

CITY OF BUFFALO, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED DECEMBER 31, 2010

**CITY OF BUFFALO, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2010**

Elected Officials

Term Expires

Mayor	Fred Naaktgeboren	December 31, 2010
Council Member	Delvin Haag	December 31, 2012
Council Member	Steve Downer	December 31, 2010
Council Member	Robert Mobley	December 31, 2010
Council Member	Brad Nauman	December 31, 2012

Appointed Officials

Administrator and Clerk-Treasurer	Merton Auger
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Buffalo, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo, Minnesota as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buffalo, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2009 financial statements and, in our report dated June 21, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Buffalo, Minnesota as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15, certain errors resulting in an overstatement of net assets in the business-type activities and in the Water and Sewer Fund were corrected during the current year. As a result, the January 1, 2010 net assets balance in the business-type activities and in the Water and Sewer Fund has been restated to correct the error.

Honorable Mayor and City Council
City of Buffalo, Minnesota

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2011, on our consideration of the City of Buffalo, Minnesota'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.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo, Minnesota's basic financial statements. The combining and individual nonmajor fund financial statements and the other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures in the audit of the basic financial statements and, accordingly, we express no opinion on it.

LarsonAllen LLP
LarsonAllen LLP

Buffalo, Minnesota
June 13, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

As management of the City of Buffalo, Minnesota, we offer readers of the City of Buffalo's financial statements this narrative overview and analysis of the financial activities of the City of Buffalo for the fiscal year ended December 31, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the City of Buffalo exceeded its liabilities at the close of the most recent fiscal year by \$63,811,500 (net assets). Of this amount \$4,128,481 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net assets decreased by \$6,888,999 from 2009.
- As of the close of the current fiscal year, the City of Buffalo's governmental funds reported a combined ending fund balance of \$5,840,454, an increase of \$500,021 in comparison with the prior year. The overall *unreserved fund balance* is \$439,023.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,240,643, or 44% of total 2010 general fund expenditures.
- The City of Buffalo's total bonded debt decreased by \$4,206,836 or 4.3% during the current fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

The City of Buffalo maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital project fund, HRA debt service fund, and airport fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

Proprietary Funds

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 37-68 of this report.

Other Information

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

The combining statements referred to earlier in conjunction with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund and Airport Fund budgetary comparisons. Combining and individual fund statements can be found on pages 75-83.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Buffalo, total assets exceeded total liabilities by \$63,811,500 at the close of the most recent fiscal year compared to \$70,700,499 at the end of 2009.

By far the largest portion of the City of Buffalo's net assets (87%) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City of Buffalo uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Buffalo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF BUFFALO'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and Other Assets	\$ 17,518,169	\$ 16,589,553	\$ 9,082,127	\$ 16,537,100	\$ 26,600,296	\$ 33,126,653
Capital Assets	57,055,216	56,126,290	84,558,376	85,184,480	141,613,592	141,310,770
Total Assets	<u>74,573,385</u>	<u>72,715,843</u>	<u>93,640,503</u>	<u>101,721,580</u>	<u>168,213,888</u>	<u>174,437,423</u>
LIABILITIES						
Non-Current Liabilities Outstanding	26,956,338	28,114,494	60,497,241	56,119,545	87,453,579	84,234,039
Other Liabilities	10,274,331	7,317,604	6,674,478	12,185,281	16,948,809	19,502,885
Total Liabilities	<u>37,230,669</u>	<u>35,432,098</u>	<u>67,171,719</u>	<u>68,304,826</u>	<u>104,402,388</u>	<u>103,736,924</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	29,907,872	26,046,084	25,399,401	30,506,291	55,307,273	56,552,375
Restricted	4,375,746	4,066,731	-	2,376,196	4,375,746	6,442,927
Unrestricted	<u>3,059,098</u>	<u>7,170,930</u>	<u>1,069,383</u>	<u>534,267</u>	<u>4,128,481</u>	<u>7,705,197</u>
Total Net Assets	<u>\$ 37,342,716</u>	<u>\$ 37,283,745</u>	<u>\$ 26,468,784</u>	<u>\$ 33,416,754</u>	<u>\$ 63,811,500</u>	<u>\$ 70,700,499</u>

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The remaining balance of the City of Buffalo's net assets are *restricted net assets* (7%) that can be used only for debt service or other purposes; *unrestricted net assets* (6%) that may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Buffalo is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased the City of Buffalo's net assets by \$58,971. The most significant change in governmental net assets is due to the effect of accounting for net assets under the full accrual basis. Under full accrual accounting, current year outlay for infrastructure will be expensed over the useful life of the infrastructure. This capital outlay for the infrastructure is budgeted for during the current year.

Business-Type Activities

Business-type activities decreased the City of Buffalo's net assets by \$6,947,970, thereby accounting for 100.1% of the total decrease in the net assets of the City of Buffalo. The most significant change in business-type net assets is due to refunded debt.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CITY OF BUFFALO'S CHANGES IN NET ASSETS

Condensed statements of revenues, expenses, and changes in net assets highlights are as follows for the year ended December 31, 2010:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 3,052,177	\$ 3,170,352	\$ 17,009,573	\$ 16,400,196	\$ 20,061,750	\$ 19,570,548
Operating Grants and Contributions	694,473	760,592	-	-	694,473	760,592
Capital Grants and Contributions	6,138,983	419,717	233,532	1,589,698	6,372,515	2,009,415
General Revenues:						
Property Taxes	4,693,768	4,405,786	176,334	170,074	4,870,102	4,575,860
Tax Increments	114,580	104,890	-	20,846	114,580	125,736
Other Taxes	1,844	1,733	-	-	1,844	1,733
Grants and Contributions, Not Restricted	431,026	956,920	20,136	10,064	451,162	966,984
Unrestricted Investment Earnings	226,431	242,443	389,488	742,912	615,919	985,355
Gain on Disposal of Capital Assets	5,358	5,100	-	-	5,358	5,100
Miscellaneous	29,970	60,579	50,487	-	80,457	60,579
Total Revenues	<u>15,388,610</u>	<u>10,128,112</u>	<u>17,879,550</u>	<u>18,933,790</u>	<u>33,268,160</u>	<u>29,061,902</u>
EXPENSES						
General Government	1,207,340	1,031,817	-	-	1,207,340	1,031,817
Public Safety	2,723,059	2,890,382	-	-	2,723,059	2,890,382
Highways and Streets	5,065,992	4,454,280	-	-	5,065,992	4,454,280
Culture and Recreation	2,218,237	2,145,328	-	-	2,218,237	2,145,328
Sanitation	701,271	704,105	-	-	701,271	704,105
Community Development	255,849	411,226	-	-	255,849	411,226
Interest on Long-Term Debt	1,261,117	1,201,036	-	-	1,261,117	1,201,036
Electric	-	-	9,974,491	9,361,132	9,974,491	9,361,132
Water and Sewer	-	-	6,777,951	5,937,547	6,777,951	5,937,547
Liquor Store	-	-	722,082	756,398	722,082	756,398
Golf Course	-	-	1,160,440	1,219,257	1,160,440	1,219,257
Total Expenses	<u>13,432,865</u>	<u>12,838,174</u>	<u>18,634,964</u>	<u>17,274,334</u>	<u>32,067,829</u>	<u>30,112,508</u>
Increase (Decrease) in Net Assets before Contributions and Transfers	1,955,745	(2,710,062)	(755,414)	1,659,456	1,200,331	(1,050,606)
Capital Contributions to Other Governments	(3,086,734)	-	-	-	(3,086,734)	-
Transfers	1,189,960	2,632,248	(1,189,960)	(2,632,248)	-	-
CHANGE IN NET ASSETS	58,971	(77,814)	(1,945,374)	(972,792)	(1,886,403)	(1,050,606)
Net Assets - Beginning of Year	37,283,745	37,361,559	33,416,754	34,389,546	70,700,499	71,751,105
Prior Period Adjustment	-	-	(5,002,596)	-	(5,002,596)	-
Net Assets - Beginning of Year (as restated)	<u>37,283,745</u>	<u>37,361,559</u>	<u>28,414,158</u>	<u>34,389,546</u>	<u>65,697,903</u>	<u>71,751,105</u>
NET ASSETS - END OF YEAR	<u>\$ 37,342,716</u>	<u>\$ 37,283,745</u>	<u>\$ 26,468,784</u>	<u>\$ 33,416,754</u>	<u>\$ 63,811,500</u>	<u>\$ 70,700,499</u>

