

CITY OF BUFFALO
URBAN RENEWAL AGENCY

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014
WITH
INDEPENDENT AUDITORS' REPORT

CITY OF BUFFALO URBAN RENEWAL AGENCY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency ("BURA"), a component unit of the City of Buffalo, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise BURA'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.

Auditor's 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 auditor's 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 entity'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 entity'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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BURA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of BURA. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of BURA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Done: D'Arango LLP

Buffalo, New York
October 23, 2014

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

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

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

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

Financial Highlights

- At June 30, 2014, BURA's net assets totaled (\$6,311,174) and are comprised entirely of governmental net assets.
- Net assets of BURA's governmental activities increased by \$6,315,026, which resulted from ongoing activities, and prior period adjustments of \$7,167,198. Ongoing activities resulted in a decrease in net assets of \$852,172. See further explanation of the prior period adjustment later in the Management's Discussion and Analysis.
- The general fund (which is used only to account for non-federal grants and non-grant activity) has a fund balance of \$2,350,197 including long-term receivables of \$3,467,322 and unrestricted net assets of \$2,350,197.

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

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 - 14) provide information about BURA's activities as a whole and present a longer-term view of BURA's finances. Fund financial statements start on page 15. For governmental activities, the fund financial statements explain how these services were financed in the short term. Fund financial statements also report BURA's operations in more detail than the component unit-wide financial statements by providing information about BURA's most significant funds.

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

The component unit-wide financial statements are designed to provide a long-term view. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets combines and consolidates the governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, while the Statement of Activities shows the changes in net assets during the year.

These two statements report BURA's net assets and changes to them. BURA's net assets, the difference between assets and liabilities, is one way to measure BURA's financial position at a given point in time. Over time, increases or decreases in net assets are one indicator of whether BURA's financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, management has historically presented BURA's governmental activities, consisting of various economic and neighborhood development projects. These are primarily funded by certain Federal, state and local grants to the City, which are administered by BURA. Program income generated by the grant programs is another source of revenue used to pay for such projects.

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

Management's analysis of BURA's major funds begins on page 9. The fund financial statements have detailed information about the most significant funds, not about BURA as a whole.

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

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

Governmental funds focus on how money flows into and out of the funds and the balances that are left available at year end to be spent. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of BURA's operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance BURA's programs. Management describes the relationship and differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations on pages 17 and 19.

BURA as a Whole

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets as of June 30, 2014 and 2013.

	As of June 30,	
	2014	2013
Current and Other Assets	\$ 15,270,172	\$ 15,271,176
Capital Assets	3,164,246	3,332,780
Total Assets	18,434,418	18,603,956
Other Liabilities	6,706,252	6,219,692
Long-Term Debt	6,025,000	6,025,000
OPEB Liability	12,014,340	11,818,266
Total Liabilities	24,745,592	24,062,958
Net Assets:		
Invested in Capital Assets	3,164,246	3,332,780
Restricted	747,452	1,184,265
Unrestricted (Deficit)	(10,222,872)	(9,976,047)
Total Net Assets	\$ (6,311,174)	\$ (5,459,002)

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

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

Recognition of the liability accumulated from prior years is being amortized over 30 years, commencing with the 2008 liability. Because of mortality and changes in the employment levels at BURA, the entire OPEB liability has now been recognized before the full 30 year amortization period. A total of \$12,014,340 is recorded as the OPEB liability in the Statement of Net Assets at June 30, 2014.

The unreserved deficit in BURA's governmental activities of \$10,222,872 as compared to the government fund equity of \$3,998,496 is primarily due to Long-term receivables of \$2,645,000, the recognition of \$6,025,000 in Long-term debt from loans borrowed under the Federal Section 108 Loan Program ("Section 108 Loans") and the recognition of \$12,014,340 of the OPEB liability.

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

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

Statement of Activities

The following table reflects the changes in net assets for the years ended June 30, 2014 and 2013:

	Years Ended June 30,	
	2014	2013
Revenues		
Federal Grants	\$ 47,366,270	\$ 38,075,761
New York State Grants	72,291	1,188,713
Repayment of Program Loans	1,698,117	583,296
Sales of Real Estate	404,456	-
Rental Income	544,567	285,072
Interest Income	555,033	364,911
Return of Program Income	(1,616,199)	(332,102)
	<u>49,024,535</u>	<u>40,165,651</u>
Expenses		
Public Facilities and Site Improvements	-	461,491
Clearance Activities	-	665,602
Public Services and Human Services Rehabilitation and Preservation Activities	38,675,007	27,812,894
Including Grants and Loans	4,622,699	2,178,476
Economic Development Activities Including Grants and Loans	571,293	5,798,668
Interest on Debt	318,374	356,002
Planning, Management and Administration	5,493,260	3,009,166
OPEB Expense	196,074	2,337,956
	<u>49,876,707</u>	<u>42,620,255</u>
Decrease in Net Assets	<u>\$ (852,172)</u>	<u>\$ (2,454,604)</u>

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

Capital Assets

BURA's capital assets at June 30, 2014 and 2013 are detailed below.

	Years Ended June 30,	
	2014	2013
Parks	\$ 15,552	\$ 15,552
Building	7,223,998	7,223,998
Furniture & Fixtures	75,868	75,868
Equipment	532,127	532,127
Vehicles	105,558	105,558
	<u>\$ 7,953,103</u>	<u>\$ 7,953,103</u>

BURA does not own infrastructure assets like roads, bridges or sewers. The most significant capital assets owned by BURA include the Market Arcade Complex ("MAC") and the Market Arcade Cinema ("the Cinema"). BURA assesses long-lived assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of an asset is greater than the fair value and the amount may not be recoverable. BURA recognized a loss on impairment of capital assets, including the MAC and the Cinema, totaling \$5,266,449 for the year ended June 30, 2013. Impairment expense is included in Economic Development Activities Including Grants and Loans on the statement of activities. There was no impairment recognized during the year ended June 30, 2014.

During the year ended June 30, 2014, a prior period adjustment was recorded to beginning net assets in the net amount of \$7,167,198. This adjustment was to correct an error. In previous years, encumbrances were shown on the statement of net assets as long-term liabilities. Encumbrances do not represent incurred liabilities under the economic measurement principles used to prepare government wide financial statements and as such, Net Assets as of July 1, 2013 have been restated from (\$12,626,200) to (\$5,459,002) to account for the correction of this error.

Debt

As of June 30, 2014, BURA had \$6,025,000 in loans outstanding as compared to \$7,290,000 as of June 30, 2013, a decrease of \$1,265,000.

BURA continues to collect and remit payments from loan recipients under the Section 108 Loan program, and to make payments on its own loans and on behalf of recipients in default. Loans in default totaled \$3,405,000 at June 30, 2014. Of the remaining \$6,025,000 of Section 108 loan principal due, \$2,720,000 million is to be repaid by BURA and the remaining \$3,305,000 is due from developers. The terms of the loans vary, with repayment schedule over the next five years.

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

Governmental Activities

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

Revenues for BURA's governmental activities increased by \$8,858,884 or 22.1%. The increase in revenues was brought about primarily as a result of the increase in grant funds awarded to BURA under the terms of the subrecipient agreements that were entered into during the year ended June 30, 2014. These agreements are discussed in the Grant Highlights section of this report.

During the year ended June 30, 2014, the unreserved fund balance for governmental activities increased by \$6,315,026 (from (\$12,626,200) to (\$6,311,174)). This increase is attributable to ongoing activities and a prior period adjustment to beginning net assets in the amount of \$7,167,198.

Grant Highlights

BURA's main source of revenue for governmental activities is grant funds provided to the City annually by the United States Department of Housing and Urban Development ("HUD"). The grant periods begin October 1 of each year and most BURA grants generally do not expire until funds are expended. Certain grants do have statutory terms, which require the use of funds within a specified time period. The Housing Opportunities Made Equal ("HOME") regulations require that funds be expended within five years of the date of the awards; similarly, the Emergency Solutions Grant ("ESG") and Housing Opportunities for People with Aids ("HOPWA") grants have two and three year grant periods, respectively.

In December, 2012 BURA entered into formal subrecipient agreements ("the Agreements") with the City as a result of a mandate issued by HUD which requires entitlement funds be received directly by the City beginning with the 2012 federal grant year, which began May 1, 2012. The Agreements, as amended, are contracts with the City which allows BURA to administer and provide program delivery services for the CDBG, HOME, ESG and HOPWA programs. The current agreement, as amended, expires on September 30, 2015.

