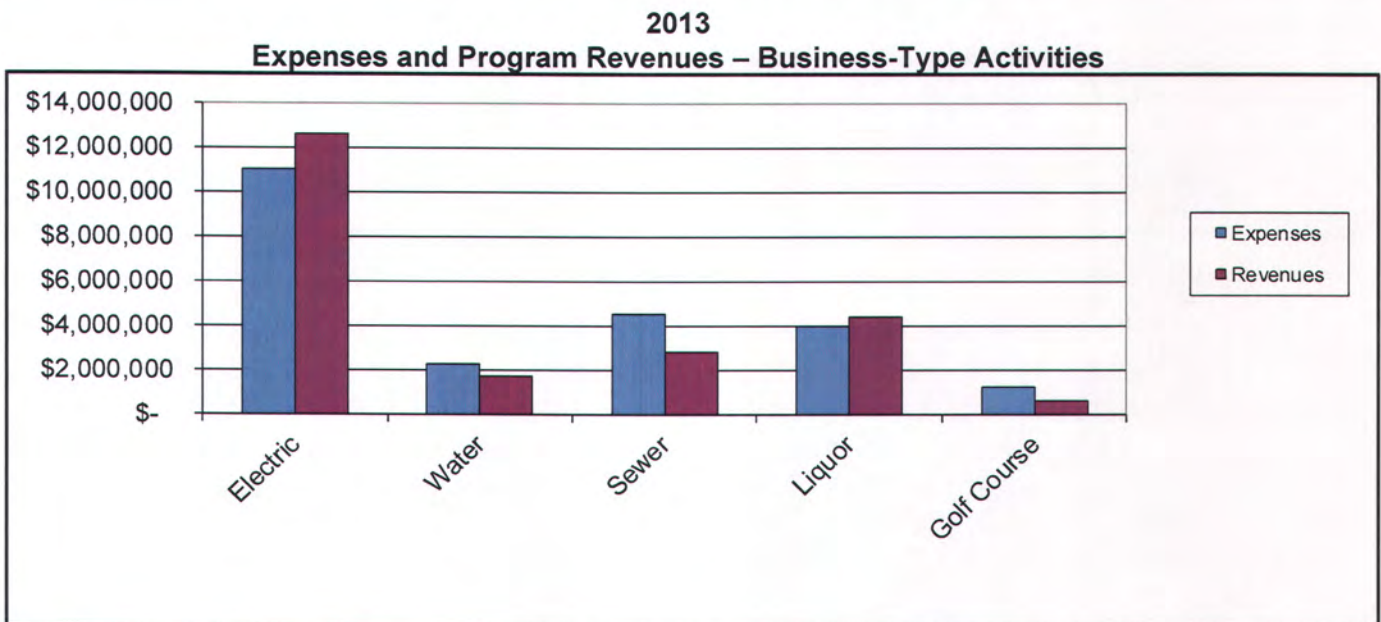
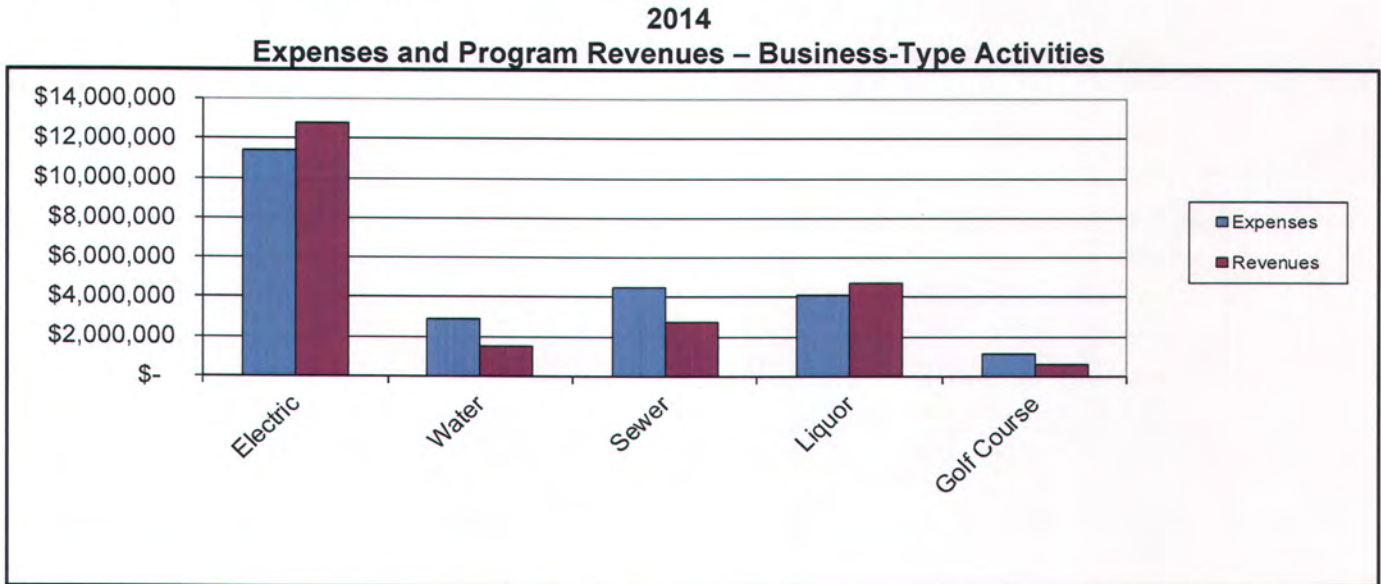
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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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.



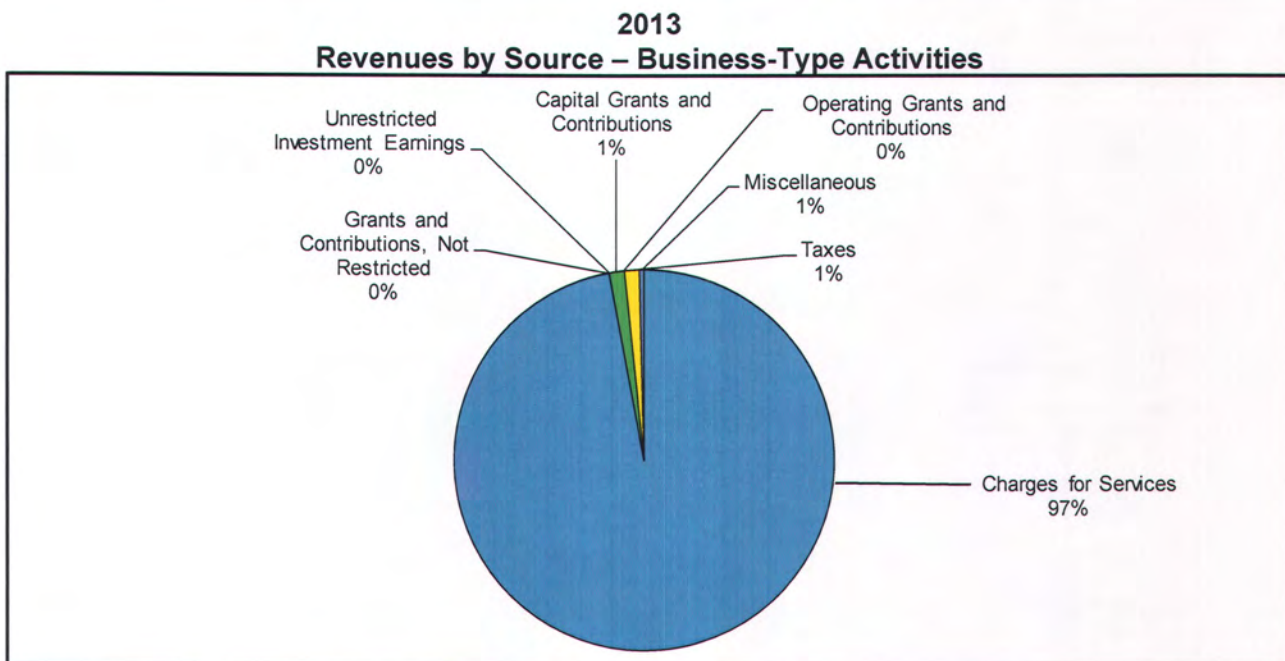
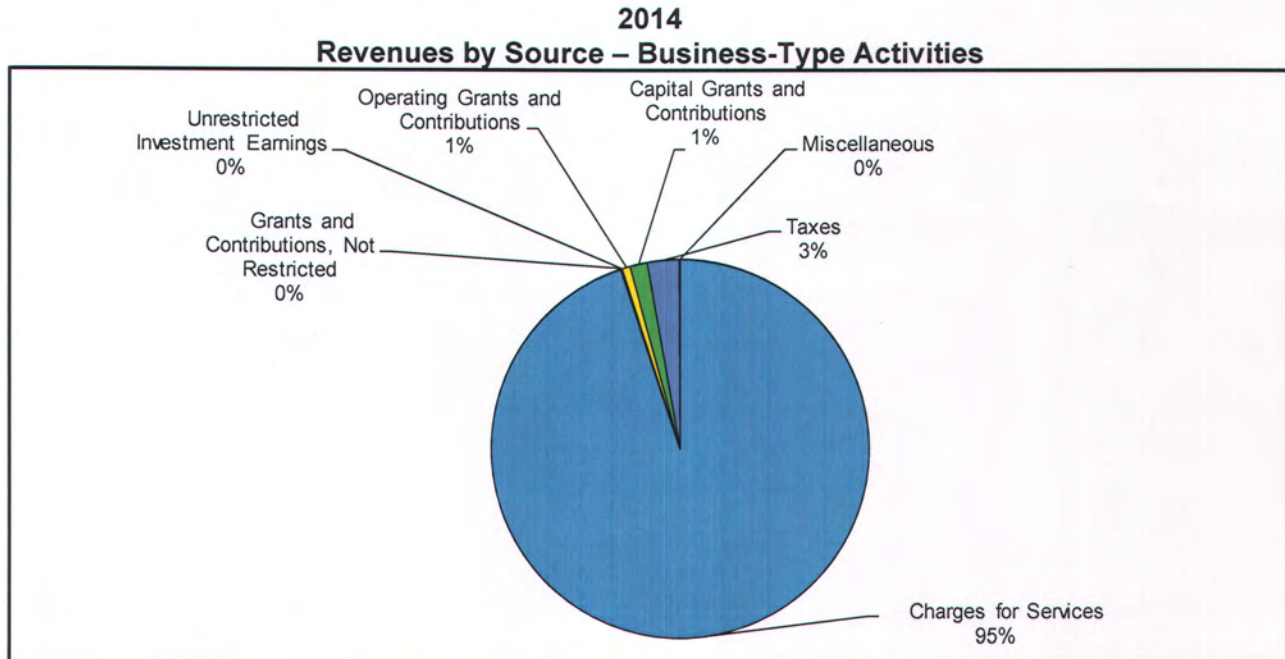
Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in program revenues in the above graphs.

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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



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

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$4,800,543, a decrease of \$1,271,888 in comparison with 2013. The City reported deficit unassigned fund balance in the amount of \$1,515,679. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending. At December 31, 2014 fund balances were as follows:

	Balance	Increase (Decrease) From 2013
General Fund	\$ 3,545,922	\$ 332,736
Debt Service Fund	4,712,291	308,484
Capital Project Fund	(106,764)	(2,060,486)
HRA Debt Service Fund	(1,883,363)	32,759
Other Governmental Funds	(1,467,543)	114,619
Total	<u>\$ 4,800,543</u>	<u>\$ (1,271,888)</u>

The General Fund is the chief operating fund of the City of Buffalo. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,537,997.

During the current fiscal year, the City of Buffalo's General Fund balance increased by \$332,736. The increase was a result of operating transfers from the electric and liquor funds.

Debt Service

The increase in the Debt Service Fund balance of \$308,484 was the result of property tax and special assessment revenues exceeding the current year scheduled principal and interest payments.

Capital Project

The Capital Projects Fund balance decreased \$2,060,486 as a result of capital project related expenditures.

HRA Debt Service

The increase in the HRA Debt Service Fund balance was due to additional refunds and reimbursements received during 2014.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 2014 was \$13,324,413, of which \$3,486,660 is unrestricted. Net position increased \$686,882 during the current year primarily due to an increase in operating revenue.

The Water and Sewer Fund has total net position of \$4,629,217, of which \$2,375,834 is unrestricted. The decrease in net position of \$1,463,195 from 2013 was due to bonded debt interest expense not covered by operating revenues.

The Liquor Fund has total net position of \$1,456,595. It has unrestricted net position of \$280,702. Net position increased by \$133,922 from 2013. The net position increase is consistent with prior years and includes an annual transfer to the General Fund (see Note 8).

The City purchased Wild Marsh Golf Course in May 2004. Wild Marsh has total net position of \$(5,472,783) and unrestricted net position of \$(4,857,208) primarily due to operating losses incurred in the ten and one-half years of operations.