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

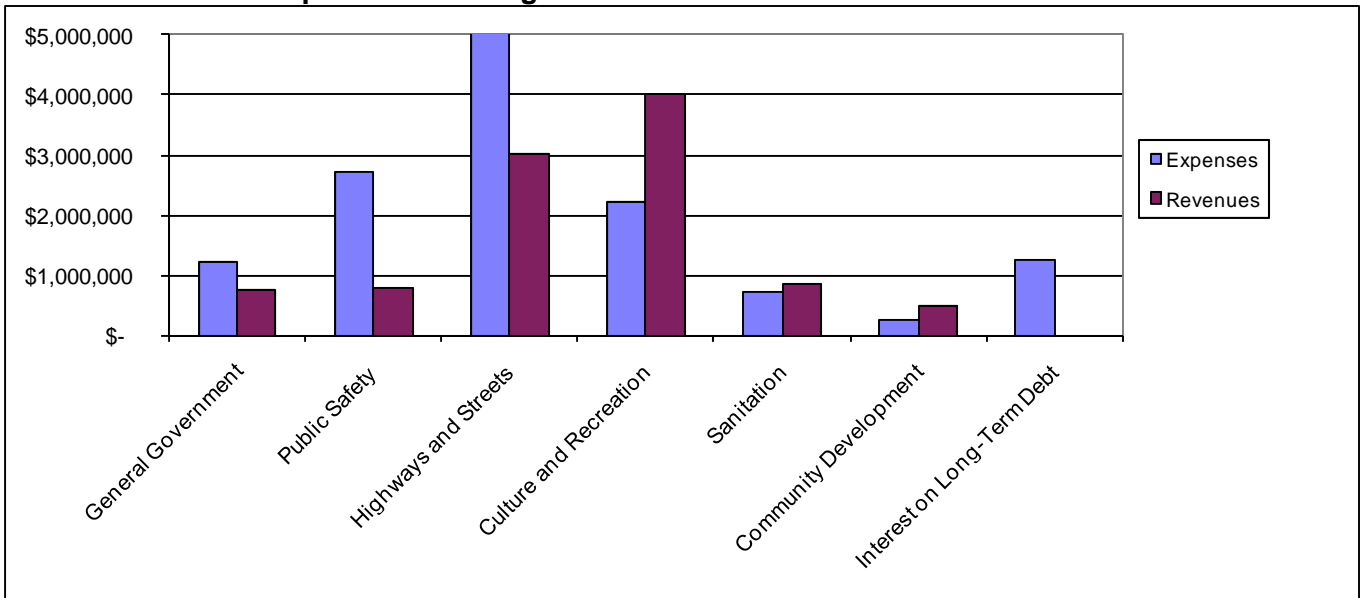
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CITY OF BUFFALO'S CHANGES IN NET ASSETS (CONTINUED)