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

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

Grant Highlights - Continued

The following grant awards were provided by HUD over the past five years:

	2014	2013	2012	2011	2010
CDBG	\$ 5,199,857	\$ 13,423,963	\$ 13,319,409	\$ 14,540,753	\$ 17,409,073
HOME	2,711,001	2,627,890	2,772,819	4,476,638	5,073,088
ESG	64,546	971,690	1,259,191	705,316	705,483
HOPWA	16,209	524,721	550,703	567,151	565,329
	<u>\$ 7,991,613</u>	<u>\$ 17,548,264</u>	<u>\$ 17,902,122</u>	<u>\$ 20,289,858</u>	<u>\$ 23,752,973</u>

The 2014 funds in the table above reflect only the portion allocated by the City of Buffalo to BURA under the subrecipient agreement entered into during December 2013. For all prior years, the entire Buffalo allocation of grant funds is presented.

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

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

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

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

Economic Factors and Next Year’s Grant Information

To generate the greatest impacts from dwindling grant funds, BURA works with the City to focus redevelopment efforts on neighborhoods that exhibit one or more of the following characteristics:

- Are near emerging employment and economic development engines that can serve as a stabilizing influence;
- Have developed a cohesive network of community-based and institutional support and have secured and leveraged funding to support their efforts.

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

Economic Factors and Next Year's Grant Information (Continued)

Federal funding will serve all low to moderate-income areas, but additional consideration will be given to projects within or adjacent to neighborhoods and corridors identified by the Better Buffalo Fund – Black Rock, West Side, Lower West Side, Perry Choice, Pratt-Willert, Fruit Belt, Cold Spring, Masten Park, Hamlin Park, Fillmore-Leroy, and Buffalo Promise. The City will reassess these areas annually, to respond to new funding opportunities and investments, and to make adjustments if funding opportunities fail to materialize.

Two significant neighborhood revitalization initiatives that are separately funded or seeking funds include the Buffalo Promise Neighborhood (“BPN”) and the Perry Choice Neighborhood (“PCN”).

The Buffalo Promise Neighborhood is located in the northeast section of the City; and is bounded by Winspear Avenue on the north, Eggert Road on the east, Amherst Street and Kensington Avenue on the south, and Main Street on the west.

The BPN was created in 2010 as a collaborative effort led by the Westminster Foundation, with the goal of providing a continuum of solutions to children from the cradle through college and career. BPN was selected by the Department of Education to receive both planning and implementation grants under the Promise Neighborhood program. This funding was used to develop a comprehensive neighborhood revitalization strategy, which BPN is now beginning to implement. The City has already committed significant funds to neighborhood improvements within this area.

The Perry Choice Neighborhood is located to the east of downtown, and is bounded by William Street to the north, Smith Street to the east, South Park Avenue to the south, and Michigan Avenue to the west. PCN has been targeted since it received a Choice Neighborhoods planning grant from HUD. If the project is awarded an implementation grant, the City will be required to devote a percentage of its annual CDBG funding to the PCN.

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

Contacting BURA's Financial Management

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2014**

	<u>Governmental Activities</u>
Assets	
Restricted Cash (Note 6)	\$ 747,452
Receivables, Net	
Due Within One Year	1,544,774
Due in More Than One Year	2,645,000
Due from federal Government	6,995,493
Due from City of Buffalo (Note 3)	2,081,184
Due from Other Governmental Units	187,191
Construction in Progress (Note 9)	247,561
Real Estate Acquired for Resale, at Cost	821,517
Capital Assets, Net of Accumulated Depreciation	<u>3,164,246</u>
Total Assets	\$ 18,434,418
Liabilities	
Accounts Payable and Accrued Expenses	\$ 6,599,750
Due to Federal Government	95,520
Deferred Grant Revenue	10,982
Long-Term Liabilities	
Due Within One Year	2,155,000
Due in More than One Year	3,870,000
Other Non Current Liabilities	
OPEB Liability (Note 5)	<u>12,014,340</u>
Total Liabilities	24,745,592
Net Assets	
Invested in Capital Assets	3,164,246
Restricted Assets	747,452
Unrestricted / (Deficit)	<u>(10,222,872)</u>
Total Net Assets	(6,311,174)
Total Liabilities and Net Assets	\$ 18,434,418

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue and Changes in Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Community Development	\$ 49,876,707	\$ 49,024,535	\$ -	\$ (852,172)
Total Governmental Activities (Note 1)	<u>49,876,707</u>	<u>49,024,535</u>	<u>-</u>	<u>(852,172)</u>
Business-Type Activities:				
Total Business-Type Activities	-	-	-	-
	<u>\$ 49,876,707</u>	<u>\$ 49,024,535</u>	<u>\$ -</u>	<u>(852,172)</u>
Net Assets - Beginning, as previously reported				(12,626,200)
Prior Period Adjustment - correction of an error (Note 10)				<u>7,167,198</u>
Net Assets - Beginning, as restated				<u>(5,459,002)</u>
Net Assets - Ending				<u>\$ (6,311,174)</u>

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

Assets:	Special Revenue Funds						Total Governmental Funds	
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs		Eliminations
Restricted Cash	\$ 21,635	\$ 402,596	\$ -	\$ -	\$ 218,922	\$ 104,299	\$ -	\$ 747,452
Receivables:								
Program Loans Receivable	-	17,719,329	660,000	-	-	56,442,257	-	74,821,586
Notes Receivable	3,467,322	-	-	-	-	-	-	3,467,322
Advances to Subgrantees	-	-	-	-	-	10,629	-	10,629
Other Receivables	-	-	-	-	-	5,000	-	5,000
Allowance for Uncollectibles	(2,598,179)	(17,719,329)	-	-	-	(56,442,257)	-	(76,759,763)
Due from Other Funds	3,046,955	393,787	1,732,143	-	-	3,169,405	-	6,995,493
Due from Federal Government	490,852	4,432,322	1,067	1,067	639	2,070,615	-	2,081,184
Due (to) from City of Buffalo	(6,307)	1,428,868	-	-	-	658,623	-	187,191
Due from Other Governmental Units	35,854	8,151	143,186	-	-	-	-	247,561
Construction in Progress	247,561	-	-	-	-	-	-	-
Real Estate Acquired for Resale, at Cost	-	821,517	-	-	-	-	-	821,517
Total Assets	\$ 4,705,693	\$ 7,487,241	\$ 2,535,329	\$ 1,067	\$ 219,561	\$ 6,018,571	\$ (8,342,290)	\$ 12,625,172

Liabilities and Fund Equity / (Deficit)	Special Revenue Funds						Total Governmental Funds	
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs		Eliminations
Liabilities:								
Accounts Payable and Accrued Expenses	\$ 267,292	\$ 3,699,505	\$ 380,329	\$ 982	\$ 965	\$ 2,016,101	\$ -	\$ 6,365,174
Due to Federal Government	-	95,520	-	-	-	-	-	95,520
Due to Other Funds	2,088,204	2,083,981	-	1,428	213,601	3,955,076	(8,342,290)	-
Deferred Grant Revenue	-	-	-	-	-	10,982	-	10,982
Current Portion of Long-Term Debt	-	-	2,155,000	-	-	-	-	2,155,000
Total Liabilities	2,355,496	5,879,006	2,535,329	2,410	214,566	5,982,159	(8,342,290)	8,626,676

(Continued)

**CITY OF BUFFALO URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2014**

	Special Revenue Funds						Total Governmental Funds
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs	
Liabilities and Fund Equity / (Deficit) - Cont'd.							
Fund Equity:							
Fund Balances							
Nonspendable:							
Land Acquired for Resale	\$ -	\$ 821,517	\$ -	\$ -	\$ -	\$ -	\$ 821,517
Committed to:							
Community Development	-	786,718	-	-	-	-	786,718
Other	-	-	-	(1,343)	4,995	36,412	40,064
Unassigned	2,350,197	-	-	-	-	-	2,350,197
Total Fund Equity / (Deficit)	2,350,197	1,608,235	-	(1,343)	4,995	36,412	3,998,496
Total Liabilities and Fund Equity / (Deficit)	\$ 4,705,693	\$ 7,487,241	\$ 2,535,329	\$ 1,067	\$ 219,561	\$ 6,018,571	\$ 12,625,172

See accompanying notes to basic financial statements.

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

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

Capital assets are expensed as capital outlays in the Governmental Fund Balance Sheet whereas they are recorded at historical cost and depreciated in the Statement of Net Assets. Long-term receivables, notes payable, and other payables are not reported in the Governmental Fund Balance Sheet but they are recorded in the Statement of Net Assets.