The Internal Service Fund was new in 2014 and had ending unrestricted net position of \$18,963.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$14,555 over budget due mainly to an increase in refunds and miscellaneous items. Expenditures came in over the budgeted amounts by \$1,821 which is mainly due to general government and engineering being over budget. This resulted in a net fund balance increase of \$37,734 compared to budget for the fiscal year (excluding other financing sources and uses). Refer to pages 69-71 of the required supplementary information for additional information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Buffalo's investment in capital assets for its governmental and business-type activities as of December 31, 2014, amounts to \$139,562,467 (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 \$222,224 when compared to 2013. This increase is a product of assets constructed and purchased through lease purchase agreements offset by current year depreciation.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,724,784	\$ 1,724,784	\$ 2,534,091	\$ 2,534,091	\$ 4,258,875	\$ 4,258,875
Land Improvements	9,136,116	8,674,360	1,664,175	1,734,141	10,800,291	10,408,501
Buildings and Building Improvements	10,614,521	11,009,836	33,250,741	34,257,615	43,865,262	45,267,451
Improvements Other than Building	1,964,676	2,107,582	-	-	1,964,676	2,107,582
Vehicle	1,187,360	1,193,156	-	-	1,187,360	1,193,156
Equipment	1,504,870	1,464,903	2,716,739	2,481,262	4,221,609	3,946,165
Infrastructure	23,865,714	25,470,502	-	-	23,865,714	25,470,502
Utility Distribution Systems	-	-	43,190,278	40,986,535	43,190,278	40,986,535
Construction in Progress	5,726,977	4,720,869	481,425	980,607	6,208,402	5,701,476
Total	<u>\$ 55,725,018</u>	<u>\$ 56,365,992</u>	<u>\$ 83,837,449</u>	<u>\$ 82,974,251</u>	<u>\$ 139,562,467</u>	<u>\$ 139,340,243</u>

Long-Term Debt

At the end of the current fiscal year, the City of Buffalo had total bonded debt outstanding of \$95,705,478. Of this amount, \$25,795,000 comprises tax supported debt, \$1,975,000 is special assessment debt and \$66,591,559 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	
	2014	2013	2014	2013	2014	2013
G.O. Tax Supported Debt	\$ 18,820,000	\$ 20,295,000	\$ 6,975,000	\$ 8,110,000	\$ 25,795,000	\$ 28,405,000
G.O. Special Assessment Debt	1,975,000	2,090,000	-	-	1,975,000	2,090,000
G.O. Revenue Debt	6,426,754	6,775,767	60,164,805	56,696,430	66,591,559	63,472,197
Interest Accretion on Capital Appreciation Bonds	-	-	1,343,919	4,804,123	1,343,919	4,804,123
Total	<u>\$ 27,221,754</u>	<u>\$ 29,160,767</u>	<u>\$ 68,483,724</u>	<u>\$ 69,610,553</u>	<u>\$ 95,705,478</u>	<u>\$ 98,771,320</u>

The City of Buffalo's total bonded debt decreased by \$3,065,842 or (3.1%) during the current fiscal year. There were two new bonds issued in the current fiscal year, a \$30,860,000 General Obligation Refunding Bond and a \$1,880,000 Electric Revenue Bond (see Note 4).

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Wright County is currently 4.1%, based on U.S. Department of Labor: Bureau of Labor statistics.
- The City of Buffalo continues to see increased commercial/industrial construction growth. Residential growth and home values are somewhat higher. 47 permits were issued for new home construction in 2014 compared to 33 in 2013.
- Sales tax was eliminated in 2014 for purchases in some City Departments allowing the City to reduce some of the costs that have been budgeted in prior years.
- Interest rates have remained low and are reflected in the City's investment earnings. Interest rates on debt are also low and have resulted in bond refundings allowing savings for the City.
- Local government aid increased from \$145,886 (2013) to \$636,274 (2014) and it is anticipated to increase an additional \$67,335 in 2015. Although it has increased the past two years, it is still down significantly from a high of \$1,415,301 received in 2006.
- The City has two major projects (Settler's Parkway & TH25 Reconstruction) in process, both of which have multiple funding sources including state and federal aid.

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, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)

	2014			2013
	Governmental Activities	Business-Type Activities	Total	Total
ASSETS				
Cash and Investments	\$ 6,313,233	\$ 1,589,243	\$ 7,902,476	\$11,332,562
Restricted Cash and Investments	402,325	-	402,325	402,325
Taxes Receivable	88,301	4,548	92,849	118,965
Special Assessments Receivable	874,201	-	874,201	1,134,067
Accounts Receivable	247,815	1,603,646	1,851,461	1,819,363
Hook-up Fees Receivable - Current	-	10,499	10,499	34,003
Due from Other Governments	1,146,473	1,760	1,148,233	585,746
Accrued Interest Receivable	141,183	884	142,067	118,701
Internal Balances	1,973,006	(1,973,006)	-	-
Inventory	12,612	1,492,117	1,504,729	1,402,325
Prepaid Items	125	3,337	3,462	14,187
Hook-up Fees Receivable - Noncurrent	-	82,053	82,053	112,410
Loans Receivable	448,716	-	448,716	501,995
Land Held for Resale	23,659	-	23,659	23,659
Capital Assets:				-
Land and Construction in Progress	7,451,761	3,015,516	10,467,277	9,960,351
Other Capital Assets, Net of Depreciation	48,273,257	80,821,933	129,095,190	129,379,892
Total Assets	67,396,667	86,652,530	154,049,197	\$156,940,551
DEFERRED OUTFLOWS OF RESOURCES				
Refunding Loss on Bonds	41,017	405,980	446,997	516,227
LIABILITIES				
Accounts and Contracts Payable	1,251,479	1,226,603	2,478,082	2,123,880
Other Accrued Liabilities	134,359	179,361	313,720	303,602
Accrued Interest Payable	280,685	391,777	672,462	692,552
Due to Other Governmental Units	46,474	18,863	65,337	64,751
Escrow Deposits	63,659	111,480	175,139	186,109
Unearned Revenue	1,450	27,846	29,296	45,214
Long-Term Liabilities:				
Due within One Year	2,900,015	2,919,182	5,819,197	5,721,722
Due in More than One Year	25,976,467	68,245,956	94,222,423	96,011,080
Total Liabilities	30,654,588	73,121,068	103,775,656	105,148,910
NET POSITION				
Net Investment in Capital Assets	33,343,229	12,651,454	45,994,683	47,001,052
Restricted for:				
Debt Service	7,259,775	-	7,259,775	7,334,754
Federal Loan Programs	88,393	-	88,393	120,564
Unrestricted	(3,908,301)	1,285,988	(2,622,313)	(2,148,502)
Total Net Position	\$ 36,783,096	\$ 13,937,442	\$ 50,720,538	\$ 52,307,868

See accompanying Notes to Financial Statements.

CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)

Functions/Programs	2014			
	Expenses	Fees, Charges, Fines and Other	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,533,487	\$ 897,932	\$ -	\$ -
Public Safety	2,952,940	691,320	236,011	-
Highways and Streets	4,676,084	2,722	184,696	1,839,290
Sanitation	758,092	876,341	-	-
Culture and Recreation	2,604,422	905,078	105,685	235,368
Community Development	161,506	45,237	-	-
Interest on Long-Term Debt	675,889	-	-	-
Total Governmental Activities	13,362,420	3,418,630	526,392	2,074,658
Business-Type Activities:				
Electric	11,371,393	12,791,402	160,649	-
Water	2,864,191	1,545,453	-	40,320
Sewer	4,472,785	2,763,124	-	316,456
Liquor	4,137,544	4,705,843	-	-
Golf Course	1,139,642	594,905	2,900	-
Total Business-Type Activities	23,985,555	22,400,727	163,549	356,776
Total	\$ 37,347,975	\$ 25,819,357	\$ 689,941	\$ 2,431,434

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

Prior Period Adjustment

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

2014			2013	
Net (Expense) Revenue and Changes in Net Position				
Governmental Activities	Business-Type Activities	Total	Total	
\$ (635,555)	\$ -	\$ (635,555)	\$ (415,550)	
(2,025,609)	-	(2,025,609)	(2,035,172)	
(2,649,376)	-	(2,649,376)	(3,919,771)	
118,249	-	118,249	132,148	
(1,358,291)	-	(1,358,291)	(977,035)	
(116,269)	-	(116,269)	(91,728)	
(675,889)	-	(675,889)	(872,144)	
(7,342,740)	-	(7,342,740)	(8,179,252)	
-	1,580,658	1,580,658	1,605,514	
-	(1,278,418)	(1,278,418)	(514,917)	
-	(1,393,205)	(1,393,205)	(1,705,388)	
-	568,299	568,299	444,699	
-	(541,837)	(541,837)	(588,799)	
-	(1,064,503)	(1,064,503)	(758,891)	
(7,342,740)	(1,064,503)	(8,407,243)	(8,938,143)	
5,145,350	639,400	5,784,750	5,730,702	
137,744	-	137,744	245,253	
2,095	-	2,095	1,830	
760,241	-	760,241	166,577	
3,416	31,264	34,680	87,349	
16,315	-	16,315	360	
67,087	17,001	84,088	116,953	
795,786	(795,786)	-	-	
6,928,034	(108,121)	6,819,913	6,349,024	
(414,706)	(1,172,624)	(1,587,330)	(2,589,119)	
37,197,802	15,110,066	52,307,868	56,464,778	
-	-	-	(1,567,791)	
\$ 36,783,096	\$ 13,937,442	\$ 50,720,538	\$ 52,307,868	

CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)

	2014		
	General Fund	Debt Service Fund	Capital Project Fund
ASSETS			
Cash and Investments	\$ 723,541	\$ 2,813,861	\$ 937,595
Restricted Cash and Investments	-	-	-
Taxes Receivable			
Delinquent	51,315	35,010	-
Special Assessments Receivable			
Delinquent	-	58,303	-
Noncurrent	-	815,898	-
Accounts Receivable	173,955	-	-
Due from Other Governmental Units	56,203	13,430	832,550
Accrued Interest Receivable	-	-	-
Due from Other Funds	2,966,938	-	-
Advances to Other Funds	-	1,885,000	-
Interfund Lease Receivable	-	-	-
Inventory	-	-	-
Prepaid Expenses	125	-	-
Loans Receivable, Net of Allowance	-	-	-
Land Held for Resale	7,800	-	-
Total Assets	<u>\$ 3,979,877</u>	<u>\$ 5,621,502</u>	<u>\$ 1,770,145</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts and Contracts Payable	\$ 184,674	\$ -	\$ 676,909
Other Accrued Liabilities	94,231	-	-
Due to Other Governmental Units	46,474	-	-
Due to Other Funds	-	-	1,200,000
Advances From Other Funds	-	-	-
Unearned Revenue	200	-	-
Escrow Deposits	57,061	-	-
Total Liabilities	<u>382,640</u>	<u>-</u>	<u>1,876,909</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	51,315	35,010	-
Unavailable Special Assessments	-	874,201	-
Unavailable Lease Receivables	-	-	-
Unavailable Loans Receivables	-	-	-
Other Unavailable Resources	-	-	-
Total Deferred Inflows of Resources	<u>51,315</u>	<u>909,211</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Nonspendable	7,925	-	-
Restricted	-	4,712,291	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	3,537,997	-	(106,764)
Total Fund Balances (Deficits)	<u>3,545,922</u>	<u>4,712,291</u>	<u>(106,764)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,979,877</u>	<u>\$ 5,621,502</u>	<u>\$ 1,770,145</u>

See accompanying Notes to Financial Statements.