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

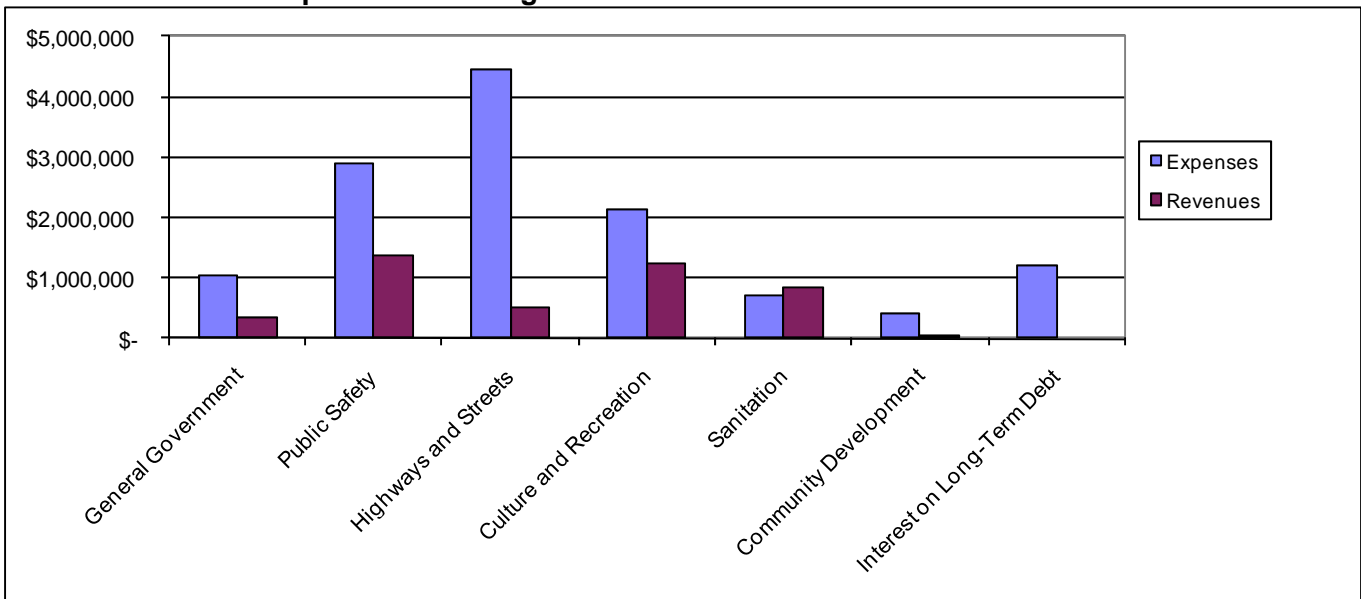
2010

Expenses and Program Revenues-Governmental Activities



2009

Expenses and Program Revenues-Governmental Activities



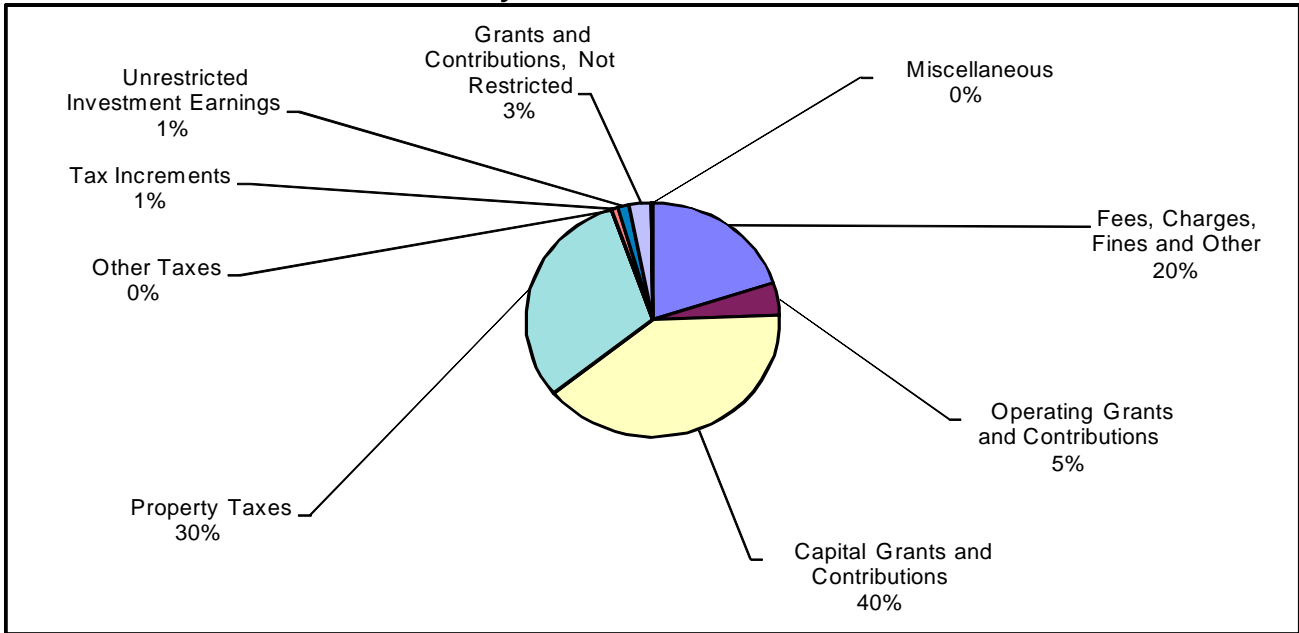
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CITY OF BUFFALO'S CHANGES IN NET ASSETS (CONTINUED)

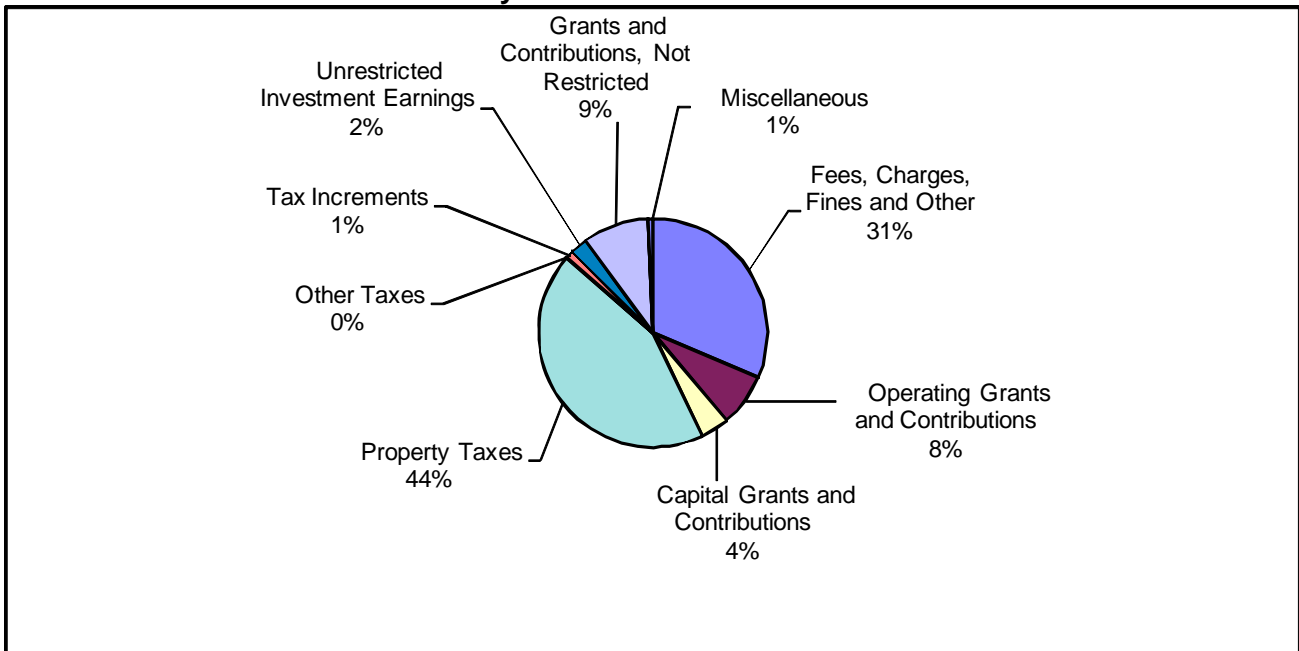
2010

Revenues by Source-Governmental Activities



2009

Revenues by Source-Governmental Activities

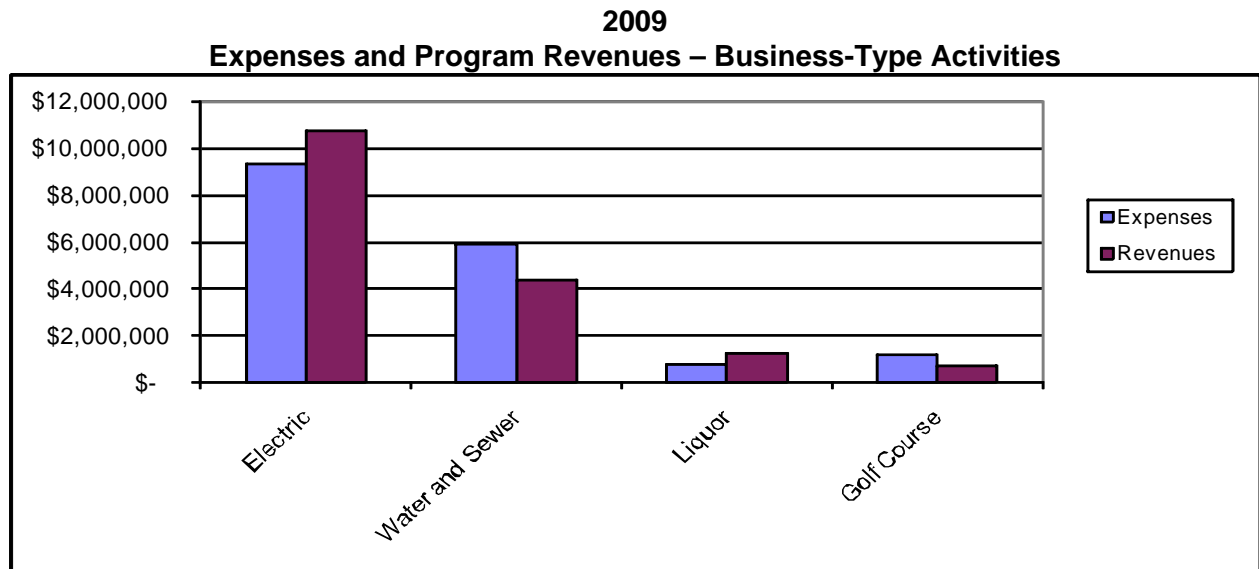
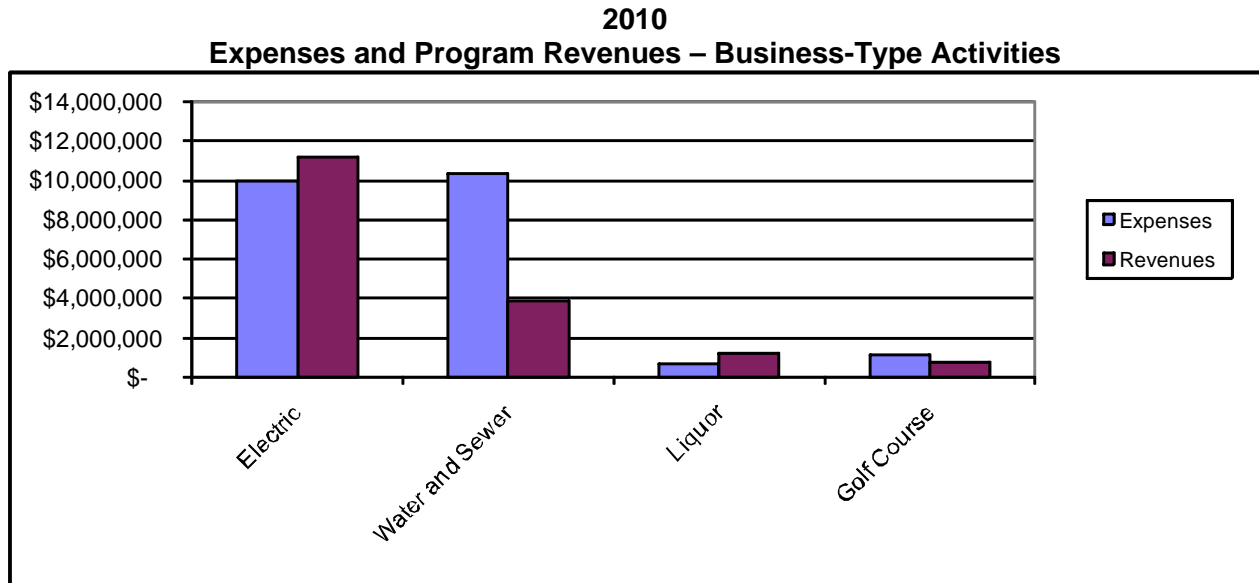