Balances at June 30, 2014 were:

Long-Term Receivable - Section 108	\$ 2,645,000
Capital Assets, Net of Depreciation	3,164,246
Compensated Absences	(234,576)
Long-Term Debt - Section 108	(3,870,000)
OPEB Liability	<u>(12,014,340)</u>
Combined Adjustment	(10,309,670)
Total Fund Equity - Total Governmental Funds, June 30, 2014	<u>3,998,496</u>
Net Assets of Governmental Activities	<u>\$ (6,311,174)</u>

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds						Total Governmental Funds
	General	Community Development Block Grants	Section 108 Loan Program	Section 8 Housing Program	HOME Ownership Zone Program	Other Programs	
Revenues	\$	\$	\$	\$	\$	\$	\$
Federal Grants	72,291	8,445,323	-	31,382,412	-	8,198,535	48,026,270
New York State Grants	-	-	-	-	-	-	72,291
Repayment of Program Loans	-	1,527,934	-	-	5,832	164,351	1,698,117
Sales of Real Estate	404,456	-	-	-	-	-	404,456
Rental Income	544,567	-	-	-	-	-	544,567
Interest Income	10,522	212,930	318,374	-	128	13,079	555,033
Other Income (Expense)	124,517	(1,740,866)	-	-	-	150	(1,616,199)
Expenditures	1,156,353	8,445,321	318,374	31,382,412	5,960	8,376,115	49,684,535
Current							
Public Services and Human Service Programs	-	-	-	31,353,886	-	7,819,849	39,173,735
Rehabilitation and Preservation Activities, Including Grants and Loans	72,290	4,550,409	-	-	-	-	4,622,699
Economic Development Activities, Including Grants and Loans	571,293	-	-	-	-	-	571,293
Interest on Loans	-	-	318,374	-	-	-	318,374
Planning, Management and Administration	466,418	4,419,411	-	29,869	965	576,397	5,493,260
Total Expenditures	1,110,001	8,969,820	318,374	31,383,755	965	8,396,446	50,179,361
Excess/(Deficiency) of Revenues Over Expenditures	46,352	(524,499)	-	(1,343)	4,995	(20,331)	(494,826)
Other Financing Sources / (Uses):							
Transfer of Long-Term Debt	-	(1,436,823)	-	-	-	-	(1,436,823)
Excess/(Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	46,352	(1,961,322)	-	(1,343)	4,995	(20,331)	(1,931,649)
Fund Balances, June 30, 2014	\$ 2,350,197	\$ 1,608,235	\$ -	\$ (1,343)	\$ 4,995	\$ 36,412	\$ 3,998,496

See accompanying notes to basic financial statements.

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

Capital assets and land inventory are expensed when incurred in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; whereas capital assets and land inventory are capitalized and, where applicable, depreciated for in the Statement of Activities. Repayment of long-term debt is expensed in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances whereas they are recorded as a reduction of long-term debt in the Statement of Net Assets.

Net Change in Fund Balances – Total Governmental Funds	\$	(1,931,649)
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Amounts Reported for Change in Net Assets of Governmental Activities over /
(under) Amounts Reported for Net Change in Fund Balances:

Long – Term Notes Receivable – Section 108		(660,000)
Depreciation		(168,534)
Changes in Long-Term Debt		2,155,000
OPEB Expenses		(196,074)
Compensated Absences		(50,915)
		(852,172)
Change in Net Assets of Governmental Activities	\$	(852,172)

See accompanying notes to basic financial statements.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 – Description of the Entity

The City of Buffalo Urban Renewal Agency (“BURA”) is a public benefit corporation, which was formed by an act of the New York State Legislature in 1966. Its corporate purpose includes the general planning and operation of various urban renewal programs designed to prevent or eliminate blight and deterioration in the Buffalo, New York urban area (“the City”). Such programs include real estate acquisition and clearance; relocation of businesses and individuals displaced by urban renewal activities; design and construction of site improvements and public facilities; provision of grants and loans to facilitate rehabilitation of residential and business properties, and other programs designed to stimulate urban economic growth and to revitalize urban neighborhoods.

As required by the legislation which created the entity, BURA’s members consist chiefly of City governmental officials. Most of the funding for the various programs conducted by BURA is obtained from the Federal government, through the City. In effect, BURA acts as an agent of the City in carrying out its urban renewal activities. Because of its close administrative and financial relationship with the City, BURA is considered to be a component unit of the City for financial reporting purposes, and the financial information presented herein for BURA alone is to be presented within the City’s basic financial statements as of June 30, 2014 and for the year then ended.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation – Fund Accounting

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

BURA funds are grouped into two broad fund categories for financial statement presentation. Governmental funds include general and special revenue funds. Proprietary funds include enterprise funds. During the year ended June 30, 2014, BURA had no proprietary funds.

Basis of Accounting

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – Summary of Significant Accounting Policies - Continued

Component Unit-Wide Financial Statements

The component unit-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all activities of BURA.

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

The component unit-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of BURA and for each governmental program. Program revenues include charges paid by the recipients for the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors and laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

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

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – Summary of Significant Accounting Policies – Continued

Basis of Accounting - Continued

The major governmental funds are:

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

Budgets and Budgetary Accounting

BURA follows specified procedures in establishing budgetary controls over its revenues and expenditures. These controls relate solely to the Community Development Block Grant ("CDBG"), HOME Investment Partnership, ESG and Housing Opportunities for Persons with Aids ("HOPWA") grant programs which are funded annually by the U.S. Department of Housing and Urban Development ("HUD") under Metropolitan Entitlement grants. Expenditures for these programs are budgeted over the entitlement program year which commences on October 1 and ends on September 30 of the following year.

Appropriations of funds do not lapse at the close of the program year, but remain available for expenditure until the budgeted projects are completed, at which time any unexpended funds may be reprogrammed in accordance with HUD guidelines. The following outlines the budgetary process for these entitlement funds.

- An allocation plan is developed annually by the Office of Strategic Planning ("OSP") of the City, taking into consideration citizens' comments received at a public hearing.
- An annual allocation plan is presented by the Mayor to the City of Buffalo Common Council ("Common Council") approximately sixty days prior to the commencement of the program year.
- The Common Council holds additional public hearings and considers the proposed allocation plan, and provides advisory comments to the Mayor.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – Summary of Significant Accounting Policies – Continued

Budgets and Budgetary Accounting - Continued

- Upon approval of the annual allocation plan by the Mayor, the plan is approved by the BURA board. An application based on the plan is submitted to HUD approximately forty-five days prior to the commencement of the program year. HUD then forwards entitlement grant contracts to the City for execution by the City.
- The detailed budget for the various projects and for the administrative costs of the program is prepared by OSP in conjunction with other City departments affected.
- The administrative budget is submitted annually to the members of BURA for approval.
- Contracts for work on individual HOME projects are approved separately by the members of BURA at regular and special meetings held throughout the year.
- Budgeted amounts and contract encumbrances are recorded and integrated with the program expenditure records as a management control device.
- Budgets for the entitlement programs do not expire at the end of the fiscal year but continue in force until all grant funds are expended, or the grant regulatory period expires, whichever comes first.
- Budgets for projects funded by sources other than HUD entitlement grants are generally an integral part of the respective grant contracts and are processed internally by management.

Since BURA's budgets are programmatic and are designed to cover several fiscal years, a fiscal period budgetary comparison has not been included in the general-purpose financial statements at June 30, 2014.

Subrecipient Agreements

During the year ended June 30, 2014, the City and BURA entered into subrecipient agreements ("the Agreements") regarding the CDBG, ESG, HOME and HOPWA entitlement program ("the Programs").

The Agreements, as amended, generally require BURA to administer and provide planning, administration and implementation services for the Programs. They also require BURA to remit program income generated by the Programs to the City on a periodic basis. During the year ended June 30, 2014, BURA remitted a total of \$1,897,230 of program income to the City. The Agreements, as amended, expire on September 30, 2014.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – Summary of Significant Accounting Policies – Continued

Encumbrances

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

BURA, for budgetary control purposes, accounts for encumbrances as a charge against appropriations and does not distinguish the portion of encumbrances that represent liabilities for goods or services received but not paid for at the balance sheet date. For financial statement purposes, these encumbrances are segregated into the portion that represents an outstanding liability for goods or services received versus a commitment for goods and services not received. The amounts representing goods or services received are shown in the financial statements as accounts payable and are included in expenditures, while the amounts representing commitments are shown as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year do not lapse. During the year ended June 30, 2014, BURA did not track encumbrances other than those that represented an outstanding liability at year end. As such, there is no reservation of fund balance for encumbrances.