	2014		2013
HRA Debt Service Fund	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 57,058	\$ 1,717,383	\$ 6,249,438	\$ 6,608,863
402,325	-	402,325	402,325
-	1,976	88,301	116,377
-	-	58,303	90,547
-	-	815,898	1,043,520
-	73,860	247,815	260,324
-	244,290	1,146,473	584,536
-	141,183	141,183	117,987
27,321	2,819	2,997,078	3,327,900
-	20,000	1,905,000	1,938,759
3,775,000	-	3,775,000	3,940,000
-	12,612	12,612	13,371
-	-	125	10,660
-	448,716	448,716	501,995
-	15,859	23,659	23,659
<u>\$ 4,261,704</u>	<u>\$ 2,678,698</u>	<u>\$ 18,311,926</u>	<u>\$ 18,980,823</u>

\$ -	\$ 345,064	\$ 1,206,647	\$ 943,934
-	40,128	134,359	136,709
-	-	46,474	46,086
-	2,966,938	4,166,938	3,299,479
2,342,746	194,388	2,537,134	2,570,893
-	1,250	1,450	-
-	6,598	63,659	74,629
<u>2,342,746</u>	<u>3,554,366</u>	<u>8,156,661</u>	<u>7,071,730</u>
-	1,976	88,301	116,377
-	-	874,201	1,134,066
3,802,321	-	3,802,321	3,968,421
-	589,899	589,899	617,178
-	-	-	620
<u>3,802,321</u>	<u>591,875</u>	<u>5,354,722</u>	<u>5,836,662</u>
-	63,471	71,396	90,190
-	-	4,712,291	6,362,979
-	600,217	600,217	563,833
-	932,318	932,318	797,268
<u>(1,883,363)</u>	<u>(3,063,549)</u>	<u>(1,515,679)</u>	<u>(1,741,839)</u>
<u>(1,883,363)</u>	<u>(1,467,543)</u>	<u>4,800,543</u>	<u>6,072,431</u>
<u>\$ 4,261,704</u>	<u>\$ 2,678,698</u>	<u>\$ 18,311,926</u>	<u>\$ 18,980,823</u>

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**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)**

	2014	2013
Total Fund Balance for Governmental Funds	\$ 4,800,543	\$ 6,072,431
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	1,724,784	1,724,784
Construction in Progress	5,726,977	4,720,869
Land Improvements	13,942,154	12,886,616
Buildings and Improvements	17,376,192	17,334,082
Improvements Other than Buildings	3,358,356	3,349,287
Vehicles	3,315,362	3,207,862
Equipment	6,257,437	6,433,325
Infrastructure	74,391,938	73,478,003
Less: Accumulated Depreciation	(70,368,182)	(66,768,836)
Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		
	5,354,722	5,836,662
The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds.		
	41,017	45,687
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.		
	(280,685)	(295,483)
The City uses an internal service fund to charge the cost of self-insurance to other funds. The adjustment is the net position of the Internal Service Fund that relates to governmental		
	18,963	-
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	(27,221,754)	(29,160,767)
Unamortized Discounts and Premiums	(280,761)	(320,136)
Note Payable	(134,481)	(169,363)
Obligations Under Capital Leases	(866,646)	(808,949)
Compensated Absences Payable	(372,840)	(368,272)
Total Net Position of Governmental Activities	<u>\$ 36,783,096</u>	<u>\$ 37,197,802</u>

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014		
	General Fund	Debt Service Fund	Capital Project Fund
REVENUES			
General Property Taxes	\$ 3,041,781	\$ 1,933,731	\$ -
Tax Increments	-	-	-
Other Taxes	2,095	-	-
Licenses and Permits	260,329	-	-
Intergovernmental	956,305	112,350	1,839,487
Special Assessments	-	256,816	-
Charges for Services	1,503,836	-	-
Fines and Forfeits	32,468	-	-
Investment Earnings (Loss)	3,249	633	1,454
Refunds and Reimbursements	117,085	-	-
Grants and Contributions	44,798	-	3,761
Miscellaneous	59,386	-	6,600
Total Revenues	6,021,332	2,303,530	1,851,302
EXPENDITURES			
Current:			
General Government	1,133,287	-	-
Public Safety	2,325,752	-	-
Public Works	1,436,046	-	-
Sanitation	758,092	-	-
Culture and Recreation	823,312	-	-
Community Development	-	-	-
Capital Outlay:			
General Government	56,813	-	-
Public Safety	104,695	-	-
Public Works	387,891	-	3,911,788
Sanitation	-	-	-
Culture and Recreation	26,302	-	-
Community Development	-	-	-
Capital Leases:			
Principal	150,418	-	-
Interest and Fiscal Charges	10,448	-	-
Debt Service:			
Principal	34,882	1,607,013	-
Interest and Fiscal Charges	6,925	609,240	-
Total Expenditures	7,254,863	2,216,253	3,911,788
Revenue Over (Under) Expenditures	(1,233,531)	87,277	(2,060,486)
OTHER FINANCING SOURCES (USES)			
Transfer In	1,463,049	234,256	-
Transfer Out	(216,347)	(13,049)	-
Bond Proceeds	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Insurance Proceeds	-	-	-
Capital Lease Proceeds	319,565	-	-
Bond Premium	-	-	-
Total Other Financing Sources (Uses)	1,566,267	221,207	-
Net Change in Fund Balance	332,736	308,484	(2,060,486)
Fund Balance (Deficit) - Beginning of Year	3,213,186	4,403,807	1,953,722
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 3,545,922	\$ 4,712,291	\$ (106,764)

See accompanying Notes to the Financial Statements.

HRA Debt Service Fund	2014		2013	
	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	
\$ 116,668	\$ 149,032	\$ 5,241,212	\$ 5,558,456	
-	69,958	69,958	134,319	
-	-	2,095	1,830	
-	-	260,329	261,664	
-	358,298	3,266,440	1,076,642	
-	-	256,816	130,330	
-	1,490,338	2,994,174	2,998,636	
-	-	32,468	32,703	
255,935	6,812	268,083	308,158	
315,000	5,167	437,252	352,663	
-	50,250	98,809	101,668	
-	1,371	67,357	29,605	
687,603	2,131,226	12,994,993	10,986,674	
-	-	1,133,287	954,809	
-	407,291	2,733,043	2,700,785	
-	-	1,436,046	1,213,829	
-	-	758,092	731,827	
-	1,168,608	1,991,920	1,970,210	
550	119,240	119,790	220,628	
-	-	56,813	142,697	
-	54,678	159,373	95,333	
-	-	4,299,679	3,206,783	
-	-	-	6,665	
-	217,586	243,888	140,286	
-	43,569	43,569	529,447	
-	111,450	261,868	312,945	
-	7,095	17,543	19,329	
332,000	-	1,973,895	2,151,033	
262,290	-	878,455	1,099,295	
594,840	2,129,517	16,107,261	15,495,901	
92,763	1,709	(3,112,268)	(4,509,227)	
22,905	115,000	1,835,210	1,994,648	
(82,909)	(22,905)	(335,210)	(494,648)	
-	-	-	4,160,000	
-	4,500	4,500	360	
-	16,315	16,315	-	
-	-	319,565	178,894	
-	-	-	187,745	
(60,004)	112,910	1,840,380	6,026,999	
32,759	114,619	(1,271,888)	1,517,772	
(1,916,122)	(1,582,162)	6,072,431	4,554,659	
\$ (1,883,363)	\$ (1,467,543)	\$ 4,800,543	\$ 6,072,431	

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CITY OF BUFFALO, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014	2013
Net Change in Fund Balances-Total Governmental Funds	\$ (1,271,888)	\$ 1,517,772
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlays	4,544,747	4,220,131
Gain (Loss) on Disposal of Capital Assets	(248,192)	-
Capital Assets Contributed to Business-Type Funds	(704,214)	156,506
Depreciation Expense	(4,233,315)	(4,317,164)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Capital Lease Proceeds	(319,565)	(178,894)
Principal Payments for Capital Leases	261,868	312,945
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	-	(4,160,000)
Bond Discount/Premium	-	(187,745)
Repayment of Bond Principal and Note Payable	1,973,895	2,151,033
Change in Accrued Interest Expense for General Obligation Bonds	14,798	15,344
Amortization of Refunding Loss on Bonds	(4,670)	-
Amortization of Bond Discount/Premium	39,375	29,644
Change in delinquent and noncurrent 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.		
	(481,940)	(110,393)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	(4,568)	(6,282)
The net revenue of certain activities of the Internal Service Fund is reported with governmental activities.		
	18,963	-
Change in Net Position of Governmental Activities	<u>\$ (414,706)</u>	<u>\$ (557,103)</u>

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)**

ASSETS	2014	
	Electric	Water & Sewer
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,530,449	\$ -
Accounts Receivable, Net of Allowance	1,176,917	413,875
Accrued Interest Receivable	884	-
Taxes Receivable	-	2,586
Sewer and Water Hook-up Fees Receivable - Current Portion	-	10,499
Due from Other Governments	4	1,100
Due from Other Funds	2,313,832	3,676,052
Inventory	873,193	8,335
Prepaid Expenses	3,196	141
Total Current Assets	5,898,475	4,112,588
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	82,053
Advance to Other Funds	174,388	200,000
Capital Assets:		
Land, Buildings, Infrastructure and Improvements	23,813,399	93,745,366
Equipment	4,914,070	1,633,879
Construction in Progress	481,425	-
Total Capital Assets	29,208,894	95,379,245
Less: Allowance for Depreciation	(14,496,646)	(30,807,771)
Total Net Capital Assets	14,712,248	64,571,474
Total Long-Term Assets	14,886,636	64,853,527
Total Assets	20,785,111	68,966,115
DEFERRED OUTFLOWS OF RESOURCES		
Refunding Loss on Bonds	-	405,980
Total Assets and Deferred Outflows of Resources	\$ 20,785,111	\$ 69,372,095

See accompanying Notes to the Financial Statements.

Enterprise Funds 2014			2013	2014
Liquor	Golf Course	Total	Total	Internal Service Fund
\$ 58,794	\$ -	\$ 1,589,243	\$ 4,723,699	\$ 63,795
35	12,819	1,603,646	1,559,039	-
-	-	884	714	-
1,962	-	4,548	2,588	-
-	-	10,499	34,003	-
656	-	1,760	1,210	-
-	-	5,989,884	4,062,116	-
581,985	28,604	1,492,117	1,388,954	-
-	-	3,337	3,527	-
643,432	41,423	10,695,918	11,775,850	63,795
-	-	82,053	112,410	-
-	457,746	832,134	882,134	-
2,021,557	3,311,846	122,892,168	118,882,481	-
459,223	1,144,938	8,152,110	7,673,449	-
-	-	481,425	980,607	-
2,480,780	4,456,784	131,525,703	127,536,537	-
(861,364)	(1,522,473)	(47,688,254)	(44,562,286)	-
1,619,416	2,934,311	83,837,449	82,974,251	-
1,619,416	3,392,057	84,751,636	83,968,795	-
2,262,848	3,433,480	95,447,554	95,744,645	63,795
-	-	405,980	470,540	-
<u>\$ 2,262,848</u>	<u>\$ 3,433,480</u>	<u>\$ 95,853,534</u>	<u>\$ 96,215,185</u>	<u>\$ 63,795</u>

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)

LIABILITIES	2014	
	Electric	Water & Sewer
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 952,924	\$ 206,238
Accrued Expenses	87,566	20,253
Due to Other Governments	-	16,648
Due to Other Funds	2,819	-
Accrued Interest	70,448	317,095
Unearned Revenue	63	-
Compensated Absences - Current Portion	60,254	47,045
Capital Lease Obligation - Current Portion	17,013	45,288
Interfund Lease Payable - Current Portion	-	-
Bonds Payable - Current Portion	640,000	1,911,786
Total Current Liabilities	1,831,087	2,564,353
LONG-TERM LIABILITIES		
Escrow Deposits	-	111,480
Compensated Absences - Long-Term	58,114	14,204
Capital Lease Obligation - Long-Term	49,749	154,403
Bonds Payable - Long-Term	5,521,748	61,898,438
Interfund Lease Payable - Long-Term	-	-
Advance from Other Funds	-	-
Total Long-Term Liabilities	5,629,611	62,178,525
Total Liabilities	7,460,698	64,742,878
NET POSITION		
Net Investment in Capital Assets	9,837,753	2,253,383
Unrestricted	3,486,660	2,375,834
Total Net Position	13,324,413	4,629,217
Total Liabilities and Net Position	\$ 20,785,111	\$ 69,372,095

See accompanying Notes to Financial Statements.

Enterprise Funds 2014			2013	2014
Liquor	Golf Course	Total	Total	Internal Service Fund
\$ 56,104	\$ 11,337	\$ 1,226,603	\$ 1,179,946	\$ 44,832
62,654	8,888	179,361	166,893	-
-	2,215	18,863	18,665	-
-	4,817,205	4,820,024	4,090,537	-
4,234	-	391,777	397,069	-
1,962	25,821	27,846	45,214	-
17,241	25,366	149,906	147,240	-
92,129	63,060	217,490	139,967	-
-	220,000	220,000	165,000	-
-	-	2,551,786	3,062,987	-
234,324	5,173,892	9,803,656	9,413,518	44,832
-	-	111,480	111,480	-
20,535	7,799	100,652	100,841	-
351,394	169,572	725,118	621,826	-
-	-	67,420,186	66,832,454	-
-	3,555,000	3,555,000	3,775,000	-
200,000	-	200,000	250,000	-
571,929	3,732,371	72,112,436	71,691,601	-
806,253	8,906,263	81,916,092	81,105,119	44,832
1,175,893	(615,575)	12,651,454	13,928,354	-
280,702	(4,857,208)	1,285,988	1,181,712	18,963
1,456,595	(5,472,783)	13,937,442	15,110,066	18,963
\$ 2,262,848	\$ 3,433,480	\$ 95,853,534	\$ 96,215,185	\$ 63,795

CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014	
	Electric	Water & Sewer
OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	-	-
Charges for Services	12,740,952	4,324,189
Premiums	-	-
Total Gross Profit and Operating Revenues	12,740,952	4,324,189
OPERATING EXPENSES		
Cost of Sales and Services	8,998,686	1,437,160
Compensation and Employee Benefits	1,130,710	843,535
Claims Paid	-	-
Administration Fees	-	-
Depreciation	967,934	2,131,611
Total Operating Expenses	11,097,330	4,412,306
OPERATING INCOME (LOSS)	1,643,622	(88,117)
OTHER INCOME (EXPENSES)		
Interest Income (Loss)	12,816	89,007
Interest Expense	(121,543)	(3,005,563)
Taxes and Special Assessments	103	526,545
Access Fees	19,000	356,776
Refunds and Reimbursements	28,886	-
Miscellaneous Revenue	2,586	5,355
Total Other Income (Expense)	(58,152)	(2,027,880)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,585,470	(2,115,997)
CONTRIBUTIONS AND TRANSFERS		
Transfers Out	(950,000)	-
Capital Contributions to Other Funds	-	(15,676)
Capital Contributed from Other Funds	51,412	668,478
Total Contributions and Transfers	(898,588)	652,802
CHANGE IN NET POSITION	686,882	(1,463,195)
Net Position - Beginning of Year	12,637,531	6,092,412
Prior Period Adjustment	-	-
Restated Net Position - Beginning of Year	12,637,531	6,092,412
NET POSITION - END OF YEAR	\$ 13,324,413	\$ 4,629,217

See accompanying Notes to Financial Statements.