**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CITY OF BUFFALO'S CHANGES IN NET ASSETS (CONTINUED)

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



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

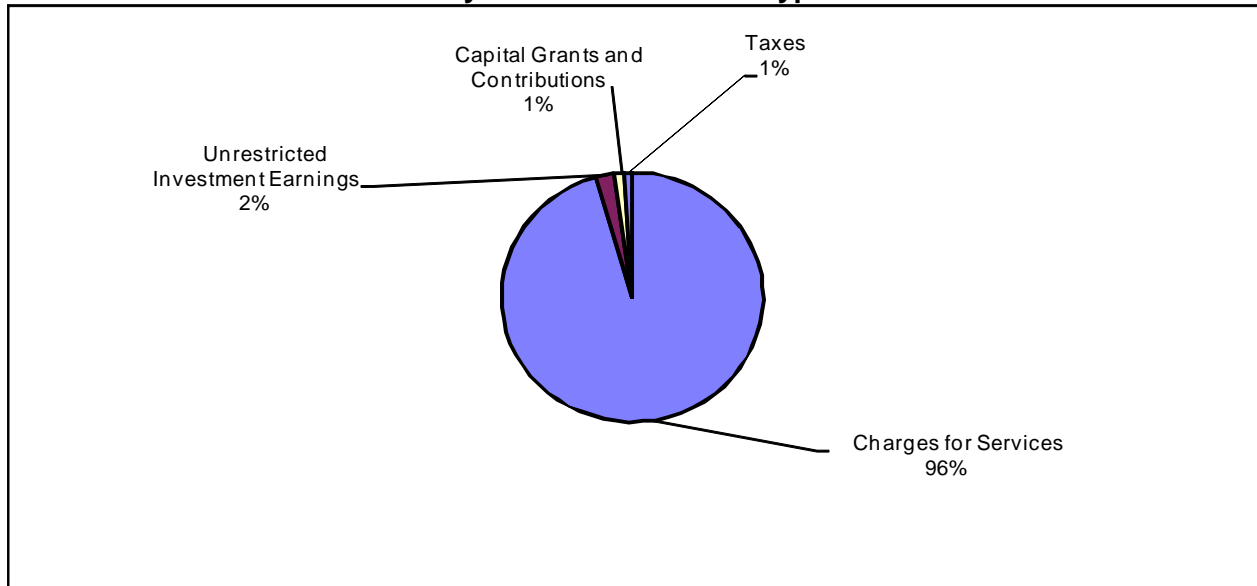
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CITY OF BUFFALO'S CHANGES IN NET ASSETS (CONTINUED)

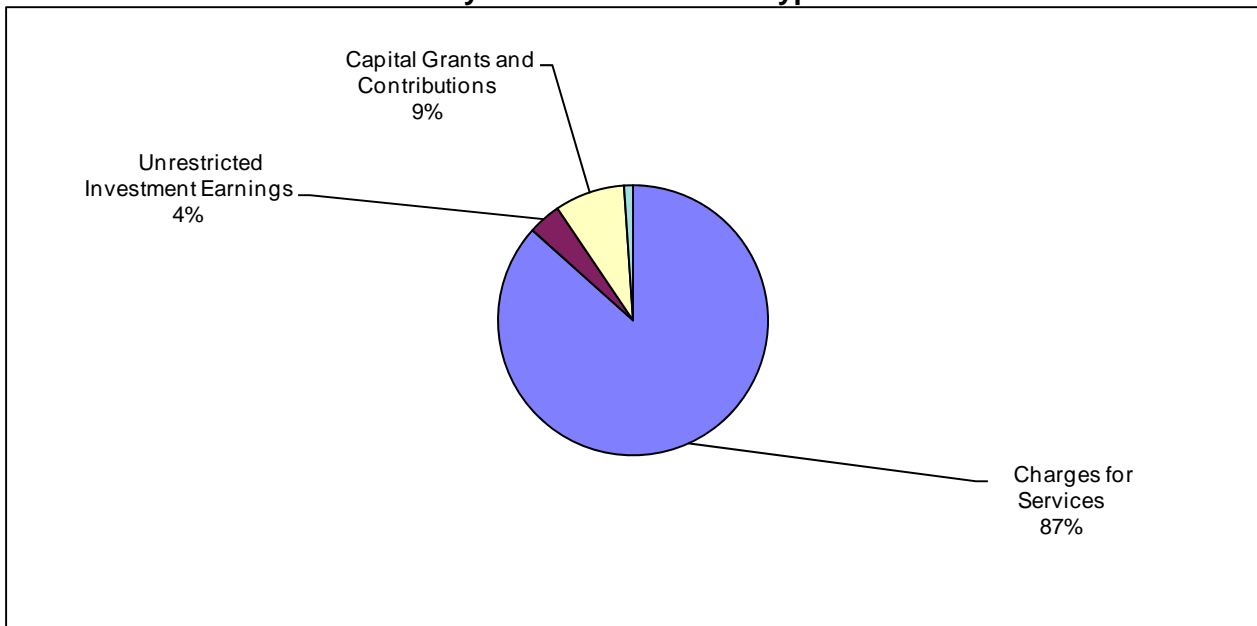
2010

Revenues by Source – Business-Type Activities



2009

Revenues by Source – Business-Type Activities



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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City of Buffalo's governmental funds reported combined ending fund balances of \$5,840,454, an increase of \$500,021 from 2009. Of this total amount, \$439,023, constitutes *unreserved fund balance*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service \$5,145,434, 2) for property held for resale for future development or sale \$167,459, 3) for prepaid expenses to be used during the following year \$43,538 and 4) reserved for loan commitment of \$45,000.

The general fund is the chief operating fund of the City of Buffalo. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,240,643.

During the current fiscal year the City of Buffalo's general fund balance increased by \$300,354. The primary reason for this increase was budgeted street maintenance projects bonded rather than using operating funds, a freeze on capital purchases and voluntary unpaid leave.