Real Estate Inventory

In the course of conducting its urban renewal activities, BURA acquires real property for use in future urban renewal projects. This property is recorded at historical cost at the time of purchase. BURA uses the purchase method for recording real estate inventory transactions, which requires a corresponding reservation of fund balance in the governmental fund purchasing the asset. In accordance with GASB 54, real estate acquired for resale is shown as a nonspendable reservation of fund balance.

Long-Term Advances and Receivables

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

Capital Assets (Governmental Activities)

Governmental capital assets, recorded at the lower of cost or fair market value, as of June 30, 2014 are summarized as follows:

CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 – Summary of Significant Accounting Policies – Continued

Capital Assets (Governmental Activities) - Continued

<u>Function and Activity</u>	<u>Total</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>
Economic Development				
Administration	\$ 7,928,237	\$ 7,223,998	\$ 598,681	\$ 105,558
General				
Administration	24,866	-	24,866	-
Governmental Capital				
Assets	7,953,103	7,223,998	623,547	105,558
Less: Accumulated Depreciation	(4,788,857)	(4,059,752)	(623,547)	(105,558)
	<u>\$ 3,164,246</u>	<u>\$ 3,164,246</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended June 30, 2014 depreciation in the amount of \$168,534 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 50 years.

Post-Employment Benefits Other Than Pensions

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

Compensated Absences

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – Summary of Significant Accounting Policies – Continued

Compensated Absences - Continued

Unused sick leave accumulates, but may only be used to compensate for actual time off for medical or other defined reasons. However, it is BURA's policy to compensate retiring employees for unused accumulated sick pay on a reduced basis. BURA has reflected the June 30, 2014 liability for accumulated earned, but unpaid, employee vacation time in the amount of \$50,915 in its Statement of Net Assets and Statement of Activities. Other compensated absences, which are not vested in the employees, are accounted for on a cash basis.

Note 3 – Related Party Transactions

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

Other program activities funded by BURA are conducted by two related public benefit entities, the Buffalo Economic Renaissance Corporation ("BERC") and the Buffalo Neighborhood Revitalization Corporation ("BNRC"). These entities receive loans or grants from BURA under the CDBG program, the Section 108 Loan program, as well as various New York State grant programs, and, in turn, loan or grant funds to qualifying individuals and businesses for purposes of property rehabilitation, home acquisitions for low income individuals, or business development and expansion. For the year ended June 30, 2013, no loans or grants were provided by BURA to BERC or BNRC. Under subrecipient agreements with BERC and BNRC, certain program income (such as loan repayments and interest) earned through the CDBG program may generally be retained as supplemental BURA funding, subject to applicable Federal regulations. The subrecipient agreements with these entities also provide that, upon termination of the subrecipient agreements, all unused program income, and any CDBG assets held by BERC and BNRC will revert to BURA.

In 2010, the City notified BERC that effective May 1, 2010 the subrecipient agreements between BERC and BURA had expired. Additionally, BURA demanded the return of any unexpended program income. In order to ensure that any such program income is returned to BURA, BERC established an escrow account in the initial amount of \$800,000 and an agreement was reached whereby BERC would transfer to BURA such program income, if any, from real estate operations. Furthermore, BERC was required to transfer control of its CDBG loans to BURA during the year ended June 30, 2012. The outstanding balance of these loans as of June 30, 2014 is \$4,174,290. BURA maintains an allowance equal to this amount.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 3 – Related Party Transactions – Continued

During 2014, Management reviewed amounts owed to BURA from BERC and BNRC. Both entities are in the process of dissolution and Management determined that it is unlikely that BURA will be compensated for the amounts owed by these entities. For the year ended June 30, 2014, Advances and Receivables owed to BURA by BRNC and BERC in the amount of \$734,158 were written off against reserve allowances.

At June 30, 2014, net amounts due from related parties consisted of:

Due from City of Buffalo	\$ 2,081,184
BNRC Net Receivables	<u>11,870</u>
Total	<u>\$ 2,093,054</u>

The amounts due from BERC and BNRC are reported as Advances to Subgrantees in the component unit-wide financial statements.

Note 4 – Employee Retirement Benefits

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

Employees who joined the System before July 27, 1976, are on a pension plan with a minimum retirement age of 55, which provides for 1.67% of the final average salary for each year of service less than 20 years. Generally, the benefits for employees with more than 20 years of service are 2% of the final average salary for each year of service. Employees who joined on or after July 1, 1973 but before July 27, 1976, and those who retire between the ages of 55 and 62 with less than 30 years of service, receive reduced benefits. Employees who joined after July 27, 1976 earn 1.67% of the final average salary for the first 20 years of service and 2% for 20 to 30 years of service. An additional benefit of 1.5% is applied to each year of service over 30 years. A member must be age 62 with 10 years of service or at least age 55 with 30 years of service to retire with full benefits.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 4 – Employee Retirement Benefits – Continued

Employees who joined after January 1, 2010 earn 1.66% of the final average salary for the first 20 years of service and 2% for 20 to 30 years of service with a minimum retirement age of 62. Employees who joined after April 1, 2012 earn 1.66% of the final 5 years average salary for each year of less than 20 years service, 3.5% of 5 years average salary for 20 years of service and an additional 2% of their 5 years average salary for each year of service in excess of 20 years. Generally, vesting requires 5 years of service except for employees who joined after April 1, 2012. The employees who joined the System after April 1, 2012 require 10 years of service credit to be vested.

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

The payroll for the employees covered by the System for the year ended June 30, 2014 was \$1,935,615. All full-time BURA employees at June 30, 2014 were covered by the pension plan.

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

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/2012	\$ 503,727	100%	\$ -
6/30/2013	\$ 412,185	100%	\$ -
6/30/2014	\$ 328,667	65.4%	\$ 214,983

The amount to be funded within the next fiscal year has been recorded as a current liability of the special revenue fund, from which applicable wages are paid.

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

Under its employee union contract, BURA also provides health insurance coverage for individuals who have retired from BURA service and who also meet specified longevity requirements with respect to employment. It is BURA's practice to fund these insurance premiums as billed. For the year ended June 30, 2014, the cost of providing health insurance benefits to forty-six BURA retirees was \$793,940.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

Note 5 – Post-employment Health Care Benefits

From an accrual accounting perspective, the cost of post-employment health care benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, BURA recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on BURA's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description: BURA provides continuation of medical insurance coverage to employees that retire under the System at the same time they end their service to BURA. Based on the collective bargaining agreement, the retiree and his or her beneficiaries receive this coverage for the life of the retiree. Health care benefits for non-union employees are similar to those of union employees. The retiree's share of premium cost range from 0% to 25%, depending on the employee hire date.

The number of participants as of June 30, 2014 was as follows:

Active Employees	37
Retired Employees	46
Spouses of Active/Retired Employees	<u>42</u>
Total	<u>125</u>

Funding Policy: BURA currently pays for post-employment health care benefits on a pay-as-you-go basis. Although BURA is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Annual Other Post-employment Benefit Cost ("OPEB"): For the fiscal year ended June 30, 2014, BURA's annual OPEB cost is \$1,041,984 and the Annual Required Contribution is \$990,014. The payment of current health insurance premiums, which, for the year ended June 30, 2014, totaled \$793,940 for retirees and their beneficiaries, resulted in a Net OPEB obligation of \$12,014,340 for the year ended June 30, 2014.

Annual OPEB Cost and Net OPEB Obligation: BURA's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"). BURA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members.

CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5 – Post-employment Health Care Benefits – Continued

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Because of mortality and changes in employment levels, the actuarial accrued liability decreased significantly for the year ended June 30, 2014. The full liability has now been recognized under the ARC method. The following table shows the components of BURA's annual OPEB cost for the year, the amount actually contributed to the Plan, and the changes in BURA's net OPEB obligation to the Plan.

Annual Required Contribution, Including Interest	\$ 990,014
Contribution Made	<u>(793,940)</u>
Increase in Net OPEB Obligation	196,074
Net OPEB Obligation – Beginning of Year	<u>11,818,266</u>
Net OPEB Obligation – End of Year	<u>\$ 12,014,340</u>

BURA is required to report the required annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding fiscal years. The following table shows these amounts:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	2,735,088	20.39%	9,480,310
6/30/2013	2,735,088	26.39%	11,818,266
6/30/2014	1,347,101	58.94%	12,014,340

Funded Status and Funding Progress: As of June 30, 2014, the actuarial accrued liability for benefits was \$12,014,340, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,935,615 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 620.7 percent.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5 – Post –employment Health Care Benefits – Continued

Funded Status and Funding Progress (Continued): The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, shows multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each evaluation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Full evaluations of the Actuarial Accrued Liability (AAL) are completed every third year and the liability is adjusted at that time. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement Age for Active Employees – Based on the historical average retirement age for the covered group, active Plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

Marital Status – The marital status of members at the calculation date was assumed to continue throughout retirement.