Enterprise Funds 2014			2013	2014
Liquor	Golf Course	Total	Total	Internal Service Fund
\$ 4,632,524	\$ 76,299	\$ 4,708,823	\$ 4,530,253	\$ -
(3,319,129)	(43,455)	(3,362,584)	(3,267,236)	-
-	573,315	17,638,456	17,505,977	-
-	-	-	-	666,846
1,313,395	606,159	18,984,695	18,768,994	666,846
239,034	351,392	11,026,272	10,515,250	-
481,472	474,986	2,930,703	2,818,849	-
-	-	-	-	489,569
-	-	-	-	158,314
66,602	138,313	3,304,460	3,303,806	-
787,108	964,691	17,261,435	16,637,905	647,883
526,287	(358,532)	1,723,260	2,131,089	18,963
167	-	101,990	6,434	-
(31,302)	(174,951)	(3,333,359)	(3,179,999)	-
112,752	-	639,400	289,099	-
-	-	375,776	256,726	-
-	350	29,236	33,963	-
76,018	2,900	86,859	87,179	-
157,635	(171,701)	(2,100,098)	(2,506,598)	-
683,922	(530,233)	(376,838)	(375,509)	18,963
(550,000)	-	(1,500,000)	(1,500,000)	-
-	-	(15,676)	(259,754)	-
-	-	719,890	103,247	-
(550,000)	-	(795,786)	(1,656,507)	-
133,922	(530,233)	(1,172,624)	(2,032,016)	18,963
1,322,673	(4,942,550)	15,110,066	18,114,302	-
-	-	-	(972,220)	-
1,322,673	(4,942,550)	15,110,066	17,142,082	-
\$ 1,456,595	\$ (5,472,783)	\$ 13,937,442	\$ 15,110,066	\$ 18,963

**CITY OF BUFFALO, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014	
	Electric	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Service Users	\$ 12,714,955	\$ 4,316,624
Cash Received from Internal Services Provided	-	-
Cash Paid to Suppliers	(8,747,584)	(1,631,875)
Cash Paid to Employees	(1,123,272)	(857,054)
Net Cash Provided (Used) by Operating Activities	2,844,099	1,827,695
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund Borrowing	(950,000)	-
Interfund Note Receivable	-	50,000
Advance to/from Other Funds	(2,311,013)	386,064
Property Tax Revenues	99	523,555
Water and Sewer Hook-up Fee Revenues	-	53,861
Miscellaneous Revenues	31,472	5,355
Intergovernmental Revenues	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(3,229,442)	1,018,835
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Bonds	1,880,000	30,860,000
Payments on Bond Issuance Costs, Premiums and Discounts	-	1,357,701
Interfund Lease Payable	-	-
Access Fees	19,000	356,776
Acquisition and Construction of Capital Assets	(2,447,631)	(815,156)
Interest Paid on Revenue Bonds	(134,482)	(6,543,230)
Interest Paid on Capital Lease Obligations	(1,454)	(2,373)
Proceeds from Capital Lease	19,016	218,608
Principal Payments on Capital Lease Obligation	(15,438)	(30,603)
Principal Payments on Revenue Bonds	(1,210,000)	(29,196,625)
Net Cash Used by Capital and Related Financing Activities	(1,890,989)	(3,794,902)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	12,646	89,007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,263,686)	(859,365)
Cash and Cash Equivalents - Beginning of Year	3,794,135	859,365
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,530,449</u>	<u>\$ -</u>
NONCASH TRANSACTIONS		
Capital Lease Proceeds	\$ 19,016	\$ 218,608
Capital Contributed From Other Funds	51,412	668,478
Capital Contributed to Governmental Activities	-	(15,676)
Interest Accretion on Capital Appreciation Bonds	-	(3,460,204)
Amortized Premiums and Refunding Loss	-	(487,656)
Total Noncash Investing, Capital and Financing Activities	<u>\$ 70,428</u>	<u>\$ (3,076,450)</u>

See accompanying Notes to Financial Statements.

2014			2013	2014	
Liquor	Golf Course	Total	Total	Internal Services Fund	
\$ 4,634,508	\$ 622,011	\$ 22,288,098	\$ 22,076,896	\$ -	-
-	-	-	-	666,846	-
(3,644,216)	(423,104)	(14,446,779)	(13,650,554)	(603,051)	-
(470,907)	(465,511)	(2,916,744)	(2,792,586)	-	-
519,385	(266,604)	4,924,575	5,633,756	63,795	-
(550,000)	726,668	(773,332)	(945,577)	-	-
-	-	50,000	50,000	-	-
(50,000)	-	(1,974,949)	(605,142)	-	-
113,236	-	636,890	289,883	-	-
-	-	53,861	70,971	-	-
76,018	3,926	116,771	121,142	-	-
-	-	-	73	-	-
(410,746)	730,594	(1,890,759)	(1,018,650)	-	-
-	-	32,740,000	4,570,000	-	-
-	-	1,357,701	251,851	-	-
-	(165,000)	(165,000)	(115,000)	-	-
-	-	375,776	256,726	-	-
(9,539)	(191,796)	(3,464,122)	(2,482,082)	-	-
(12,518)	-	(6,690,230)	(1,994,171)	-	-
(19,629)	(174,951)	(198,407)	(198,520)	-	-
9,539	121,652	368,815	-	-	-
(88,064)	(53,895)	(188,000)	(119,907)	-	-
-	-	(30,406,625)	(5,582,987)	-	-
(120,211)	(463,990)	(6,270,092)	(5,414,090)	-	-
167	-	101,820	6,483	-	-
(11,405)	-	(3,134,456)	(792,501)	63,795	-
70,199	-	4,723,699	5,516,200	-	-
\$ 58,794	\$ -	\$ 1,589,243	\$ 4,723,699	\$ 63,795	-
\$ 9,539	\$ 121,652	\$ 368,815	\$ 214,238	\$ -	-
-	-	719,890	103,247	-	-
-	-	(15,676)	(259,754)	-	-
-	-	(3,460,204)	1,007,682	-	-
-	-	(487,656)	(426,568)	-	-
\$ 9,539	\$ 121,652	\$ (2,874,831)	\$ 638,845	\$ -	-

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2014
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014	
	Electric	Water & Sewer
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,643,622	\$ (88,117)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	967,934	2,131,611
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(25,977)	(10,356)
(Increase) Decrease in Prepaid Items	9	(141)
(Increase) Decrease in Inventory	(30,623)	-
Increase (Decrease) in Accounts and Contracts Payable	281,716	(195,541)
Increase (Decrease) in Accrued Expenses	6,544	967
Increase (Decrease) in Due to Other Governments	-	2,791
Increase (Decrease) in Unearned Revenue	(20)	-
Increase (Decrease) in Accrued Compensated Absences	894	(13,519)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,844,099</u>	<u>\$ 1,827,695</u>

See accompanying Notes to the Financial Statements.

2014			2013	2014
Liquor	Golf Course	Total	Total	Internal Service Fund
\$ 526,287	\$ (358,532)	\$ 1,723,260	\$ 2,131,089	\$ 18,963
66,602	138,313	3,304,460	3,303,806	-
2,610	(10,881)	(44,604)	53,296	-
-	322	190	(3,527)	-
(79,338)	6,798	(103,163)	117,995	-
(4,141)	(35,377)	46,657	13,415	44,832
3,739	1,218	12,468	10,645	-
(2,574)	(19)	198	6,066	-
(626)	(16,722)	(17,368)	(19,752)	-
6,826	8,276	2,477	20,723	-
<u>\$ 519,385</u>	<u>\$ (266,604)</u>	<u>\$ 4,924,575</u>	<u>\$ 5,633,756</u>	<u>\$ 63,795</u>

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NOTES TO FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014**

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, 2014**

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, 2014**

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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

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

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

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

1. Cash and Investments

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Property Tax Revenue Recognition

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

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

3. 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 assessments receivable in governmental funds are completely offset by deferred inflows of resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. 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.

4. 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.

5. 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.

6. 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.

7. Loans Receivable and Allowance for Uncollectible Accounts

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. An allowance for uncollectible accounts is established with City management believes that some portion of the receivable will not be collected. The City estimates the allowance based on the specific identification method. The estimated allowance as of December 31, 2014 for the HRA loans is \$8,295 and the estimated allowance for the revolving loan program is \$123,783.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. 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.

9. 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 are defined by the City as assets with an original unit cost over \$5,000 and an estimated useful life in excess of two years.

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.

10. Compensated Absences

Vacation

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Compensated Absences (Continued)

Sick Leave

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

Severance

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

11. Long-Term Obligations

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

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

12. Deferred Outflows of Resources

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

13. Deferred Inflows of Resources

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

14. 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.

15. Net Position

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

16. Fund Balance

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

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

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

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

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014, 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 2014 were \$11,104.

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, 2014**

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, 2014, 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	61.68%
Negotiable Certificates of Deposit:				
Wells Fargo	NR	5/24/2014	250,000	38.32%
			<u>\$ 652,325</u>	

NR - Not Rated

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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	\$ 6,071,097
Money Market Accounts	1,839
Non-Negotiable Certificates of Deposit	1,579,541
Investments	<u>652,325</u>
Total Cash and Investments	<u>\$ 8,304,802</u>
Cash and Investments	\$ 7,902,476
Restricted Cash and Investments	<u>402,325</u>
Total Cash and Investments	<u>\$ 8,304,801</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,724,784	\$ -	\$ -	\$ -	\$ 1,724,784
Construction in Progress	4,720,869	3,653,955	(1,927,957)	(719,890)	5,726,977
Total Capital Assets, Not Being Depreciated	6,445,653	3,653,955	(1,927,957)	(719,890)	7,451,761
Capital Assets, Being Depreciated:					
Land Improvements	12,886,616	1,055,538	-	-	13,942,154
Buildings and Building Improvements	17,334,082	42,110	-	-	17,376,192
Improvements Other than Buildings	3,349,287	9,069	-	-	3,358,356
Vehicles	3,207,862	128,892	(21,392)	-	3,315,362
Equipment	6,433,325	684,881	(860,769)	-	6,257,437
Infrastructure	73,478,003	898,259	-	15,676	74,391,938
Total Capital Assets, Being Depreciated	116,689,175	2,818,749	(882,161)	15,676	118,641,439
Accumulated Depreciation for:					
Land Improvements	(4,212,256)	(593,782)	-	-	(4,806,038)
Buildings and Building Improvements	(6,324,246)	(437,425)	-	-	(6,761,671)
Improvements Other than Buildings	(1,241,705)	(151,975)	-	-	(1,393,680)
Vehicles	(2,014,706)	(134,688)	21,392	-	(2,128,002)
Equipment	(4,968,422)	(396,722)	612,577	-	(4,752,567)
Infrastructure	(48,007,501)	(2,518,723)	-	-	(50,526,224)
Total Accumulated Depreciation	(66,768,836)	(4,233,315)	633,969	-	(70,368,182)
Total Capital Assets, Being Depreciated, Net	49,920,339	(1,414,566)	(248,192)	15,676	48,273,257
Governmental Activities Capital Assets, Net	<u>\$ 56,365,992</u>	<u>\$ 2,239,389</u>	<u>\$ (2,176,149)</u>	<u>\$ (704,214)</u>	<u>\$ 55,725,018</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 94,659
Public Safety	305,445
Public Works	2,999,991
Parks, Culture and Recreation	833,220
Total Depreciation Expense, Governmental Activities	<u>\$ 4,233,315</u>