Debt Service

The increase in the debt service fund balance was the result of the receipt of bond proceeds and a transfer in from other funds.

Capital Project

The capital projects fund balance decreased as a result of the completion of several capital projects.

HRA Debt Service

The decrease in the HRA debt service fund balance was the result of an excess in principal and interest payments as compared to interest income and charges for services.

Airport

The decrease in the airport fund balance was the result of airport improvement projects.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Proprietary Funds

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

Total net assets in the electric fund at the end of 2010 were \$10,711,620, of which \$3,193,383 are unrestricted. Net assets increased \$267,762 during the current year primarily due to an increase in long-term assets and a decrease in payables and capital leases.

The water and sewer fund has total net assets of \$18,029,383, of which \$321,690 are unrestricted. The decrease in net assets of \$7,120,737 from 2009 was primarily due to bonded debt service payments from an escrow account for a refunded bond.

Sewer fees were increased \$0.25 per unit.

The liquor fund has total net assets of \$948,540. It has unrestricted assets of \$46,533. Net assets increased by \$307,030 from 2009. Net assets increased primarily due to increased sales and a decrease in the annual transfer to the Park Fund (see Note 9).

The City purchased Wild Marsh Golf Course in May 2004. Wild Marsh has total net assets of \$(3,220,759) and unrestricted net assets of \$(2,492,223) primarily due to operating losses incurred in the six and one-half years of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$13,039 over budget due mainly to an increase in charges for services. Expenditures came in over the budgeted amounts by \$5,196 which is not significant. This resulted in a net fund balance increase of \$7,843 compared to budget for the fiscal year (excluding other financing sources and uses).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Buffalo's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$141,613,592 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and furniture, vehicles, machinery and equipment, other capital assets, and infrastructure. The total decrease in the City of Buffalo's investment in capital assets (net of accumulated depreciation) was (.05%) less than in 2009. Most of this decrease can be attributed to the depreciation of the City's assets.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,233,149	\$ 1,074,547	\$ 2,520,406	\$ 2,488,163	\$ 3,753,555	\$ 3,562,710
Land Improvements	7,450,559	3,627,371	1,928,206	1,998,133	9,378,765	5,625,504
Buildings and Building Improvements	12,291,738	12,353,222	37,504,055	38,630,212	49,795,793	50,983,434
Improvements Other than Building	1,762,050	1,855,376	-	-	1,762,050	1,855,376
Vehicle	564,532	638,303	-	-	564,532	638,303
Equipment	2,066,000	2,514,436	2,888,423	2,322,184	4,954,423	4,836,620
Infrastructure	25,581,285	26,674,878	-	-	25,581,285	26,674,878
Utility Distribution Systems	-	-	38,871,619	39,095,290	38,871,619	39,095,290
Construction in Progress	6,105,903	7,388,157	845,667	650,498	6,951,570	8,038,655
Total	<u>\$ 57,055,216</u>	<u>\$ 56,126,290</u>	<u>\$ 84,558,376</u>	<u>\$ 85,184,480</u>	<u>\$ 141,613,592</u>	<u>\$ 141,310,770</u>

Long-Term Debt

At the end of the current fiscal year, the City of Buffalo had total bonded debt outstanding of \$94,098,609. Of this amount, \$21,155,000 comprises tax supported debt, \$2,375,000 is special assessment debt and \$70,568,609 is revenue supported debt. All outstanding debt carries the general obligation backing for which the City is liable in the event of default by the property owners subject to the specific taxes, special assessments or revenues pledged to the retirement of the debt.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
G.O. Tax Supported Debt	\$ 21,155,000	\$ 18,220,000	\$ -	\$ -	\$ 21,155,000	\$ 18,220,000
G.O. Special Assessment Debt	2,375,000	3,270,000	-	-	2,375,000	3,270,000
G.O. Revenue Debt	7,618,806	7,778,806	62,949,803	69,036,639	70,568,609	76,815,445
Total	<u>\$ 31,148,806</u>	<u>\$ 29,268,806</u>	<u>\$ 62,949,803</u>	<u>\$ 69,036,639</u>	<u>\$ 94,098,609</u>	<u>\$ 98,305,445</u>

The City of Buffalo's total bonded debt decreased by \$4,206,836 or (4.3%) during the current fiscal year. There were three new bonds issued in the current fiscal year, a \$3,640,000 General Obligation Bond, a \$3,705,000 General Obligation Bond, and a \$955,000 Electric Revenue Bond (see Note 4). The City also paid off the 1998 Water & Sewer Revenue Bonds via an escrow account established prior to 2010 for such purpose.

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Wright County is currently 7.9%, based on U.S. Department of Labor: Bureau of Labor statistics.
- The City of Buffalo continues to see increased commercial/industrial construction growth. Residential growth is somewhat slower and values on homes are averaging lower.
- Interest rates have remained low and the City's investment earnings have decreased accordingly.
- State budget problems could affect state aid payments. Lack of a state budget could adversely affect the City budget and operations needing communication with state agencies.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF BUFFALO, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2009)

	2010			2009
	Governmental Activities	Business-Type Activities	Total	Total
ASSETS				
Cash and Investments	\$ 8,488,995	\$ 9,294,241	\$ 17,783,236	\$ 17,675,019
Cash and Investments with Fiscal Agent	2,159,789	-	2,159,789	8,995,492
Taxes Receivable	143,687	5,159	148,846	110,077
Special Assessments Receivable	1,327,836	-	1,327,836	1,378,081
Accounts Receivable	238,400	1,401,851	1,640,251	1,599,131
Hook-up Fees Receivable - Current	-	70,516	70,516	73,064
Due from Other Governments	186,091	2,548	188,639	332,452
Accrued Interest Receivable	37,183	5,419	42,602	13,753
Internal Balances	3,802,746	(3,802,746)	-	-
Inventory	-	1,328,684	1,328,684	1,408,625
Prepaid Items	43,538	29,747	73,285	68,610
Hook-up Fees Receivable - Noncurrent	-	232,009	232,009	273,100
Loans Receivable	650,603	-	650,603	394,485
Land Held for Resale	167,459	-	167,459	23,659
Bond Issuance Costs	271,842	514,699	786,541	781,105
Capital Assets:				
Land and Construction in Progress	7,339,052	3,366,073	10,705,125	11,601,365
Other Capital Assets, Net of Depreciation	49,716,164	81,192,303	130,908,467	129,709,405
Total Assets	74,573,385	93,640,503	168,213,888	174,437,423
LIABILITIES				
Checks Written in Excess of Cash	3,813,428	2,465,075	6,278,503	5,723,891
Accounts and Contracts Payable	821,774	1,193,711	2,015,485	2,247,710
Other Accrued Liabilities	88,700	84,670	173,370	229,285
Accrued Interest Payable	404,779	306,582	711,361	777,048
Due to Other Governmental Units	24,590	3,333	27,923	58,532
Escrow Deposits	111,433	111,480	222,913	162,620
Deferred Revenue	13,156	64,483	77,639	17,497
Long-Term Liabilities:				
Due within One Year	4,996,471	2,445,144	7,441,615	10,286,302
Due in More than One Year	26,956,338	60,497,241	87,453,579	84,234,039
Total Liabilities	37,230,669	67,171,719	104,402,388	103,736,924
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	29,907,872	25,399,401	55,307,273	56,552,375
Restricted for:				
Debt Service	4,119,749	-	4,119,749	3,999,778
Construction	-	-	-	2,376,196
Other Purposes	255,997	-	255,997	66,953
Unrestricted	3,059,098	1,069,383	4,128,481	7,705,197
Total Net Assets	\$ 37,342,716	\$ 26,468,784	\$ 63,811,500	\$ 70,700,499

See accompanying Notes to Financial Statements.

**CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

Functions/Programs	2010			
	Expenses	Fees, Charges, Fines and Other	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,207,340	\$ 740,008	\$ -	\$ -
Public Safety	2,723,059	581,808	199,660	-
Highways and Streets	5,065,992	2,976	149,155	2,856,019
Culture and Recreation	2,218,237	761,658	343,658	2,912,281
Sanitation	701,271	851,273	-	-
Community Development	255,849	114,454	2,000	370,683
Interest on Long-Term Debt	1,261,117	-	-	-
Total Governmental Activities	<u>13,432,865</u>	<u>3,052,177</u>	<u>694,473</u>	<u>6,138,983</u>
Business-Type Activities:				
Electric	9,974,491	11,162,205	-	25,278
Water and Sewer	6,777,951	3,870,828	-	208,254
Liquor	722,082	1,205,477	-	-
Golf Course	1,160,440	771,063	-	-
Total Business-Type Activities	<u>18,634,964</u>	<u>17,009,573</u>	<u>-</u>	<u>233,532</u>
Total	<u>\$ 32,067,829</u>	<u>\$ 20,061,750</u>	<u>\$ 694,473</u>	<u>\$ 6,372,515</u>

General Revenues:

Taxes:
Property Taxes, Levied for General Purpose
Tax Increments
Other Taxes
Grants and Contributions not Restricted to Specific Programs
Unrestricted Investment Earnings
Insurance Proceeds
Gain on Disposal of Capital Assets
Miscellaneous
Capital Contribution to Other Governments
Transfers
Total General Revenues and Transfers
Change in Net Assets

Net Assets - Beginning of Year

Prior Period Adjustment

RESTATED NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying Notes to Financial Statements.

2010			2009
Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Total
\$ (467,332)	\$ -	\$ (467,332)	\$ (696,163)
(1,941,591)	-	(1,941,591)	(1,528,866)
(2,057,842)	-	(2,057,842)	(3,929,412)
1,799,360	-	1,799,360	(918,692)
150,002	-	150,002	149,531
231,288	-	231,288	(362,875)
(1,261,117)	-	(1,261,117)	(1,201,036)
(3,547,232)	-	(3,547,232)	(8,487,513)
-	1,212,992	1,212,992	2,310,650
-	(2,698,869)	(2,698,869)	(1,542,089)
-	483,395	483,395	469,873
-	(389,377)	(389,377)	(522,874)
-	(1,391,859)	(1,391,859)	715,560
(3,547,232)	(1,391,859)	(4,939,091)	(7,771,953)
4,693,768	176,334	4,870,102	4,575,860
114,580	-	114,580	104,890
1,844	-	1,844	22,579
431,026	20,136	451,162	966,984
226,431	389,488	615,919	985,355
4,923	-	4,923	33,201
5,358	-	5,358	5,100
25,047	50,487	75,534	27,378
(3,086,734)	-	(3,086,734)	-
1,189,960	(1,189,960)	-	-
3,606,203	(553,515)	3,052,688	6,721,347
58,971	(1,945,374)	(1,886,403)	(1,050,606)
37,283,745	33,416,754	70,700,499	71,751,105
-	(5,002,596)	(5,002,596)	-
37,283,745	28,414,158	65,697,903	71,751,105
\$ 37,342,716	\$ 26,468,784	\$ 63,811,500	\$ 70,700,499

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2009)**

ASSETS	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>
Cash and Investments	\$ 2,485,647	\$ 2,978,851	\$ 1,324,693
Cash and Investments with Fiscal Agent	-	2,159,789	-
Taxes Receivable:			
Delinquent	92,192	48,855	-
Special Assessments Receivable:			
Delinquent	-	64,098	-
Deferred	-	1,263,738	-
Accounts Receivable	154,366	-	-
Accrued Interest Receivable	-	-	-
Due from Other Governmental Units	47,698	7,789	-
Due from Other Funds	1,232	-	-
Advances to Other Funds	-	147,408	-
Interfund Lease Receivable	-	-	-
Loans Receivable, Net of Allowance	-	-	-
Prepaid Expenses	38,152	-	-
Land Held for Resale	7,800	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,827,087</u>	<u>\$ 6,670,528</u>	<u>\$ 1,324,693</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Checks Written in Excess of Cash	\$ -	\$ -	\$ -
Accounts and Contracts Payable	197,215	1,000	352,868
Other Accrued Liabilities	62,833	-	-
Due to Other Governmental Units	22,900	-	-
Due to Other Funds	-	-	-
Interfund Notes Payable	31,800	-	-
Advances From Other Funds	-	-	-
Escrow Deposits	104,835	-	-
Deferred Revenue	120,909	1,524,094	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	540,492	1,525,094	352,868
FUND BALANCES (DEFICITS)			
Reserved:			
Reserved for Prepaid Expenses	38,152	-	-
Reserved for Debt Retirement	-	5,145,434	-
Reserved for Property Held for Resale	7,800	-	-
Reserved for Loan Commitment	-	-	-
Unreserved, Undesignated Reported in:			
General Fund	2,240,643	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	971,825
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficits)	2,286,595	5,145,434	971,825
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 2,827,087</u>	<u>\$ 6,670,528</u>	<u>\$ 1,324,693</u>

See accompanying Notes to Financial Statements.

2010				2009	
HRA Debt Service	Airport	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 452,647	\$ -	\$ 1,247,157	\$ 8,488,995	\$ 9,479,973	
-	-	-	2,159,789	438,402	
-	-	2,640	143,687	106,451	
-	-	-	64,098	59,115	
-	-	-	1,263,738	1,318,966	
-	2,468	81,566	238,400	287,916	
-	-	37,183	37,183	11,183	
-	72	130,532	186,091	331,744	
29,884	-	20,000	51,116	50,205	
-	-	-	147,408	147,408	
4,180,000	-	-	4,180,000	4,235,000	
-	-	650,603	650,603	394,485	
-	-	5,386	43,538	43,294	
-	-	159,659	167,459	23,659	
<u>\$ 4,662,531</u>	<u>\$ 2,540</u>	<u>\$ 2,334,726</u>	<u>\$ 17,822,105</u>	<u>\$ 16,927,801</u>	
\$ -	\$ 359,291	\$ 3,454,137	\$ 3,813,428	\$ 3,563,317	
-	56,016	214,675	821,774	910,998	
-	411	25,456	88,700	73,443	
-	1,690	-	24,590	55,033	
-	85,000	1,232	86,232	542,746	
-	-	-	31,800	63,600	
457,746	-	-	457,746	-	
-	-	6,598	111,433	51,140	
4,209,884	-	691,061	6,545,948	6,327,091	
<u>4,667,630</u>	<u>502,408</u>	<u>4,393,159</u>	<u>11,981,651</u>	<u>11,587,368</u>	
-	-	5,386	43,538	43,294	
-	-	-	5,145,434	3,010,555	
-	-	159,659	167,459	23,659	
-	-	45,000	45,000	-	
-	-	-	2,240,643	1,940,071	
(5,099)	-	(2,268,478)	(2,273,577)	(2,513,288)	
-	(499,868)	-	471,957	2,836,142	
<u>(5,099)</u>	<u>(499,868)</u>	<u>(2,058,433)</u>	<u>5,840,454</u>	<u>5,340,433</u>	
<u>\$ 4,662,531</u>	<u>\$ 2,540</u>	<u>\$ 2,334,726</u>	<u>\$ 17,822,105</u>	<u>\$ 16,927,801</u>	