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

Turnover – Non-group-specific-age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Health Care Cost Trend Rate – The expected rate of increase in health insurance premiums was based on projections of the Health and Human Services Office of the Actuary. A rate of 9.0 percent initially, reduced to an ultimate rate of 5.0 percent after six years, was used.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

Note 5 – Post-employment Health Care Benefits – Continued

Health Insurance Premiums – June 30, 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation Rate – The expected long-term inflation assumption of 2.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (“CPI-W”) in the Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll Growth Rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of BURA’s short-term investment portfolio, a discount rate of 2.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded AAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2014, was 25 years.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/ c)
6/30/2012	-	28,717,970	28,717,970	0%	2,960,142	970.20%
6/30/2013	-	28,717,970	28,717,970	0%	2,290,246	1253.90%
6/30/2014	-	12,014,340	12,014,340	0%	1,935,615	620.70%

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

Note 6 – Restricted Cash

Cash reported in BURA’s special revenue funds represent grant funds held prior to disbursement of approved expenditures. Substantially all cash on hand is restricted in use in accordance with specific funding source requirements. BURA’s deposits are maintained in demand deposit or savings accounts. For certain of these accounts, BURA requires that the depository banks pledge collateral for cash held in excess of FDIC insurance coverage in the form of securities held by the bank in the name of BURA. The market value at June 30, 2014 of the collateral held by such banks is \$338,902. The carrying value as of June 30, 2013 of BURA’s restricted cash is \$747,452.

Deposits are generally classified into three categories of credit risk. Those categories and BURA’s deposit balances by risk category at June 30, 2014 are as follows:

<u>Risk Category</u>	<u>Description</u>	<u>Deposit Balance</u>
1	Uncollateralized	\$ 408,550
2	Collateralized by securities held by the pledging financial institution	\$ 338,902
3	Collateralized by securities held by the pledging financial institution’s trust department or agent but not in BURA’s name	\$ -

Note 7 – Receivables

Program Loans Receivable

Program loans receivable consist of several economic development loans made directly by BURA, or indirectly through BEREC. BEREC has, in turn, loaned the grant funds to qualifying developers.

Since the inception of the CDBG program in the mid-1970’s, BURA has also expended a substantial amount of grant funds directly or indirectly, through BEREC, BNRC and their predecessors, and through various community-based not-for-profit organizations, on loans for business development and for the rehabilitation of commercial and residential properties. Under CDBG program reporting requirements, these loans are treated as program expenditures.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 7 – Receivables – Continued

Notes Receivable – Special Revenue Fund

As of June 30, 2014, various notes from individuals, businesses and other organizations were outstanding, representing funds advanced by BURA for projects designed to stimulate economic development and housing improvements in the City. These notes are secured by mortgages with varying repayment terms.

Advances to Subgrantees

In the course of conducting various projects funded through CDBG and other grant programs, BURA contracts with subgrantees such as BERC and BNRC to perform program services at the community level. In connection with those subgrantee contracts, BURA has advanced CDBG and other funds to provide working capital for the subgrantees. Both BNRC and BERC are in the process of dissolution and Management determined that it is unlikely that BURA will be compensated for the amounts owed by these entities. For the year ended June 30, 2014, Advances and Receivables owed to BURA by BRNC and BERC in the amount of \$734,158 were written off against reserve allowances.

Note 8 – Due from Federal Government

The Due from Federal Government as of June 30, 2014 in the amount of \$6,995,493 represents amounts not yet received by BURA from the City of Buffalo for expenses incurred under Federal grant programs but not yet submitted to the City for reimbursement.

Note 9 – Long-Term Liabilities

Governmental Activities

Section 108 Loan Guarantee Program

BURA is indebted to the Federal Financing Bank (“FFB”) under promissory notes for advances received under the HUD Section 108 Loan Guarantee Program. There are two types of HUD Section 108 loan programs. Under the first type, promissory notes are payable in 20 annual installments of principal and interest beginning in August 1983. Under the second type, effective on October 30, 1986, interest on promissory notes is payable in 12 semi-annual installments, starting with the first February or August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semi-annual interest payment is due. Interest rates vary on each loan and are determined by HUD based on prevailing market rates at the time of loan issuance.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 – Long-Term Liabilities – Continued

BURA has loaned the advances received from the FFB to BERC, which, in turn, has loaned these funds to various businesses for economic development purposes. BURA's future obligations for interest and principal payments to the FFB on such loans are to be provided by BERC, though interest and principal repayments from the individual borrowers. In the event of default by the individual borrowers on such loans, BURA will be responsible for the payments of the amounts due to the FFB.

At June 30, 2014, the responsibility for repayment of the HUD Section 108 loans is as follows:

Private Developers	\$ 3,305,000
BURA – HOZO	1,200,000
BURA – William Gaiter Incubator	350,000
BURA – Root Building/Market Arcade Apartments	1,070,000
BURA – Glenn Center	<u>100,000</u>
	6,025,000
Less: current amount due to Federal Government	<u>(2,155,000)</u>
Total	<u>\$ 3,870,000</u>

As of June 30, 2014, future maturities of the HUD Section 108 loans are as follows:

Fiscal Year Ending June 30, 2015	\$ 2,155,000
Fiscal Year Ending June 30, 2016	1,085,000
Fiscal Year Ending June 30, 2017	1,035,000
Fiscal Year Ending June 30, 2018	1,035,000
Fiscal Year Ending June 30, 2019	710,000
Fiscal Year Ending June 30, 2020	<u>5,000</u>
	6,025,000
Less: current portion	<u>(2,155,000)</u>
Total Long-Term Liabilities	<u>\$ 3,870,000</u>

Changes in Long-Term Debt

The following is a summary of changes in HUD Section 108 long-term debt for the year ended June 30, 2014:

Balance July 1, 2013	\$ 6,025,000
Additions	-
Repayments	<u>(2,155,000)</u>
Balance June 30, 2014	<u>\$ 3,870,000</u>

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 – Long-Term Liabilities – Continued

Federal Mortgage Loan Association

During the fiscal years ended June 30, 2006, 2007 and 2008, BURA borrowed an aggregate amount of \$6 million from the Federal Mortgage Loan Association (“Fannie Mae”). These funds were used to construct a new 24-unit housing development known as Sycamore Village. The \$6 million was fully repaid by BURA as of March 30, 2011 from a combination of proceeds from the sales of the homes and BURA general funds. As of June 30, 2014, no market rate homes were completed or sold. Construction costs in the amount of \$247,561 for the remaining unsold units are reported as Construction in Progress in the general fund and the Statement of Net Assets.

Note 10 – Prior Period Adjustment

BURA’s beginning net assets as reflected in the Statement of Net Assets and the Statement of Activities were increased by prior period adjustments totaling \$7,167,198 related to the correction of an error. In previous years, encumbrances were shown on the statement of net assets as long term liabilities, reducing the federal receivable to \$- and the excess being classified as deferred revenue. Encumbrances do not represent incurred liabilities under the economic measurement principles used to prepare the government wide financial statements and as such, Net Assets as of July 1, 2013 have been restated from (\$12,626,200) to (\$5,459,002) to account for the correction of this error.

Note 11 – Dissolution of BEREC

The City is presently engaged in a complex transaction to dissolve BEREC. Outside counsel and auditors analyzed BEREC’s finances and planned the legal steps required to dissolve BEREC. On October 20, 2010, the membership of BEREC approved a plan to dissolve BEREC. Under the plan, the majority of BEREC’s assets and liabilities ultimately will be transferred to BURA. It is anticipated that the dissolution of BEREC and the transfer of BEREC’s assets and liabilities to BURA will be completed by March 31, 2015.

Note 12 – Commitments and Contingent Liabilities

Litigation

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 12 – Commitments and Contingent Liabilities - Continued

Litigation – Continued

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

BURA is a defendant in a personal injury matter in which the claimant/infant alleges injury from lead paint at a residence where BURA provided lead paint remediation funds to the owner. The outcome cannot be determined at this early stage of litigation.