In 2014, \$719,890 (net) of infrastructure assets were contributed from governmental activities to business-type activities and \$15,676 of infrastructure assets were contributed from business-type activities to governmental activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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	980,607	2,225,060	(2,708,566)	(15,676)	481,425
Total Capital Assets, Not Being Depreciated	3,514,698	2,225,060	(2,708,566)	(15,676)	3,015,516
Capital Assets, Being Depreciated:					
Land Improvements	2,667,457	-	-	-	2,667,457
Buildings and Building Improvements	49,809,164	96,993	-	-	49,906,157
Utility Distributions Systems	63,870,624	3,192,805	-	719,890	67,783,319
Machinery and Shop Equipment	7,674,594	657,830	(179,170)	-	8,153,254
Total Capital Assets, Being Depreciated	124,021,839	3,947,628	(179,170)	719,890	128,510,187
Accumulated Depreciation for:					
Land Improvements	(933,316)	(69,966)	-	-	(1,003,282)
Buildings and Building Improvements	(15,551,549)	(1,103,867)	-	-	(16,655,416)
Utility Distributions Systems	(22,884,089)	(1,708,952)	-	-	(24,593,041)
Machinery and Shop Equipment	(5,193,332)	(421,675)	178,492	-	(5,436,515)
Total Accumulated Depreciation	(44,562,286)	(3,304,460)	178,492	-	(47,688,254)
Total Capital Assets, Being Depreciated, Net	79,459,553	643,168	(678)	719,890	80,821,933
Business-Type Activities Capital Assets, Net	<u>\$ 82,974,251</u>	<u>\$ 2,868,228</u>	<u>\$ (2,709,244)</u>	<u>\$ 704,214</u>	<u>\$ 83,837,449</u>

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

Business-Type Activities:	
Electric Fund	\$ 967,934
Water and Sewer Fund	2,131,611
Liquor Fund	66,602
Golf Course Fund	138,313
Total Depreciation Expense, Business-Type Activities	<u>\$ 3,304,460</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2014 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2008 G.O. Street Reconstruction Bonds #2008D	\$ 1,715,000	2019	3.50-4.50%	\$ 1,020,000
2009 G.O. Refunding Bonds #2009A	2,460,000	2016	2.00-3.00%	720,000
2009 G.O. Bonds #2009D	3,685,000	2025	3.00-4.00%	3,465,000
2010 G.O. Bonds #2010A	1,070,000	2021	2.00-4.00%	535,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80%	1,925,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80%	385,000
2011 G.O. Capital Improvement Refunding #2011A	5,925,000	2024	0.40-3.15%	5,470,000
2012 G.O. Refunding #2012B	1,555,000	2020	2.00%	1,175,000
2013 G.O. Bonds #2013A	3,575,000	2024	2.00%	3,575,000
2013 G.O. Bonds #2013B	585,000	2028	3.00-3.40%	550,000
Total Governmental Activities - G.O. Bonds	23,140,000			18,820,000
Business-Type Activities:				
2008 G.O. Equipment Certificates #2008A	775,000	2015	3.29%	120,000
2010 G.O. Bonds #2010A	2,385,000	2026	2.00-4.00%	2,100,000
2010 G.O. Bonds #2010C	1,320,000	2019	2.00-3.80%	800,000
2013 G.O. Equipment Certificates #2013A	1,455,000	2022	2.00%	1,455,000
2013 G.O. Bonds #2013B	440,000	2028	3.00-3.40%	415,000
2013 G.O. Bonds #2013B	2,675,000	2017	3.00%	2,085,000
Total Business-Type Activities - G.O. Bonds	9,050,000			6,975,000
Total General Obligation Bonds	\$ 32,190,000			\$ 25,795,000
Special Assessments and Tax Abatement Bonds:				
Governmental Activities:				
2000 Improvement Bonds #2000D	\$ 345,000	2016	4.70-5.20%	\$ 60,000
2005 Improvement Bonds #2005B	975,000	2016	3.25-4.00%	30,000
2012 G.O. Tax Abatement Bonds #2012C	1,955,000	2033	0.65-3.20%	1,885,000
Total Special Assessment Bonds	\$ 3,275,000			\$ 1,975,000

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2012 Street and Parks Vehicles	\$ 95,937	2016	2.97%	\$ 34,356
2012 Fire and Street Equipment	821,044	2017	2.03%	420,789
2013 MIS, Police, Garbage Equipment	178,894	2018	2.19%	133,164
2014 MIS, Police, Street Equipment	319,565	2019	1.57%	278,337
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 1,415,440</u>			<u>\$ 866,646</u>
Note Payable:				
Governmental Activities:				
Note Payable - ISD 877	<u>\$ 250,000</u>	2018	4.25%	<u>\$ 134,481</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
2002 Electric Revenue Bond #2002C	\$ 1,295,000	2015	4.45-5.00%	\$ 125,000
2005 Electric Revenue Bonds #2005C	1,755,000	2016	3.752-4.38%	410,000
2006 Electric Revenue Bonds #2006C	1,160,000	2022	4.50-5.00%	1,160,000
2007 G.O. Wastewater Revenue Bonds #2007A	10,915,000	2023	4.00-4.25%	8,755,000
2009 G.O. Water and Sewer Refunding Rev. Bonds #2009B	4,712,560	2025	4.35-4.94%	4,712,560
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75%	2,127,245
2009 G.O. Water and Sewer Rev. Refunding Bonds #2009F	870,000	2016	1.00-2.65%	275,000
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%	3,295,000
2012 G.O. Water and Sewer Revenue Bonds #2012A	5,610,000	2033	2.55-3.00%	5,610,000
2014 G.O. Water and Sewer Revenue Refunding Bonds #2014A	30,860,000	2028	3.00-4.00%	30,860,000
2014 Electric Revenue Bonds #2014B	1,880,000	2025	2.75-3.00%	1,880,000
Total Business-Type Activities Revenue Bonds	<u>66,591,754</u>			<u>60,164,805</u>
Governmental Activities:				
2005 Wild Marsh Revenue Bonds	4,380,000	2027	3.50-4.50%	3,775,000
2009 G.O. Utility Revenue Bonds #2009E	220,806	2024	2.00-3.75%	152,754
2009 HRA Revenue Bond	178,000	2020	4.82%	114,000
2011 Public Facility Lease Revenue Bonds #2011A	2,865,000	2027	0.65-4.60%	2,385,000
Total Governmental Activities Revenue Bonds	<u>7,643,806</u>			<u>6,426,754</u>
Total Revenue Bonds	<u>\$ 74,235,560</u>			<u>\$ 66,591,559</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 435,215
2012 Wild Marsh Aerator	20,478	2016	2.97%	7,333
2012 Golf Course Equipment	37,479	2017	2.03%	19,353
2013 Wild Marsh, Electric, Water, Wastewater Equipment	214,238	2018	2.19%	159,473
2014 Wild Marsh, Electric, Liquor, Wastewater Equipment	368,815	2019	1.57%	321,234
Total Revenue Lease Purchase Obligations	<u>\$ 1,836,010</u>			<u>\$ 942,608</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2014:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 20,295,000	\$ -	\$ 1,475,000	\$ 18,820,000	\$ 1,855,000
Special Assessment Debt with					
Governmental Commitments	2,090,000	-	115,000	1,975,000	115,000
General Obligation Revenue Bond	6,775,767	-	349,013	6,426,754	410,214
Bond Subtotal	29,160,767	-	1,939,013	27,221,754	2,380,214
Bond Premium	320,136	-	39,375	280,761	-
Net Bond Subtotal	29,480,903	-	1,978,388	27,502,515	2,380,214
Capital Lease Obligations	808,949	319,565	261,868	866,646	287,986
Note Payable	169,363	-	34,882	134,481	36,401
Compensated Absences	368,272	231,928	227,360	372,840	195,414
Total Governmental Activities	30,827,487	551,493	2,502,498	28,876,482	2,900,015
Business-Type Activities:					
General Obligation Bonds	8,110,000	-	1,135,000	6,975,000	1,080,000
General Obligation Revenue Bonds	52,956,430	30,860,000	28,181,625	55,634,805	1,086,786
Electric Revenue Bonds	3,740,000	1,880,000	1,090,000	4,530,000	385,000
Bond Subtotal	64,806,430	32,740,000	30,406,625	67,139,805	2,551,786
Interest Accretion on Capital Appreciation					
Bonds	4,804,123	271,185	3,731,389	1,343,919	-
Bond Premium	284,888	1,293,144	89,784	1,488,248	-
Net Bond Subtotal	69,895,441	34,304,329	34,227,798	69,971,972	2,551,786
Revenue Lease Purchase Obligations	761,793	368,815	188,000	942,608	217,490
Compensated Absences	248,081	139,529	137,052	250,558	149,906
Total Business-Type Activities	70,905,315	34,812,673	34,552,850	71,165,138	2,919,182
Total Debt	\$ 101,732,802	\$ 35,364,166	\$ 37,055,348	\$ 100,041,620	\$ 5,819,197

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	1,391,103	1,923,896
Subtotal	1,391,103	6,747,848
Less: Accumulated Depreciation	(303,498)	(1,144,420)
Total	<u>\$ 1,087,605</u>	<u>\$ 5,603,428</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

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

Years	Governmental Activities				
	Long-Term Debt		Notes and Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2015	\$ 2,380,214	\$ 804,255	\$ 324,387	\$ 19,529	\$ 3,528,385
2016	2,396,213	743,629	316,492	12,527	3,468,861
2017	2,302,213	679,489	227,176	19,743	3,228,621
2018	2,042,214	624,181	111,177	1,547	2,779,119
2019	2,094,415	567,622	21,895	71	2,684,003
2020-2024	11,001,485	1,914,629	-	-	12,916,114
2025-2029	4,510,000	371,251	-	-	4,881,251
2030-2033	495,000	31,760	-	-	526,760
Totals	<u>\$ 27,221,754</u>	<u>\$ 5,736,816</u>	<u>\$ 1,001,127</u>	<u>\$ 53,417</u>	<u>\$ 34,013,114</u>

Years	Business-Type Activities				
	Long-Term Debt		Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2015	\$ 2,551,786	\$ 2,397,450	\$ 217,541	\$ 24,184	\$ 5,190,961
2016	2,661,786	2,062,568	220,280	18,315	4,962,949
2017	2,706,786	1,981,451	220,146	12,927	4,921,310
2018	3,461,786	1,889,333	207,066	6,298	5,564,483
2019	3,595,585	1,765,296	77,575	1,097	5,439,553
2020-2024	23,621,465	10,420,130	-	-	34,041,595
2025-2029	23,215,611	3,287,871	-	-	26,503,482
2030-2033	5,325,000	415,292	-	-	5,740,292
Totals	<u>\$ 67,139,805</u>	<u>\$ 24,219,391</u>	<u>\$ 942,608</u>	<u>\$ 62,821</u>	<u>\$ 92,364,625</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014, including interest of \$30,072,445 are as follows:

Year	Amount
2015	\$ 8,719,346
2016	8,431,810
2017	8,149,931
2018	8,343,602
2019	8,123,556
2020-2024	46,957,709
2025-2029	31,384,733
2030-2033	6,267,052
Total	<u>\$ 126,377,739</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

In 2014, the City issued \$30,860,000 in General Obligation Water and Sewer Revenue Refunding Bonds (Series 2014A) for the current refunding of the Series 2005A General Obligation Water and Sewer Revenue Bonds maturing in 2024 and 2025, Series 2006A General Obligation Water and Sewer Revenue Refunding Bonds maturing in 2015 through 2024, and Series 2008B General Obligation Wastewater Revenue Refunding Bonds maturing in 2024 through 2028. The total cash flow savings to the City attributable to the refunding of these bonds was \$7,479,533 with a net present value of approximately \$5,242,970.

In addition, the City issued \$1,880,000 Electric Revenue Bonds (Series 2014B) for the purpose of financing the construction of utility and street system improvements.

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, 2014**

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 GERF 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 GERF 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, 2014**

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 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. 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 15.3% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013 and 2012 were \$280,634, \$272,973, and \$269,543, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2014, 2013 and 2012 were \$149,204, \$139,425, and \$136,569, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and Fire Fund (10.8% for members and 16.2% for employers).

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, 2014, 2013 and 2012 were \$27,399, \$36,201, and \$34,425, respectively, equal to the required contributions for each year.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2014 as follows:

Governmental Funds:	
Capital Project Fund	\$ (106,764)
HRA Debt Service	(1,883,363)
Other Governmental Funds:	
Civic Center Fund	(2,965,031)
Airport Fund	(85,906)
Proprietary Funds:	
Golf Course Fund	(5,472,783)

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

B. Expenditures in Excess of Budget

For the year ended December 31, 2014, expenditures exceeded budget in the following funds: General Fund by \$1,821, Fire Special Revenue Fund by \$3,498, Library Special Revenue Fund by \$24 and Civic Center Special Revenue Fund by \$2,789. These expenditures were funded by greater than anticipated revenues and existing fund balance.