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2009)**

	2010	2009
Total Fund Balance for Governmental Funds	\$ 5,840,454	\$ 5,340,433
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	1,233,149	1,074,547
Construction in Progress	6,105,903	7,388,157
Land Improvements	9,987,985	5,754,654
Buildings and Improvements	17,260,085	16,852,055
Improvements Other than Buildings	2,630,056	2,599,935
Vehicles	2,432,233	2,407,233
Equipment	6,499,670	6,452,781
Infrastructure	66,310,642	65,131,438
Less: Accumulated Depreciation	(55,404,507)	(51,534,510)
Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the governmental funds.		
	6,532,792	6,327,091
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net assets.		
	(404,779)	(387,020)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(31,148,806)	(29,268,806)
Unamortized Discounts and Premium and Bond Issuance Costs	375,451	373,119
Note Payable	(57,473)	(77,757)
Obligations Under Capital Leases	(511,400)	(838,664)
Compensated Absences Payable	(338,739)	(310,941)
Total Net Assets of Governmental Activities	\$ 37,342,716	\$ 37,283,745

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	General	Debt Service	Capital Project
REVENUES			
General Property Taxes	\$ 2,664,379	\$ 1,836,554	\$ -
Tax Increments	-	-	-
Other Taxes	1,844	-	-
Licenses and Permits	143,362	-	-
Intergovernmental	495,921	205,148	1,171,462
Special Assessments	-	150,977	-
Charges for Services	1,396,612	-	-
Fines and Forfeits	34,207	-	-
Investment Earnings	8,715	9,858	13,228
Refunds and Reimbursements	109,196	-	1,430,006
Grants and Contributions	13,995	-	-
Miscellaneous	8,660	-	6,337
Total Revenues	<u>4,876,891</u>	<u>2,202,537</u>	<u>2,621,033</u>
EXPENDITURES			
Current:			
General Government	934,545	-	-
Public Safety	2,038,165	-	-
Public Works	1,151,599	-	-
Sanitation	701,271	-	-
Culture and Recreation	-	-	-
Community Development	-	-	-
Capital Outlay:			
General Government	988	-	-
Public Safety	55,685	-	-
Public Works	-	-	5,309,211
Culture and Recreation	-	-	-
Capital Leases:			
Principal	230,900	-	-
Interest and Fiscal Charges	25,791	-	-
Debt Service:			
Principal	-	1,705,000	-
Interest and Fiscal Charges	-	981,627	17,484
Total Expenditures	<u>5,138,944</u>	<u>2,686,627</u>	<u>5,326,695</u>
Revenue Under Expenditures	(262,053)	(484,090)	(2,705,662)
OTHER FINANCING SOURCES (USES)			
Transfer In	1,065,783	539,722	147,634
Transfer Out	(508,376)	(63,215)	(42,332)
Bond Proceeds	-	2,171,892	724,087
Proceeds from Sale of Capital Assets	5,000	-	-
Insurance Proceeds	-	-	-
Capital Lease Proceeds	-	-	-
Payment of Refunded Bonds	-	-	-
Bond Premium	-	8,409	11,956
Bond Discount	-	-	-
Total Other Financing Sources (Uses)	<u>562,407</u>	<u>2,656,808</u>	<u>841,345</u>
Net Change in Fund Balances	300,354	2,172,718	(1,864,317)
Fund Balance - Beginning of Year	1,986,241	2,972,716	2,836,142
FUND BALANCE - END OF YEAR	<u><u>\$ 2,286,595</u></u>	<u><u>\$ 5,145,434</u></u>	<u><u>\$ 971,825</u></u>

See accompanying Notes to the Financial Statements.

2010				2009	
HRA Debt Service	Airport	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ -	\$ 18,688	\$ 284,317	\$ 4,803,938	\$ 4,270,428	
-	-	114,580	114,580	104,890	
-	-	-	1,844	1,733	
-	-	-	143,362	175,762	
-	3,145,372	469,967	5,487,870	1,948,055	
-	-	-	150,977	345,491	
-	230,548	1,055,370	2,682,530	2,845,451	
-	-	-	34,207	39,977	
144,477	-	8,824	185,102	242,443	
61,000	5,065	12,314	1,617,581	84,879	
-	-	84,472	98,467	97,875	
-	-	9,415	24,412	27,378	
<u>205,477</u>	<u>3,399,673</u>	<u>2,039,259</u>	<u>15,344,870</u>	<u>10,184,362</u>	
-	-	-	934,545	962,481	
-	-	333,027	2,371,192	2,578,949	
-	-	-	1,151,599	1,139,631	
-	-	-	701,271	704,105	
-	319,389	1,374,506	1,693,895	1,935,654	
5,000	-	463,131	468,131	411,226	
-	-	-	988	166,287	
-	-	290	55,975	271,982	
-	-	-	5,309,211	2,682,720	
-	4,028,220	27,103	4,055,323	132,829	
75,681	13,949	6,733	327,263	274,223	
4,842	1,553	215	32,401	45,049	
55,000	20,284	-	1,780,284	1,805,284	
188,415	14,284	13,709	1,215,519	1,156,238	
<u>328,938</u>	<u>4,397,679</u>	<u>2,218,714</u>	<u>20,097,597</u>	<u>14,266,658</u>	
(123,461)	(998,006)	(179,455)	(4,752,727)	(4,082,296)	
80,523	50,000	790,000	2,673,662	3,636,397	
-	-	(512,104)	(1,126,027)	(1,004,149)	
-	744,021	-	3,640,000	6,543,806	
-	-	358	5,358	5,100	
-	-	29,206	29,206	33,201	
-	-	-	-	344,776	
-	-	-	-	(2,475,000)	
-	10,184	-	30,549	79,188	
-	-	-	-	(1,760)	
<u>80,523</u>	<u>804,205</u>	<u>307,460</u>	<u>5,252,748</u>	<u>7,161,559</u>	
(42,938)	(193,801)	128,005	500,021	3,079,263	
37,839	(306,067)	(2,186,438)	5,340,433	2,261,170	
<u>\$ (5,099)</u>	<u>\$ (499,868)</u>	<u>\$ (2,058,433)</u>	<u>\$ 5,840,454</u>	<u>\$ 5,340,433</u>	

**CITY OF BUFFALO, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010	2009
Net Change in Fund Balances-Total Governmental Funds	\$ 500,021	\$ 3,079,263

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	8,011,157	2,767,766
Gain (Loss) on Disposal of Capital Assets	(96,042)	5,100
Capital Contributions to Other Governments	(3,086,734)	-
Proceeds from Sales of Capital Assets	(358)	(5,100)
Depreciation Expense	(3,899,097)	(3,557,293)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

Capital Lease Proceeds	-	(344,776)
Principal Payments for Capital Leases	327,264	274,223

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

General Obligation Bond Proceeds	(3,640,000)	(6,543,806)
Payment of Refunded Bonds	-	2,475,000
Bond Discount/Premium	5,255	(77,428)
Bond Issuance Costs	40,245	80,584
Repayment of Bond Principal and Note Payable	1,780,284	1,805,284
Change in Accrued Interest Expense for General Obligation Bonds	(17,759)	(5,219)
Amortization of Bond Issuance Costs	(36,501)	(33,996)
Amortization of Bond Discount/Premium	(6,667)	(41,118)

Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.