BURA is subject to the above proceedings, claims, and litigation arising in the ordinary course of business. BURA will defend itself vigorously against these and any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its financial statements taken as a whole.

Note 13 – Net Position and Fund Balance

The component unit-wide financial statements utilize a net position presentation. Net Position is categorized as net investment in capital assets and unrestricted.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balances maintained by BURA at June 30, 2014 include real estate acquired at resale in the amount of \$821,517.

In the fund balance financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the highest decision making authority. As of June, 30 2014, BURA reported the following commitments:

- *Community Development:* All net assets under the CDBG special revenue fund are committed to improving communities through providing decent housing, suitable living environments, and expanding economic opportunities.
- *Other:* In accordance with GASB 54, all special revenue funds must have at least one committed revenue source. As such, the net assets will be considered committed to future efforts of carrying out the grant objectives.



INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER SUPPLEMENTARY INFORMATION

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency ("BURA"), a component unit of the City of Buffalo, as of and for the year ended June 30, 2014, which collectively comprise BURA's basic financial statements, and have issued our report thereon dated October 23, 2014.

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.

Auditor's 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 auditor's 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 entity'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 entity'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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency, as of June 30, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2014, on our consideration of BURA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering BURA's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 12 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.

Done: D'Arata CPA

Buffalo, New York
October 23, 2014

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Expenditures</u>
Community Development Block Grant - Entitlement	14.218	B-96-MC-36-0001	\$ 379
Community Development Block Grant - Entitlement	14.218	B-04-MC-36-0001	3,204
Community Development Block Grant - Entitlement	14.218	B-05-MC-36-0001	-
Community Development Block Grant - Entitlement	14.218	B-06-MC-36-0001	2,786
Community Development Block Grant - Entitlement	14.218	B-07-MC-36-0001	129,600
Community Development Block Grant - Entitlement	14.218	B-08-MC-36-0001	6,900
Community Development Block Grant - Entitlement	14.218	B-09-MC-36-0001	478,213
Community Development Block Grant - Entitlement	14.218	B-10-MC-36-0001	1,048,530
Community Development Block Grant - Entitlement	14.218	B-11-MC-36-0001	71,315
Community Development Block Grant - Entitlement	14.218	B-12-MC-36-0001	3,127,592
Community Development Block Grant - Entitlement	14.218	B-13-MC-36-0001	5,538,124
			<hr/>
			10,406,643 *
Community Development Block Grant - Loans	14.218	Various	17,719,329 *
Rental Housing Rehabilitation Grant - Loans	14.23	Various	558,799
Section 8 Housing Subsidy Program - Passed through to Housing Development Corporation of Western New York	14.856	-	31,383,755 *
Section 108 Loan Guarantee Program	14.248	B-94-MC-36-0002	-
Section 108 Loan Guarantee Program	14.248	B-95-MC-36-0002	-
			<hr/>
			318,374
HOME Investment Partnerships Program	14.239	M-07-MC-36-0502	129,610
HOME Investment Partnerships Program	14.239	M-08-MC-36-0502	52,918
HOME Investment Partnerships Program	14.239	M-09-MC-36-0502	415,743
HOME Investment Partnerships Program	14.239	M-10-MC-36-0502	3,204,228
HOME Investment Partnerships Program	14.239	M-11-MC-36-0502	749,601
HOME Investment Partnerships Program	14.239	M-12-MC-36-0502	6,712
HOME Investment Partnerships Program	14.239	M-13-MC-36-0502	3,669,985
			<hr/>
			8,228,798 *
HOME Investment Partnerships Program - Loans	14.239	Various	55,192,494 *

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Expenditures</u>
Housing Opportunities for Persons with Aids (HOPWA)	14.241	H13-NY04-F004	4,502
			4,502
Emergency Shelter Grants Program	14.231	S-10-MC-36-0003	13
Emergency Shelter Grants Program	14.231	S-11-MC-36-0003	3,228
Emergency Shelter Grants Program	14.231	S-12-MC-36-0003	31,017
Emergency Shelter Grants Program	14.231	S-13-MC-36-0003	90,354
			124,612
Emergency Shelter Grants Program for Homeless Prevention	14.262	S-09-MY-36-0003	-
Economic Development Initiative Program			
- Passed through to Buffalo Economic Renaissance Corp.:			
Economic Development Initiative - Ellicott	14.246	B-92-ED-36-0001	-
Economic Development Initiative - Glenn	14.246	B-93-ED-36-0001	-
Economic Development Initiative - Medical Inn	14.246	B-95-ED-36-0003	-
- Passed through to Buffalo Neighborhood Revitalization Corp.:			
Economic Development Initiative - HOZO	14.246	B-96-ED-36-0001	-
Economic Development Initiative - LaSalle Park	14.246	B-96-ED-36-0001	-
Economic Development Initiative - Crescent Village	14.246	B-05-SP-NY-0912	-
			965
Lead Hazard Reduction Demo Grant	14.905	NYLHD0032-04	-
Lead Hazard Reduction Demo Grant - Loans	14.905	Various	\$ 660,850

*Indicates Major Federal Assistance Program.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the basic financial statements of the City of Buffalo Urban Renewal Agency, a component unit of the City of Buffalo, as of and for the year ended June 30, 2014, appears on pages 1 – 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Combining Balance Sheet - Other Special Revenue Programs and Schedule of Governmental Capital Assets by Function and Activity as of June 30, 2014 and the Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Other Special Revenue Programs and the Schedule of Governmental Capital Assets by Function and Activity for the year ended June 30, 2014, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Buffalo Urban Renewal Agency. Such information is the responsibility of management and was derived from and relates 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 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 financial statements as a whole.

Dan: D'Arata

Buffalo, New York
October 23, 2014

**CITY OF BUFFALO URBAN RENEWAL AGENCY
FUND DESCRIPTIONS
JUNE 30, 2014**

General Fund

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

Special Revenue Funds

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

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

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

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

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

**CITY OF BUFFALO URBAN RENEWAL AGENCY
COMBINING BALANCE SHEET
OTHER SPECIAL REVENUE PROGRAMS
JUNE 30, 2014**

	HOME Program	Emergency Shelter Grant Program	Shelter Plus Care Grant Program	HOPWA Program	Lead Abatement Program	Section 312 Loan Program	Lead Demo Grant	Rental Rehabilitation Program	HOPF III Program	Total Other Special Revenue Programs
Assets										
Restricted Cash	\$ 40,647	\$ 934	\$ 210	\$ 8,611	\$ -	\$ 2,412	\$ 2,631	\$ 1,769	\$ 47,085	\$ 104,299
Receivables										
Program Loans Receivable	55,186,633	-	-	-	-	35,975	660,850	558,799	-	56,442,257
Advances to Subrecipients	-	-	-	-	10,629	-	-	-	-	10,629
Other Receivables	-	-	-	-	5,000	-	-	-	-	5,000
Allowance for Uncollectibles	(55,186,633)	-	-	-	-	(35,975)	(660,850)	(558,799)	-	(56,442,257)
Due from Other Funds	3,104,101	-	-	-	22,390	545	42,369	-	-	3,169,405
Due from Federal Government	2,053,700	6,274	-	641	-	-	10,000	-	-	2,070,615
Due from City of Buffalo	657,973	650	-	-	-	-	-	-	-	658,623
Total Assets	\$ 5,856,421	\$ 7,858	\$ 210	\$ 9,252	\$ 38,019	\$ 2,957	\$ 55,000	\$ 1,769	\$ 47,085	\$ 6,018,571
Liabilities and Fund Balances										
Accounts Payable and Accrued Expenses	\$ 2,009,441	\$ 2,603	\$ 210	\$ 1,008	\$ -	\$ -	\$ -	\$ 2,839	\$ -	\$ 2,016,101
Due to Other Funds	3,846,637	4,280	-	5,282	34,836	-	55,000	9,041	-	3,955,076
Deferred Grant Revenue	-	975	-	6,824	3,183	-	-	-	-	10,982
Total Liabilities	\$ 5,856,078	\$ 7,858	\$ 210	\$ 13,114	\$ 38,019	\$ -	\$ 55,000	\$ 11,880	\$ -	\$ 5,982,159
Fund Equity:										
Unassigned	343	-	-	(3,862)	-	2,957	-	(10,111)	47,085	36,412
Total Liabilities and Fund Equity	\$ 5,856,421	\$ 7,858	\$ 210	\$ 9,252	\$ 38,019	\$ 2,957	\$ 55,000	\$ 1,769	\$ 47,085	\$ 6,018,571