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, 2014 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2014 totaled \$18,142,401.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2014 are as follows:

Fund	Due from Other Funds	Due to Other Funds	Description
General Fund	\$ 2,966,938	\$ -	Eliminate Deficit Cash
Capital Project Fund	-	1,200,000	Unspent Bond Proceeds
HRA Debt Service Fund	27,321	-	Lease Purchase Funding
Other Governmental Funds	-	2,966,938	Eliminate Deficit Cash
Other Governmental Funds	2,819	-	Repay for Current Portion of Project
Proprietary Funds:			
Electric Fund	2,313,832	2,819	Deficit Cash/Current Portion of Project
Water and Sewer Fund	3,676,052	-	Deficit Cash/Unspent Bond Proceeds
Golf Course Fund	-	4,817,205	Lease Purchase/Deficit Cash
Total Due To/From	<u>\$ 8,986,962</u>	<u>\$ 8,986,962</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	\$ 1,885,000	\$ -
HRA Debt Service Fund	-	2,342,746
Other Governmental Funds	20,000	194,388
Proprietary Funds:		
Electric Fund	174,388	-
Water and Sewer Fund	200,000	-
Liquor Fund	-	200,000
Golf Course Fund	457,746	-
Total Advances	<u>\$ 2,737,134</u>	<u>\$ 2,737,134</u>

The advance in the amount of \$200,000 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 \$1,885,000 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, 2014**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

C. Interfund Receivables/ Payables

Fund	Interfund Lease Receivable	Interfund Lease Payable
HRA Debt Service Fund	\$ 3,775,000	\$ -
Proprietary Funds:		
Wild Marsh Golf Course	-	3,775,000
Total Interfund Leases	<u>\$ 3,775,000</u>	<u>\$ 3,775,000</u>

This represents the lease between HRA and the Golf Course for bonds issued by the HRA (see also Note 4). The lease payment schedule follows the bond repayment schedule. A principal payment of \$220,000 is due in 2015.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

D. Transfers

Transfers between funds during 2014 are as follows:

	<u>Amount</u>	<u>Description</u>
<u>Major Governmental Funds</u>		
Transfers to General Fund from:		
Debt Service Fund	\$ 13,049	Close-Out Bond
Electric Fund	900,000	Annual Contribution
Liquor Fund	550,000	Annual Contribution
Total Transfers to General Fund	<u>1,463,049</u>	
Transfers to Debt Service Fund from:		
General Fund	151,347	Transfer of Debt Payment
HRA Debt Service Fund	82,909	Transfer of Debt Payment
Total Transfers to Debt Service Fund	<u>234,256</u>	
Transfer to HRA Debt Service Fund from:		
HRA Fund	22,905	Transfer of Debt Payment
Total Transfers to Major Funds	<u>1,720,210</u>	
<u>Nonmajor Governmental Funds</u>		
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfer to Civic Center Fund from:		
Electric Fund	50,000	Annual Contribution
Total Transfers to Civic Center Fund	<u>50,000</u>	
Transfer to Airport Fund from:		
General Fund	50,000	Annual Contribution
Total Transfers to Nonmajor Governmental Funds	<u>115,000</u>	
Total Interfund Transfers	<u><u>\$ 1,835,210</u></u>	

Also reported on the government-wide statement of activities are capital asset transfers of \$719,890 from the governmental activities to the business-type activities and \$15,676 from the business-type activities to the governmental activities. These are transfers of capital assets between the two opinion units.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 9 FUND BALANCE CLASSIFICATIONS

The fund balance classifications of the governmental funds as of December 31, 2014, were as follows:

	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable						
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 12,612	\$ 12,612
Prepaid Expenses	125	-	-	-	-	125
Loan Commitments	-	-	-	-	15,000	15,000
Advance to Other Funds	-	-	-	-	20,000	20,000
Land Held for Resale	7,800	-	-	-	15,859	23,659
Total Nonspendable	<u>7,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,471</u>	<u>71,396</u>
Restricted						
Debt Service	-	4,712,291	-	-	-	4,712,291
Committed						
Library	-	-	-	-	146,843	146,843
The Buffalo HRA	-	-	-	-	453,374	453,374
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,217</u>	<u>600,217</u>
Assigned						
Fire Operations	-	-	-	-	932,318	932,318
Unassigned	<u>3,537,997</u>	<u>-</u>	<u>(106,764)</u>	<u>(1,883,363)</u>	<u>(3,063,549)</u>	<u>(1,515,679)</u>
Total Fund Balance	<u><u>\$ 3,545,922</u></u>	<u><u>\$ 4,712,291</u></u>	<u><u>\$ (106,764)</u></u>	<u><u>\$ (1,883,363)</u></u>	<u><u>\$ (1,467,543)</u></u>	<u><u>\$ 4,800,543</u></u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 entered into a program to self-insure group medical benefits for its employees. This program is funded through "premiums" charged each pay period to participants in the plan. The city portion of the monthly premium is charged to various departments based on actual participation by employees. Health Partners currently administers the plan for a monthly fee based on number of participating individuals. Claims are paid by Health Partners and reimbursed by the City on a weekly basis. Reinsurance for stop-loss covers aggregate stop-loss coverage. The aggregate stop-loss insurance puts a ceiling on the amount of claim liability during the two year contract that the city began with Health Partners effective January 1, 2014. This stop-loss contract is based on a 24/30 contract period (24 months of incurred claims paid over 30 months). The aggregate claims liability is determined by the aggregate claim factors by plan and number of enrolled contracts by coverage level.

Changes in the balance of claim liabilities were as follows:

	<u>12/31/2014</u>
Unpaid Claims, Beginning of Year	\$ -
Incurred Claims	489,569
Claim Payments	<u>(444,737)</u>
Unpaid Claims, End of Year	<u><u>\$ 44,832</u></u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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.

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, 2014:

Project	Contract Cost	Estimated Project Costs Incurred to Date *	Remaining Committed
Downtown Enhancement	\$ 718,833	\$ 596,898	\$ 121,935
Settler's Parkway	4,718,058	1,418,883	3,299,175
SE Area Reconstruction	1,379,910	1,289,910	90,000
Well #8 and Watermain	448,398	140,617	307,781
Watermain and N Loop	413,981	396,637	17,344
Street Maintenance 2014	228,204	215,986	12,218
Highway 25 Line Extension	547,880	234,462	313,418
Total	<u>\$ 8,455,264</u>	<u>\$ 4,293,393</u>	<u>\$ 4,161,871</u>

* Includes Contracts Payable Amount

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014, there were 14 series of Industrial Revenue Bonds and other similar type Revenue Bonds outstanding. The aggregate principal amount payable for the eight (8) series issued prior to January 4, 1997, could not be determined; however, their original issue amounts totaled \$26.165 million. An Industrial Revenue Note totaling \$2,750,000 and maturing in March, 2030 was issued in 2000. Three Industrial Revenue Notes totaling \$20,130,000 and maturing in March 2033 were issued in 2003. Two conduit debt issues were issued during 2006: (1) Health Care Refunding Revenue Bonds, Series 2006 totaling \$19,965,000 and (2) Educational Facilities Revenue Note, Series 2005A totaling \$5,500,000.

NOTE 13 JOINT POWERS AGREEMENT

The Wright County Area Transportation (WCAT) Joint Powers Board was established in 2014 under the authority of the Joint Powers Act, pursuant to *Minnesota Statutes* § 471.59, and includes the cities of Albertville, Annandale, Buffalo, Cokato, Delano, Hanover, Howard Lake, Maple Lake, Montrose, Rockford, St. Michael, and Waverly. WCAT's objectives are to provide affordable public transportation to their local communities which would assist people with mobility and access to employment, community resources, medical care and recreational opportunities while reducing the impact of road congestion, travel times, air pollution, and cost of road maintenance and repair in the communities.

Control is vested in the WCAT Board, which consists of a designee from each of the member cities. There are no term specifications on the board members.

Financing is provided by state and federal funding as available toward the costs of providing public transportation services for the cities. Each City has agreed to pay a proportionate share of WCAT's remaining unfunded operating expenses and capital expenditures based upon the number of rides originating in the City during the prior year as compared to the total number of rides in all cities during the prior year. Each City is also required to pay an annual fee to provide for the proper operations of the WCAT Board. The City of Buffalo was not requested to contribute any funds to WCAT during 2014, as enough federal and state funding was received to cover operations.

Financial information can be obtained from the WCAT Treasurer, at the City of Annandale.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 14 SUBSEQUENT EVENTS

On January 20, 2015, the City authorized issuance of \$4,045,000 in General Obligation Bonds (Series 2015A) and \$1,185,000 in Electric Revenue Refunding Bonds (Series 2015B). The General Obligation Bonds were issued for the purpose of financing street and trail construction projects. The interest rate on this bond is 2.0 to 3.0 percent and it is set to mature in 2031. The Electric Revenue Refunding Bonds were issued to provide a current refunding for the 2006C Series Electric Revenue Bonds. These refunding bonds are set to mature in 2022 with an interest rate of 2.00 to 2.15 percent. The estimated present value cash savings as a result of this refunding bond is \$115,085.

On April 6, 2015, the City issued \$3,400,000 in General Obligation Tax Abatement Bonds (Series 2015C) to finance land acquisition and the construction of a transit facility to be leased and operated by Trailblazer Transit. The interest rate on this bond is 2.67 percent and it is set to mature in 2025.

On May 4, 2015, the City authorized issuance of \$723,067 lease purchase agreement for the purchase of various police, street, wastewater, water, civic center and golf course equipment. The lease has a 60-month term at an interest rate of 1.49 percent.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014			2013	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 2,951,476	\$ 2,984,187	\$ 2,984,544	\$ 357	\$ 3,392,900
Other Taxes	1,500	2,094	2,095	1	1,830
Total Taxes	2,952,976	2,986,281	2,986,639	358	3,394,730
Licenses and Permits	267,060	260,329	260,329	-	261,664
Intergovernmental:					
Federal Grants	-	1,318	1,318	-	2,812
State:					
Local Government Aid	636,274	636,274	636,274	-	145,886
Market Value Credit	-	130	130	-	134
State Police Aid	120,037	118,316	118,316	-	121,715
State Highway Aid	177,648	184,696	184,696	-	177,648
Other	14,187	15,571	15,571	-	14,313
Total Intergovernmental	948,146	956,305	956,305	-	462,508
Charges for Services:					
General Government	112,275	149,385	149,377	(8)	112,935
Engineering	600	-	-	-	-
Public Safety	56,500	56,606	56,606	-	58,642
Streets	600	122	122	-	-
Sanitation	832,000	874,162	876,341	2,179	863,975
Storm Sewer	405,000	395,643	396,253	610	393,925
Total Charges for Services	1,406,975	1,475,918	1,478,699	2,781	1,429,477
Fines and Forfeits	30,000	32,468	32,468	-	32,703
Investment Earnings	1,800	4,463	4,463	-	3,284
Refunds/Reimbursements	-	89,108	94,565	5,457	41,647
Grants and Contributions	9,500	9,505	9,505	-	9,790
Miscellaneous	1,158	51,628	57,587	5,959	14,810
Total Revenues	5,617,615	5,866,005	5,880,560	14,555	5,650,613

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, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014				2013
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES					
General Government:					
Mayor and Council:					
Current:					
Personal Services	\$ 58,221	\$ 32,262	\$ 32,262	\$ -	\$ 25,038
Capital Outlay	6,000	-	-	-	1,385
Capital Lease Payments:					
Principal	-	774	774	-	-
Interest	-	59	59	-	-
Total Mayor and Council	64,221	33,095	33,095	-	26,423
Financial Administration:					
Current:					
Salaries	294,505	239,821	240,821	(1,000)	254,076
Employee Benefits	64,869	58,707	60,015	(1,308)	53,190
Other Expenses:					
Audit / Accounting	8,500	9,000	9,000	-	8,150
Building Permits, Surcharges	16,800	11,035	11,035	-	12,011
Insurance	12,000	12,046	12,046	-	9,387
Planning and Zoning	116,594	122,560	122,560	-	117,527
Assessor	64,000	63,527	63,527	-	63,601
City Attorney	23,500	24,684	24,684	-	21,420
Professional Services	1,500	1,822	1,822	-	328
Elections	12,000	12,094	12,094	-	1,510
Other Expense	105,634	162,638	168,958	(6,320)	113,739
Capital Outlay	32,000	15,819	15,819	-	5,158
Total Financial Administration	751,902	733,753	742,381	(8,628)	660,496
MIS:					
Current:					
Salaries	59,385	77,192	77,192	-	52,013
Employee Benefits	29,618	27,493	27,945	(452)	26,769
Other Services and Charges	10,720	27,471	27,471	-	17,693
Capital Outlay	148,000	40,994	40,994	-	136,154
Capital Lease Payments:					
Principal	19,551	29,429	29,429	-	32,036
Interest	1,885	2,658	2,658	-	515
Total MIS	269,159	205,237	205,689	(452)	265,180
Engineering:					
Current:					
Salaries	112,868	110,923	112,923	(2,000)	110,413
Employee Benefits	27,327	25,624	28,389	(2,765)	25,962
Other Services and Charges	17,298	12,452	12,452	-	12,766
Capital Lease Payments:					
Interest	-	-	-	-	8
Total Engineering	157,493	148,999	153,764	(4,765)	149,149
Transportation:					
Current:					
Salaries	12,703	12,682	12,682	-	12,405
Employee Benefits	1,893	1,425	1,425	-	1,402
Other Services and Charges	23,968	73,984	73,984	-	22,566
Total Transportation	38,564	88,091	88,091	-	36,373
Total General Government	1,281,339	1,209,175	1,223,020	(13,845)	1,137,621