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER SPECIAL REVENUE PROGRAMS
 FOR THE YEAR ENDED JUNE 30, 2014**

	HOME Program	Emergency Shelter Grant Program	Shelter Plus Care Grant Program	HOPWA Program	Lead Abatement Program	Section 312 Loan Program	Lead Demo Grant	Rental Rehabilitation Program	HOPE III Program	Total Other Special Revenue Programs
Revenues										
Federal Grants	\$ 8,073,656	\$ 124,238	\$ -	\$ 641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,198,535
Repayment of Program Loans	143,087	-	-	-	-	241	-	21,023	-	164,351
Interest Income	11,905	374	-	-	-	-	-	597	203	13,079
Other Income	150	-	-	-	-	-	-	-	-	150
Total Revenues	8,228,798	124,612	-	641	-	241	-	21,620	203	8,376,115
Expenditures										
Public Services and Human Service Programs	7,684,148	103,970	-	-	-	-	-	31,731	-	7,819,849
Planning, Management and Administration	544,650	20,642	-	4,503	-	6,802	-	-	-	576,597
Total Expenditures	8,228,798	124,612	-	4,503	-	6,802	-	31,731	-	8,396,446
Excess/(Deficiency) of Revenues Over Expenditures	-	-	-	(3,862)	-	(6,561)	-	(10,111)	203	(20,331)
Excess / (Deficiency) of Revenues Expenditures and Transfers Out	-	-	-	(3,862)	-	(6,561)	-	(10,111)	203	(20,331)
Fund Balances, June 30, 2013	343	-	-	-	-	9,518	-	-	46,882	56,743
Fund Balances, June 30, 2014	\$ 343	\$ -	\$ -	\$ (3,862)	\$ -	\$ 2,957	\$ -	\$ (10,111)	\$ 47,085	\$ 36,412

See Independent auditor's report on supplementary information

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF GOVERNMENTAL CAPITAL ASSETS BY FUNCTION AND ACTIVITY
JUNE 30, 2014**

Note 13 – Net Position and Fund Balance - Continued

<u>Function and Activity</u>	<u>Total</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>
Economic Development Administration	\$ 7,928,237	\$ 7,223,998	\$ 598,681	\$ 105,558
General Administration	<u>24,866</u>	<u>-</u>	<u>24,866</u>	<u>-</u>
Governmental Capital Assets	<u>\$ 7,953,103</u>	<u>\$ 7,223,998</u>	<u>\$ 623,547</u>	<u>\$ 105,558</u>

See Independent auditors' report on supplementary information.



**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**

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

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 Urban Renewal Agency ("BURA"), as of and for the year ended June 30, 2014, which collectively comprise BURA's basic financial statements and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BURA's internal control over financial reporting 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 BURA's internal control. Accordingly, we do not express an opinion on the effectiveness of BURA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-01, 2014-02, and 2014-03 to be material weaknesses.

Compliance and Other Matters

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

BURA's Response to Findings

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

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Don : D'Amico

Buffalo, New York
October 23, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Buffalo Urban Renewal Agency's ("BURA") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of BURA's major federal programs for the year ended June 30, 2014. BURA's major federal programs are 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of BURA's major federal programs 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 BURA'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 each major federal program. However, our audit does not provide a legal determination of BURA's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, BURA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The Management of BURA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered BURA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BURA'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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-04 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Done: D. Anderson

Buffalo, New York
October 23, 2014

**CITY OF BUFFALO URBAN RENEWAL AGENCY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510 (a))?

Yes No

Identification of major programs included the following:

- Community Development Block Grants
- Section 8 Housing Subsidy Program
- HOME Investment Partnerships Program

CFDA Number

14.218

14.856

14.239

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,435,809

Auditee qualified as low-risk auditee?

Yes No

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

Finding 2014-01

Condition: During the course of our audit, material adjustments were necessary to the financial statements to comply with generally accepted accounting principles, some of which were not detected and corrected by BURA's internal control by the start of audit field work.

Criteria: A key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Financial statements were initially not in accordance with accounting principles generally accepted in the United States of America.

Cause: Due to insufficient staffing, interim closing procedures were not performed during the fiscal year. This lack of control places excess stress on the year-end closing procedures and creates timing issues.

Recommendation: We recommend that management develop formal procedures surrounding the timing issues of all financial statements and related accounts in order to ensure that financial statements are presented in accordance with accounting principles generally accepted in the United States. In addition, it is advised that BURA hire additional operational accounting staff in order to properly segregate duties.

Management's Reply: BURA management intends to address this finding during the year ending June 30, 2015 as follows:

- Begin preparing additional management reports that will be presented to BURA senior management throughout the year.
- Perform monthly reconciliations and interim account analysis throughout the course of the year.
- Hire permanent accounting staff (Accountant) to handle daily accounting operations. This individual will have an accounting degree and experience in governmental accounting. At present, the position has been posted and the search for a suitable candidate is in progress.

Finding 2014-02

Condition: During the course of our audit, it was discovered that in prior years, BURA was treating encumbrances as long-term liabilities on the statement of net assets. This is improper for encumbrances that do not yet represent incurred liabilities under full accrual accounting.

Criteria: Appropriate financial reporting requires management to ensure transactions are recorded in the proper period, to monitor results on a timely basis, and to apply appropriate accounting principles in order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Effect: Financial statements were initially not in accordance with accounting principles generally accepted in the United States of America.

Cause: Based on the materiality of the required adjusting journal entry, it was noted that monitoring controls over financial reporting were not completely effective during years prior to the year ended June 30, 2014.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2014-02 (Continued)

Recommendation: Now that the accounting supervisor position has been filled, we do not expect this finding to affect future periods. However, we do recommend that all other staffing issues are addressed to allow the accounting supervisor time to focus on high level accounting decisions and GAAP compliance.

Management's Reply: In prior years, BURA lacked appropriate qualified accounting personnel which resulted in numerous adjusting journal entries (Findings 2013-01, 2012-01) and specific adjusting entries related to the treatment of accounts payable (Finding 2011-01). BURA management relied on the advice of outside auditors regarding the treatment of encumbrances. It was never identified by the outside auditors that the historical treatment of encumbrances was inappropriate.

Finding 2014-03

Condition: During the course of our audit, we noted deficiencies in BURA's control environment related to financial reporting. BURA has only one full-time accounting employee dedicated to maintaining all ledgers for all grants which include recording hundreds of transactions monthly. The employee does not possess the necessary skills, knowledge, and expertise to ensure proper financial reporting and there is no formal training program for new employees.

Criteria: A key element of internal control required to generate accurate financial statements is the establishment of an overall control environment that includes active involvement from those charged with governance, an appropriately-designed organizational structure, and proper segregation of duties amongst employees.

Effect: Failure to implement sufficient internal controls could result in material undetected misstatements to the financial statements.

Cause: For a significant portion of the fiscal year, there was a lack of governance, oversight and the implementation of formal policies. Insufficient staffing levels in the accounting department prevent management from implementing proper internal controls.

Recommendation: We recommend that BURA add an appropriate number of full-time accounting staff within the next fiscal year to maintain proper oversight, management, and segregation of duties.

Management's Reply: As of January 2014, BURA management now includes a Director of Financial Control of Agencies and an Accounting Supervisor. Since that time, significant changes to internal control procedures have been implemented. BURA also now has the in-house expertise necessary to provide appropriate direction and supervision of existing staff. BURA management intends to address this finding during the year ending June 30, 2015 as follows:

- Hire additional permanent accounting staff to provide sufficient division of duties which is critical to development and maintenance of a strong internal control environment.
- Provide training opportunities to BURA staff members to ensure that they are able to stay current on changes in reporting requirements and treatment of governmental accounting items.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2014-04

Condition: During the course of our audit, we noted deficiencies in BURA's financial control environment related to grant compliance. BURA's financial control environment lacks many of the necessary controls to ensure proper compliance with the various grant requirements.

Criteria: Proper internal controls should be in place to ensure that all compliance requirements are followed by BURA. There must be active involvement by those charged with governance, and an appropriately designed control structure.

Effect: Failure to implement sufficient internal controls over grant compliance could result in material breaches of grant regulations and could result in penalties, and/or reductions in future grant awards.

Cause: For a significant portion of the fiscal year, there was a lack of governance, oversight and the implementation of formal policies. Additionally, the loss of the BURA director of programming created a temporary deficit in internal control procedures.

Recommendation: We recommend that BURA add an appropriate number of full-time staff to aid in the internal audit function, specifically relating to grant compliance.

Management's Reply: The compliance issues identified during the audit are a direct result of the loss of the Director of Programming. These issues did not exist prior to the current fiscal year and are not expected to continue into future years. The City of Buffalo hired a Resource Technician responsible for Compliance as it applies to entitlement grants. Additionally, BURA hired a Special Projects Manager to handle compliance related issues for BURA. Together, these two positions now encompass the responsibilities of the previous Director of Programming.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2013-01

Condition: During the course of our audit, numerous adjusting journal entries which were material to the financial statements as a whole were identified by BURA, some of which were not detected and corrected by BURA's internal control by the start of audit field work.

Criteria: A key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Financial statements were initially not in accordance with accounting principles generally accepted in the United States of America.

Cause: Based on the magnitude of the required adjusting journal entries, it was noted that monitoring controls over financial reporting were not completely effective during the year ended June 30, 2014.

Recommendation: We recommend that management develop formal procedures surrounding the timing issues of all financial statements and related accounts in order to ensure that financial statements are presented in accordance with accounting principles generally accepted in the United States.

Management's Reply: BURA management intends to address this finding during the year ending June 30, 2014 as follows:

1. Begin preparing additional management reports that will be presented to BURA senior management throughout the year.
2. Perform additional monthly, reconciliations, as needed, throughout the course of the year.
3. Hire a permanent replacement for the Senior Grant Monitoring Supervisor position. This individual will be required to be a CPA and have experience in governmental accounting. At present, the position is filled with a temporary individual and the search for a permanent replacement is in progress.

Status of Prior Year Finding: A similar finding was reported for the year ended June 30, 2014. BURA has made progress on this finding through the hiring of a Senior Grants Monitor/Accounting Supervisor.

Finding 2013-02

Condition: During the course of our audit, we noted deficiencies in BURA's overall control environment. Specifically, we noted insufficient governance of BURA due to the lack of a director or other executive charged with day-to-day management and oversight. Additionally, BURA has only one full-time accounting employee dedicated to maintaining all ledgers for all grants which include recording hundreds of transactions annually.

Criteria: A key element of internal control required to generate accurate financial statements is the establishment of an overall control environment that includes active involvement from those charged with governance, an appropriately-designed organizational structure, and proper segregation of duties amongst employees.

Effect: Failure to implement sufficient internal controls could result in material undetected misstatements to the financial statements.

Cause: A lack of governance, oversight and the implementation of formal policies.

Recommendation: We recommend that BURA hire an Executive Director immediately and add an appropriate number of full-time accounting staff within the next fiscal year to maintain proper oversight and management.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2013-02 (Continued)

Management's Reply: BURA management intends to address this finding during the year ending June 30, 2014 as follows:

1. Continue with the on-going search for an Executive Director and have as a requirement relevant accounting and financial experience.
2. Have an appropriately qualified employee provide accounting support, as needed, to the Internal Auditor of the Financial Control of Agencies department.
3. Hire a permanent replacement for the Senior Grant Monitoring Supervisor position. This individual will be required to be a CPA and have experience in governmental accounting. At present, the position is filled with a temporary individual and the search for a permanent replacement is in progress.

Status of Prior Year Finding: A similar finding was reported for the year ended June 30, 2014. BURA has made progress on this finding through the hiring of a qualified director of financial control of agencies. BURA still lacks the necessary level of operational accounting staff.

Finding 2013-03

Condition: During the course of our audit, BURA informed us that certain land and buildings which were sold in prior years continued to be reported as owned by BURA. Additionally, BURA informed us that other buildings were reported by BURA at values which exceeded their fair market values by amounts significant to the financial statements, requiring adjusting entries to record impairment charges.

Criteria: Appropriate financial reporting requires management to ensure transactions are recorded in the proper period, to monitor results on a timely basis, and to apply appropriate accounting principles in order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Financial statements were initially not in accordance with accounting principles generally accepted in the United States of America.

Cause: Based on the magnitude of the required adjusting journal entries, it was noted that monitoring controls over financial reporting were not completely effective during years prior to the year ended June 30, 2014.

Recommendation: We recommend that management implement formal monitoring and review procedures to ensure that transactions are recorded on a timely basis in the appropriate period, and balances are reviewed for impairment at least annually. Such procedures are necessary to ensure that financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Management's Reply: BURA management intends to address this finding during the year ending June 30, 2014 as follows:

1. Begin preparing additional management reports that will be presented to BURA senior management throughout the year.
2. Hire a permanent replacement for the Senior Grant Monitoring Supervisor position. This individual will be required to be a CPA and have experience in governmental accounting. At present, the position is filled with a temporary individual and the search for a permanent replacement is in progress.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2013-03 (Continued)

Management's Reply (Continued):

3. In addition to the Executive Director, begin having a BURA CPA attend regular meetings of the BURA senior management.

4. Obtain third party market value appraisals, as needed, on significant capital assets owned by BURA as well as on real estate acquired for resale by BURA.

Status of Prior Year Finding: BURA has addressed this issue for the year ended June 30, 2014.

Finding 2009-01

Condition: BURA's Community Development Block Grant (CDBG) accounting system is primarily designed to accomplish the reporting requirements of BURA's CDBG program. Because CDBG reporting requirements differ from those required by GAAP, BURA's accounting records do not provide for the preparation of financial statements in accordance with GAAP.

Criteria: Governmental Accounting Board (GASB) Standard No. 34 requires two groups of basic financial statements. The first group of basic financial statements required by GASB Standard No. 34 is the government-wide financial statements. These statements are comprised of a statement of net assets and a statement of activities. The government-wide financial statements must be prepared using the economic resources measurement focus and the full accrual basis of accounting. The second group of basic financial statements required by GASB Standard No. 34 is the fund financial statements. Funds used by governments fall into three broad categories - governmental, proprietary, and fiduciary. Fund financial statements are presented for each fund category with the reporting emphasis on individual major funds. Since governmental funds will continue to be reported on the modified accrual basis of accounting in the fund financial statements, many governments are expected to only record the accruals as adjusting entries when preparing the government-wide financial statements.

Effect: Resources received by governmental units from other governments are frequently accompanied by legal or contractual requirements that govern their use and often include special accounting and reporting requirements. When accounting and reporting requirements for such resources are not consistent with generally accepted accounting principles (GAAP), the recipient government must provide for the accomplishment of both (a) accounting and reporting in conformity with GAAP, and (b) accounting and reporting in accordance with the legal or contractual requirements. A properly designed accounting system will enable simultaneous accomplishment of both of these objectives. If the accounting system will not accommodate both objectives, it may be necessary to maintain supplemental accounting records. Failure to comply with legal or contractual requirements could result in loss of grant funding.

**CITY OF BUFFALO URBAN RENEWAL AGENCY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2009-01 (Continued)

Cause: BURA's CDBG accounting records are kept on a cumulative basis to assist in tracking activities for programs with grant periods lasting more than one year. Although this facilitates grant reporting, this method does not provide the information necessary to prepare financial statements in accordance with GAAP.

Recommendation: We recommend that BURA develop an accounting system, which allows reporting of revenue and expenditures by fiscal year. We also recommend that BURA complete the financial reporting project begun several years ago. This computer module would allow reporting of single year operating data while maintaining the cumulative grant data necessary to meet grant reporting requirements. We recommend that BURA's management take steps to alleviate the deficiencies noted above. To alleviate this finding, management must take steps to provide accounting staff with sufficient training to recognize GAAP requirements and to record transactions accordingly. Management must also assess current practices and evaluate reports generated by BURA's systems to determine how they may be modified to address the reporting mandates resulting from grant regulations and from generally accepted accounting principles. Failure to address these issues has resulted in numerous audit adjustments, which were necessary to avoid potential misstatements in BURA's financial statements.

Management's Reply: BURA's Management and select staff member have met with the City of Buffalo Comptroller's staff and the accounting/systems staff of the Town of Amherst to solicit input as to the systems currently in use, their shortcomings and the options available to BURA in order to prepare year-end financial statements according to GAAP and accommodate the reporting requirements of HUD. The RFQ is expected to be published the week of December 5, 2011 and the vendor/system selected the week of December 28, 2011. The schedule for system development is January through March, and data conversion and testing is April through May 2012. BURA expects to begin reporting via the new system July 1, 2012.

Status of Prior Year Findings: During the year ended June 30, 2014, the decision was made by BURA, in concert with the City Accounting Department, to transition to the City's MUNIS accounting system. The transition has been implemented. All data was converted to MUNIS for the year ended June, 30 2014, other than the program loans. The historical loan information will remain in TOMS with all new transactions and existing loan balances moved to a new loan management software effective 1/1/2015.