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, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014				2013
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES (CONTINUED)					
Public Safety:					
Police Protection:					
Current:					
Office Wages and Benefits	\$ 210,325	\$ 198,710	\$ 202,157	\$ (3,447)	\$ 203,870
Officer Wages and Benefits	1,416,167	1,308,869	1,332,415	(23,546)	1,332,062
Training	7,700	4,104	4,104	-	4,088
Legal Fees	61,750	64,501	64,501	-	63,035
Other Services and Charges	247,050	230,486	230,494	(8)	232,832
Capital Outlay	139,100	104,695	104,695	-	83,391
Capital Lease Payments:					
Principal	13,741	23,103	23,103	-	46,767
Interest	-	2,050	2,050	-	1,247
Total Police	2,095,833	1,936,518	1,963,519	(27,001)	1,967,292
Fire Protection	403,182	403,182	403,182	-	393,543
Civil Defense	3,825	3,899	3,899	-	250
Building Inspections	120,000	130,500	85,000	45,500	83,406
Total Public Safety	2,622,840	2,474,099	2,455,600	18,499	2,444,491
Public Works:					
Street Department:					
Current:					
Employee Benefits	90,855	83,022	87,485	(4,463)	94,429
Street Maintenance	575,048	608,077	608,750	(673)	516,729
Storm Sewer Maintenance	65,842	108,967	110,467	(1,500)	42,778
Snow and Ice Removal	100,484	108,571	108,571	-	94,735
Other	511,480	520,934	520,773	161	465,158
Capital Outlay - Streets	447,625	387,891	387,891	-	10,283
Capital Lease Payments:					
Principal	62,797	82,183	84,041	(1,858)	96,329
Interest	4,040	7,424	5,566	1,858	6,605
Total Public Works	1,858,171	1,907,069	1,913,544	(6,475)	1,327,046
Sanitation:					
Current	735,800	758,092	758,092	-	732,266
Capital Outlay	-	-	-	-	6,665
Capital Lease Payments:					
Principal	1,250	1,200	1,200	-	-
Interest	121	117	117	-	-
Total Sanitation	737,171	759,409	759,409	-	738,931
Total Public Works	2,595,342	2,666,478	2,672,953	(6,475)	2,065,977
Total Expenditures	6,499,521	6,349,752	6,351,573	(1,821)	5,648,089
REVENUES OVER (UNDER) EXPENDITURES	(881,906)	(483,747)	(471,013)	12,734	2,524
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	776,225	319,565	319,565	-	178,894
Transfer In	900,000	913,049	913,049	-	900,080
Transfer Out	(420,215)	(566,347)	(541,347)	25,000	(587,418)
Total Other Financing Sources (Uses)	1,256,010	666,267	691,267	25,000	491,556
NET CHANGE IN FUND BALANCE	<u>\$ 374,104</u>	<u>\$ 182,520</u>	220,254	<u>\$ 37,734</u>	494,080
Fund Balance - Beginning of Year			3,868,266		3,374,186
FUND BALANCE - END OF YEAR			<u>\$ 4,088,520</u>		<u>\$ 3,868,266</u>

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

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

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 2014.
4. The City has legally adopted budgets for the General Fund, certain Special Revenue Funds, and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, capital outlay, etc.) within each program. All amounts over budget have been approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the capital projects or debt service funds.
5. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.
6. General government expenditures were \$1,223,020 which is \$13,845 over budget. Public Works expenditures were \$1,913,544 which were \$6,475 over budget. These over budget expenditures were paid for with existing fund balance.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

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	\$ 6,021,332	\$ 7,254,863	\$ 1,566,267	\$ 3,213,186	\$ 3,545,922
Funds included in General Fund for GASB Statement No. 54 purposes:					
Park Fund	(113,850)	(736,033)	(750,000)	403,140	275,323
Community Center Fund	(26,922)	(167,257)	(125,000)	251,940	267,275
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	<u>\$ 5,880,560</u>	<u>\$ 6,351,573</u>	<u>\$ 691,267</u>	<u>\$ 3,868,266</u>	<u>\$ 4,088,520</u>

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SUPPLEMENTARY INFORMATION

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

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013)**

	2014			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
ASSETS				
Cash and Investments	\$ -	\$ 969,814	\$ 155,044	\$ -
Delinquent Taxes Receivable	-	-	1,370	-
Accounts Receivable	-	-	-	44,691
Due from Other Governmental Units	-	-	471	11,546
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Advances to Other Funds	-	-	-	-
Inventory	-	-	-	-
Prepaid Items	-	-	-	-
Loans Receivable, Net of Allowance	88,393	-	-	-
Land Held for Resale	-	-	-	-
Total Assets	<u>\$ 88,393</u>	<u>\$ 969,814</u>	<u>\$ 156,885</u>	<u>\$ 56,237</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ 5,970	\$ 8,273	\$ 45,737
Other Accrued Liabilities	-	31,526	399	7,343
Due to Other Funds	-	-	-	2,966,938
Advances from Other Funds	-	-	-	-
Unearned Revenue	-	-	-	1,250
Deposits - Escrow	-	-	-	-
Total Liabilities	-	37,496	8,672	3,021,268
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	-	-	1,370	-
Unavailable Loans Receivables	88,393	-	-	-
Other Unavailable Resources	-	-	-	-
Total Deferred Inflows of Resources	88,393	-	1,370	-
FUND BALANCE (DEFICIT)				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	146,843	-
Assigned	-	932,318	-	-
Unassigned	-	-	-	(2,965,031)
Total Fund Balance (Deficit)	-	932,318	146,843	(2,965,031)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 88,393</u>	<u>\$ 969,814</u>	<u>\$ 156,885</u>	<u>\$ 56,237</u>

The HRA of Buffalo Fund	Airport Fund	2014 Total	2013 Total
\$ 492,742	\$ 99,783	\$ 1,717,383	\$ 1,487,034
18	588	1,976	10,294
26,833	2,336	73,860	72,392
1,058	231,215	244,290	476,781
141,183	-	141,183	115,183
2,819	-	2,819	9,063
20,000	-	20,000	20,000
-	12,612	12,612	13,371
-	-	-	332
360,323	-	448,716	501,995
15,859	-	15,859	15,859
<u>\$ 1,060,835</u>	<u>\$ 346,534</u>	<u>\$ 2,678,698</u>	<u>\$ 2,722,304</u>

\$ 48,480	\$ 236,604	\$ 345,064	\$ 144,394
-	860	40,128	40,578
-	-	2,966,938	3,290,416
-	194,388	194,388	194,388
-	-	1,250	-
6,598	-	6,598	6,598
<u>55,078</u>	<u>431,852</u>	<u>3,554,366</u>	<u>3,676,374</u>

18	588	1,976	10,294
501,506	-	589,899	617,178
-	-	-	620
<u>501,524</u>	<u>588</u>	<u>591,875</u>	<u>628,092</u>

50,859	12,612	63,471	72,062
-	-	-	5,450
453,374	-	600,217	563,833
-	-	932,318	797,268
-	(98,518)	(3,063,549)	(3,020,775)
<u>504,233</u>	<u>(85,906)</u>	<u>(1,467,543)</u>	<u>(1,582,162)</u>

<u>\$ 1,060,835</u>	<u>\$ 346,534</u>	<u>\$ 2,678,698</u>	<u>\$ 2,722,304</u>
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**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
REVENUE				
General Property Taxes	\$ -	\$ -	\$ 81,246	\$ -
Tax Increments	-	-	-	-
Intergovernmental	-	112,043	-	-
Charges for Services	-	597,646	-	540,064
Investment Earnings (Loss)	7	1,015	157	-
Refunds and Reimbursements	3,542	100	-	1,522
Grants and Contributions	-	250	-	50,000
Miscellaneous	-	10	-	1,254
Total Revenue	3,549	711,064	81,403	592,840
EXPENDITURES				
Current:				
Public Safety:	-	407,291	-	-
Culture and Recreation	-	-	71,316	775,836
Community Development	8,999	-	-	-
Capital Outlay:				
Public Safety	-	54,678	-	-
Culture and Recreation	-	-	-	15,475
Community Development	-	-	-	-
Capital Leases:				
Principal	-	111,450	-	-
Interest and Fiscal Charges	-	7,095	-	-
Debt Service:				
Principal	-	-	-	-
Total Expenditures	8,999	580,514	71,316	791,311
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(5,450)	130,550	10,087	(198,471)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	15,000	50,000
Transfer Out	-	-	-	-
Proceeds from Sale of Capital Assets	-	4,500	-	-
Insurance Proceeds	-	-	-	16,315
Total Other Financing Sources (Uses)	-	4,500	15,000	66,315
NET CHANGE IN FUND BALANCE	(5,450)	135,050	25,087	(132,156)
Fund Balance (Deficit) - Beginning of Year	5,450	797,268	121,756	(2,832,875)
FUND BALANCE (DEFICIT) - END OF YEAR	\$ -	\$ 932,318	\$ 146,843	\$ (2,965,031)

The HRA of Buffalo Fund	Airport Fund	2014 Total	2013 Total
\$ 67,786	\$ -	\$ 149,032	\$ 192,097
69,958	-	69,958	134,319
-	246,255	358,298	605,334
37,058	315,570	1,490,338	1,544,630
5,603	30	6,812	1,685
-	3	5,167	7,015
-	-	50,250	57,000
107	-	1,371	6,240
<u>180,512</u>	<u>561,858</u>	<u>2,131,226</u>	<u>2,548,320</u>
-	-	407,291	387,699
-	321,456	1,168,608	1,154,903
110,241	-	119,240	219,728
-	-	54,678	11,942
-	202,111	217,586	102,489
43,569	-	43,569	529,447
-	-	111,450	119,093
-	-	7,095	10,159
-	-	-	18,594
<u>153,810</u>	<u>523,567</u>	<u>2,129,517</u>	<u>2,554,054</u>
26,702	38,291	1,709	(5,734)
-	50,000	115,000	140,462
(22,905)	-	(22,905)	(185,325)
-	-	4,500	-
-	-	16,315	-
<u>(22,905)</u>	<u>50,000</u>	<u>112,910</u>	<u>(44,863)</u>
3,797	88,291	114,619	(50,597)
<u>500,436</u>	<u>(174,197)</u>	<u>(1,582,162)</u>	<u>(1,531,565)</u>
<u>\$ 504,233</u>	<u>\$ (85,906)</u>	<u>\$ (1,467,543)</u>	<u>\$ (1,582,162)</u>

**CITY OF BUFFALO, MINNESOTA
FIRE SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014				2013
	Original Budget	Final Budget	Actual	Variance with Budget	Actual
REVENUES					
Fire Contracts and Charges	\$ 575,731	\$ 597,646	\$ 597,646	\$ -	\$ 575,731
Intergovernmental:					
State Aid and Grants	88,500	112,043	112,043	-	115,729
Grants and Contributions	-	250	250	-	-
Investment Earnings	650	1,015	1,015	-	735
Refunds and Reimbursements	-	100	100	-	65
Miscellaneous	-	10	10	-	4,980
Total Revenues	664,881	711,064	711,064	-	697,240
EXPENDITURES					
Public Safety:					
Fire Relief	75,000	108,043	108,043	-	107,159
Wages and Benefits	130,848	110,804	114,804	(4,000)	114,121
Truck Expense	12,000	9,263	9,263	-	10,462
Supplies	11,225	15,594	15,594	-	2,876
Repairs and Maintenance	46,000	46,063	46,063	-	27,620
Radio and Telephone	7,280	6,876	6,876	-	6,721
Utilities	17,500	20,822	20,322	500	18,581
Insurance	40,000	33,875	33,875	-	30,924
Training	8,500	7,181	7,181	-	9,131
Other	53,747	45,270	45,270	-	60,104
Capital Outlay	55,000	54,678	54,678	-	11,942
Capital Lease Payments:					
Principal	111,268	111,452	111,450	2	119,093
Interest	7,279	7,095	7,095	-	10,159
Total Expenditures	575,647	577,016	580,514	(3,498)	528,893
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	89,234	134,048	130,550	3,498	168,347
OTHER FINANCING SOURCES					
Proceeds on Sale of Assets	-	4,500	4,500	-	-
NET CHANGE IN FUND BALANCE	<u>\$ 89,234</u>	<u>\$ 138,548</u>	135,050	<u>\$ 3,498</u>	168,347
Fund Balance - Beginning of Year			797,268		628,921
FUND BALANCE - END OF YEAR			<u>\$ 932,318</u>		<u>\$ 797,268</u>

**CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014			2013	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ 80,628	\$ 81,246	\$ 81,246	\$ -	\$ 80,992
Investment Earnings	125	157	157	-	124
Total Revenues	80,753	81,403	81,403	-	81,116
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	1,150	2,104	2,104	-	980
Supplies and Maintenance	33,442	34,482	34,482	-	31,832
Insurance	1,000	1,012	1,012	-	629
Telephone	650	442	442	-	495
Utilities	30,500	28,959	28,959	-	29,363
Other	3,858	4,293	4,317	(24)	2,908
Capital Outlay - Equipment	2,500	-	-	-	23,195
Total Expenditures	73,100	71,292	71,316	(24)	89,402
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	7,653	10,111	10,087	(24)	(8,286)
OTHER FINANCING SOURCES					
Transfers in from General Fund	15,000	15,000	15,000	-	15,000
NET CHANGE IN FUND BALANCE					
	<u>\$ 22,653</u>	<u>\$ 25,111</u>	25,087	<u>\$ (24)</u>	6,714
Fund Balance - Beginning of Year			121,756		115,042
FUND BALANCE - END OF YEAR					
			<u>\$ 146,843</u>		<u>\$ 121,756</u>

**CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014				2013
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Charges for Services:					
Ice Time	\$ 414,910	\$ 387,382	\$ 387,382	\$ -	\$ 380,423
Building Rent	15,000	12,765	12,765	-	13,556
Lease Payment	55,000	55,000	55,000	-	55,000
Gate Receipts and Concessions	71,500	74,774	74,774	-	75,104
Other	12,000	10,143	10,143	-	10,845
Grants and Contributions	50,000	50,000	50,000	-	50,000
Investment Earnings (Loss)	-	-	-	-	(3,364)
Refunds and Reimbursements	-	1,522	1,522	-	400
Miscellaneous	1,500	1,254	1,254	-	1,200
Total Revenues	619,910	592,840	592,840	-	583,164
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	236,501	228,702	231,508	(2,806)	224,667
Maintenance and Repair	40,000	55,141	55,141	-	34,639
Utilities	168,000	179,833	179,833	-	165,212
Other	58,225	55,570	55,554	16	59,790
Insurance	12,500	11,265	11,265	-	10,359
Interest Expense	3,000	3,828	3,827	1	-
Lease Rent Payments	238,708	238,708	238,708	-	243,535
Capital Outlay	16,680	15,475	15,475	-	17,316
Total Expenditures	773,614	788,522	791,311	(2,789)	755,518
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(153,704)	(195,682)	(198,471)	(2,789)	(172,354)
OTHER FINANCING SOURCES (USES)					
Transfer In	50,000	50,000	50,000	-	75,462
Insurance Proceeds	-	16,315	16,315	-	-
Total Other Financing Sources (Uses)	50,000	66,315	66,315	-	75,462
NET CHANGE IN FUND BALANCE	<u>\$ (103,704)</u>	<u>\$ (129,367)</u>	(132,156)	<u>\$ (2,789)</u>	(96,892)
Fund Deficit - Beginning of Year			(2,832,875)		(2,735,983)
FUND DEFICIT - END OF YEAR			<u>\$ (2,965,031)</u>		<u>\$ (2,832,875)</u>

**CITY OF BUFFALO, MINNESOTA
AIRPORT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013)**

	2014				2013
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ 20,284	\$ -	\$ -	\$ -	\$ 171
Intergovernmental:					
Federal Grants	-	164,411	204,089	39,678	480,577
State Aid and Grants	9,028	9,931	42,166	32,235	9,028
Total intergovernmental	9,028	174,342	246,255	71,913	489,605
Charges for Services	427,920	315,570	315,570	-	397,226
Investment Earnings (Loss)	(300)	27	30	3	(579)
Refunds and Reimbursement	-	3	3	-	-
Total Revenues	456,932	489,942	561,858	71,916	886,423
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	35,359	28,769	28,769	-	23,946
Other	375,656	290,353	292,687	(2,334)	326,548
Capital Outlay	-	192,295	202,111	(9,816)	61,978
Debt Service:					
Principal	-	90,000	-	90,000	18,594
Total Expenditures	411,015	601,417	523,567	77,850	431,066
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	45,917	(111,475)	38,291	149,766	455,357
OTHER FINANCING SOURCES					
Transfer In	50,000	50,000	50,000	-	50,000
NET CHANGE IN FUND BALANCE	<u>\$ 95,917</u>	<u>\$ (61,475)</u>	88,291	<u>\$ 149,766</u>	505,357
Fund Deficit - Beginning of Year			(174,197)		(679,554)
FUND DEFICIT - END OF YEAR			<u>\$ (85,906)</u>		<u>\$ (174,197)</u>

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**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**CITY OF BUFFALO, MINNESOTA
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2014
(UNAUDITED)**

Market Valuation		<u>\$ 1,029,074,928</u>
Debt Limit - 3% of Market Valuation		\$ 30,872,248
Total Indebtedness	<u>\$ 94,361,559</u>	
Less:		
Other Deductions Allowed by Law:		
(1) Obligations Payable Wholly or Partly from Special Assessments	1,975,000	
(2) Obligations Issued for Acquisition and Improvement of Public Utilities and Conveniences from Which Revenue may be Derived	60,164,805	
(3) Obligations Payable Wholly from the Income from Revenue Producing Conveniences	<u>6,426,754</u>	
Total Deductions	<u>68,566,559</u>	
Total Amount of Debt Applied Against Debt Limit		<u>25,795,000</u>
Legal Debt Margin		<u>\$ 5,077,248</u>

CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2014
(UNAUDITED)

Year of Levy for Collection in the Following Year	General Obligation Street Reconstruction Bonds of 2008 Series 2008D	General Obligation Refunding Bonds of 2009 Series 2009D	General Obligation Improvement Bonds of 2010 Series 2010A	General Obligation Improvement Bonds of 2010 Series 2010C
2015	\$ 240,004	\$ 121,364	\$ 54,783	\$ 419,268
2016	246,304	142,364	53,366	181,233
2017	241,395	152,234	51,949	178,516
2018	-	387,476	55,781	191,127
2019	-	510,024	54,206	187,168
2020	-	507,058	-	188,322
2021	-	513,726	-	178,679
2022	-	519,120	-	179,492
2023	-	1,288,560	-	190,423
2024	-	-	-	263,660
2025	-	-	-	265,655
2026	-	-	-	267,026
Total	<u>\$ 727,703</u>	<u>\$ 4,141,926</u>	<u>\$ 270,085</u>	<u>\$ 2,690,569</u>

General Obligation Capital Improvement Refunding Bonds of 2011 Series 2010A	General Obligation Refunding Bonds of 2012 Series 2012B	General Obligation Bonds of 2013 Series 2013A	Total
\$ 734,740	\$ 249,358	\$ 430,080	\$ 2,249,597
740,226	144,463	433,335	1,941,291
738,646	141,313	420,630	1,924,683
735,601	117,810	418,530	1,906,325
741,229	-	416,325	1,908,952
745,030	-	408,765	1,849,175
747,261	-	406,455	1,846,121
741,906	-	398,790	1,839,308
-	-	401,625	1,880,608
-	-	-	263,660
-	-	-	265,655
-	-	-	267,026
<u>\$ 5,924,639</u>	<u>\$ 652,944</u>	<u>\$ 3,734,535</u>	<u>\$ 18,142,401</u>

CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS
DECEMBER 31, 2014
(UNAUDITED)

Fiscal Year	Rates*	Valuations*	Total Certified Tax Levy	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1979	10.79	\$ 11,576,236	\$ 124,965	\$ 127,813	102.28 %
1980	12.37	13,819,727	170,964	171,623	100.39
1981	13.75	16,142,519	222,028	216,132	97.34
1982	13.48	18,498,138	249,384	237,056	95.06
1983	21.40	20,013,461	428,288	426,538	99.59
1984	30.28	19,549,847	592,002	574,495	97.04
1985	30.29	19,875,866	601,578	626,693	104.17
1986	28.36	21,284,079	603,732	616,448	102.11
1987	28.46	21,224,993	604,000	607,569	100.59
1988	29.86	22,242,558	664,241	651,950	98.15
1989	21.25	2,153,956	619,264	619,661	100.06
1990	18.48	2,233,832	706,246	695,092	98.42
1991	19.05	2,497,205	757,899	763,959	100.80
1992	21.04	2,565,265	838,848	849,162	101.23
1993	22.96	2,648,066	924,195	935,044	101.17
1994	22.08	2,735,764	924,125	929,228	100.55
1995	19.25	3,220,130	940,099	937,697	99.74
1996	18.95	3,680,238	1,007,952	1,009,108	100.11
1997	19.34	4,252,834	1,136,543	1,151,823	101.34
1998	28.60	4,246,436	1,214,359	1,240,000	102.11
1999	30.11	4,423,493	1,331,844	1,424,922	106.99
2000	26.91	5,019,161	1,350,600	1,395,899	103.35
2001	22.39	5,672,315	1,269,863	1,342,795	105.74
2002	24.62	5,287,909	1,302,028	1,351,822	103.82
2003	24.18	6,244,335	1,510,102	1,570,238	103.98
2004	28.22	7,344,065	2,072,633	2,121,480	102.36
2005	24.46	8,585,484	2,100,000	2,123,057	101.10
2006	23.68	11,518,870	2,727,940	2,704,890	99.16
2007	23.61	13,380,144	3,159,243	3,289,327	104.12
2008	25.40	14,500,710	3,648,829	3,785,027	103.73
2009	28.77	14,520,075	4,412,674	4,370,571	99.05
2010	35.99	13,522,253	5,303,837	4,978,294	93.86
2011	38.45	12,379,321	5,283,937	5,025,618	95.11
2012	47.08	11,075,696	5,731,862	5,670,074	98.92
2013	51.81	10,280,667	5,811,712	5,621,583	96.73
2014	49.89	10,624,202	5,812,783	5,878,026	101.12

* Amounts from Wright County's Auditors office.

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

OTHER REPORT SECTION

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo (the City), Minnesota, as of December 31, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 1, 2015.

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

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

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



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 1, 2015

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CITY OF BUFFALO, MINNESOTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR
ENDED DECEMBER 31, 2014 AND INDEPENDENT AUDITORS'
REPORTS AS REQUIRED BY *GOVERNMENT AUDITING*
STANDARDS AND OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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 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), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified one deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

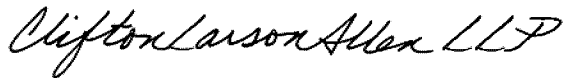
As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

City of Buffalo's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the city's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Buffalo's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 1, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Buffalo's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

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

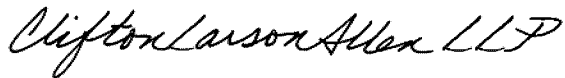
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 1, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Buffalo, Minnesota
June 1, 2015

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**CITY OF BUFFALO, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE		
Federal Direct		
Bulletproof Vest Partnership Program	16.607	\$ 1,318
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	201,664
Highway Planning and Construction	20.205	<u>756,498</u>
Total Department of Transportation		958,162
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Department of Commerce		
Low-Income Home Energy Assistance	93.568	<u>122,490</u>
Total Federal Awards		<u><u>\$ 1,081,970</u></u>

Notes to Schedule of Expenditures of Federal Awards:

- Note 1: The Schedule of Expenditures of Federal Awards presents the activity of federal awards expended by the City of Buffalo. The information presented in this schedule is presented in accordance with requirements of the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's financial statements.
- Note 2: The expenditures on this schedule are on the basis of accounting used by the individual funds of the City, which is described in Note 1 to the basic financial statements of the City. Governmental funds use the modified accrual basis of accounting and the Proprietary funds use the accrual basis of accounting.
- Note 3: No federal grant dollars have been passed-through to subrecipients.
- Note 4: Pass-through grant numbers were not assigned by the pass-through agencies.

**CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014**

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Buffalo (the City), Minnesota.
2. One deficiency in internal control was disclosed by the audit of the basic financial statements of the City and it is reported in the "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*". Finding 2014-001 is considered a material weakness.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs for the City that were required to be reported in the "Independent Auditors' Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Federal Program, on Internal Control Over Compliance, and on the Schedule of Federal Awards in Accordance with OMB Circular A-133".
5. The auditors' report on compliance for the major federal award programs for the City expresses an unmodified opinion.
6. The audit disclosed a finding that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program includes:
 - Highway Planning and Construction CFDA No. 20.205
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City did not qualify, under federal guidelines, as a low-risk auditee.

**CITY OF BUFFALO, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

2014-001 Material Audit Adjustments

Statement of Condition: As part of the audit, we proposed material audit adjustments, including recording additional contracts payable, adjusting compensated absences liability, transferring self-insurance activity into internal service fund, recording capitalized interest, and reclassifying unspent bond proceeds into correct fund.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: The design of the internal controls over recording adjusting entries could affect the City's ability to detect or prevent material misstatements.

Cause of Condition: The City has limited resources.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording transactions and accruals and develop internal control policies to ensure proper recording of these items.

Management Response: The City has evaluated the processes in place regarding the processing of year-end adjustments. As a result the City has adjusted a few of the procedures that are currently in place to ensure that the necessary adjustments are made prior to the audit.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

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