	205,701	(94,551)
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

	(27,798)	138,253
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Change in Net Assets of Governmental Activities	\$ 58,971	\$ (77,814)
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See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2009)**

ASSETS	<u>Electric</u>	<u>Water & Sewer</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,975,256	\$ 6,265,044
Cash and Investments with Fiscal Agent	-	-
Accounts Receivable	1,017,508	361,141
Accrued Interest Receivable	5,419	-
Taxes Receivable	710	-
Sewer and Water Hook-up Fees Receivable - Current Portion	-	70,516
Due from Other Governments	1,692	260
Due from Other Funds	65,000	390,000
Interfund Note Receivable	-	31,800
Inventory	762,056	8,335
Prepaid Expenses	14,292	9,094
Total Current Assets	<u>4,841,933</u>	<u>7,136,190</u>
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	232,009
Unamortized Bond Issuance Costs	106,164	373,731
Advance to Other Funds	-	-
Capital Assets:		
Land, Buildings, Infrastructure and Improvements	20,240,505	86,020,672
Equipment	4,674,384	1,147,758
Construction in Progress	-	845,667
Total Capital Assets	<u>24,914,889</u>	<u>88,014,097</u>
Less: Allowance for Depreciation	<u>(10,933,122)</u>	<u>(22,240,614)</u>
Total Net Capital Assets	<u>13,981,767</u>	<u>65,773,483</u>
Total Long-Term Assets	<u>14,087,931</u>	<u>66,379,223</u>
Total Assets	<u><u>\$ 18,929,864</u></u>	<u><u>\$ 73,515,413</u></u>

See accompanying Notes to the Financial Statements.

2010			2009
Liquor	Golf Course	Total	Total
\$ 53,941	\$ -	\$ 9,294,241	\$ 8,195,046
-	-	-	8,557,090
81	23,121	1,401,851	1,311,215
-	-	5,419	2,570
4,449	-	5,159	3,626
-	-	70,516	73,064
596	-	2,548	708
-	-	455,000	1,002,746
-	-	31,800	63,600
537,223	21,070	1,328,684	1,408,625
3,362	2,999	29,747	25,316
<u>599,652</u>	<u>47,190</u>	<u>12,624,965</u>	<u>20,643,606</u>
-	-	232,009	273,100
1,240	33,564	514,699	513,007
-	457,746	457,746	-
1,990,638	3,241,340	111,493,155	109,107,423
416,161	744,350	6,982,653	6,860,156
-	-	845,667	650,498
<u>2,406,799</u>	<u>3,985,690</u>	<u>119,321,475</u>	<u>116,618,077</u>
<u>(652,151)</u>	<u>(937,212)</u>	<u>(34,763,099)</u>	<u>(31,433,597)</u>
<u>1,754,648</u>	<u>3,048,478</u>	<u>84,558,376</u>	<u>85,184,480</u>
<u>1,755,888</u>	<u>3,539,788</u>	<u>85,762,830</u>	<u>85,970,587</u>
<u>\$ 2,355,540</u>	<u>\$ 3,586,978</u>	<u>\$ 98,387,795</u>	<u>\$ 106,614,193</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS (CONTINUED)
 DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2009)**

LIABILITIES	Electric	Water & Sewer
CURRENT LIABILITIES		
Checks Written in Excess of Cash	\$ -	\$ -
Accounts and Contracts Payable	818,466	277,542
Accrued Expenses	36,975	13,398
Due to Other Governments	-	-
Due to Other Funds	-	-
Accrued Interest	120,502	177,153
Deferred Revenue	21,048	-
Compensated Absences - Current Portion	59,377	29,220
Capital Lease Obligation - Current Portion	33,471	4,573
Interfund Lease Payable - Current Portion	-	-
Bonds Payable - Current Portion	970,000	1,147,987
Total Current Liabilities	<u>2,059,839</u>	<u>1,649,873</u>
LONG-TERM LIABILITIES		
Escrow Deposits	-	111,480
Compensated Absences - Long Term	56,928	25,944
Capital Lease Obligation - Long Term	20,816	3,008
Bonds Payable - Long Term	5,933,253	53,695,725
Interfund Lease Payable	-	-
Advance from Other Funds	147,408	-
Total Long-Term Liabilities	<u>6,158,405</u>	<u>53,836,157</u>
Total Liabilities	8,218,244	55,486,030
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	7,518,237	17,707,693
Restricted for Construction	-	-
Unrestricted	3,193,383	321,690
Total Net Assets	<u>10,711,620</u>	<u>18,029,383</u>
Total Liabilities and Net Assets	<u>\$ 18,929,864</u>	<u>\$ 73,515,413</u>

See accompanying Notes to Financial Statements.

2010			2009
Liquor	Golf Course	Total	Total
\$ -	\$ 2,465,075	\$ 2,465,075	\$ 2,160,574
89,324	8,379	1,193,711	1,336,712
29,195	5,102	84,670	155,842
-	3,333	3,333	3,499
390,000	29,884	419,884	510,205
8,927	-	306,582	390,028
7,927	35,508	64,483	17,497
16,084	21,570	126,251	118,314
77,331	40,531	155,906	222,686
-	55,000	55,000	55,000
45,000	-	2,162,987	7,668,649
<u>663,788</u>	<u>2,664,382</u>	<u>7,037,882</u>	<u>12,639,006</u>
-	-	111,480	111,480
12,902	4,126	99,900	101,087
685,310	14,229	723,363	883,826
45,000	-	59,673,978	55,134,632
-	4,125,000	4,125,000	4,180,000
-	-	147,408	147,408
<u>743,212</u>	<u>4,143,355</u>	<u>64,881,129</u>	<u>60,558,433</u>
1,407,000	6,807,737	71,919,011	73,197,439
902,007	(728,536)	25,399,401	30,506,291
-	-	-	2,376,196
46,533	(2,492,223)	1,069,383	534,267
<u>948,540</u>	<u>(3,220,759)</u>	<u>26,468,784</u>	<u>33,416,754</u>
<u>\$ 2,355,540</u>	<u>\$ 3,586,978</u>	<u>\$ 98,387,795</u>	<u>\$ 106,614,193</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	Electric	Water & Sewer
OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	-	-
Charges for Services	11,162,205	3,870,828
Total Gross Profit and Operating Revenues	<u>11,162,205</u>	<u>3,870,828</u>
OPERATING EXPENSES		
Cost of Sales and Services	7,766,794	1,139,480
Compensation and Employee Benefits	1,050,155	818,246
Depreciation	884,856	2,225,445
Total Operating Expenses	<u>9,701,805</u>	<u>4,183,171</u>
OPERATING INCOME (LOSS)	1,460,400	(312,343)
OTHER INCOME (EXPENSES)		
Interest Income (Loss)	17,049	411,050
Interest Expense	(272,686)	(2,594,780)
Property Tax Revenues	22,564	-
Intergovernmental Revenues	16,918	-
Special Assessment Revenues	-	-
Access Fees	4,500	208,254
Refunds and Reimbursements	20,778	-
Miscellaneous Revenue	2,294	5,583
Total Other Income (Expense)	<u>(188,583)</u>	<u>(1,969,893)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,271,817	(2,282,236)
CONTRIBUTIONS AND TRANSFERS		
Transfers Out	(1,022,006)	(175,629)
Capital Contributed from Other Funds	17,951	339,724
Total Contributions and Transfers	<u>(1,004,055)</u>	<u>164,095</u>
CHANGE IN NET ASSETS	267,762	(2,118,141)
Net Assets - Beginning of Year	10,443,858	25,150,120
Prior Period Adjustment	-	(5,002,596)
Restated Net Assets - January 1	<u>10,443,858</u>	<u>20,147,524</u>
NET ASSETS - END OF YEAR	<u>\$ 10,711,620</u>	<u>\$ 18,029,383</u>

See accompanying Notes to Financial Statements.

2010			2009
Liquor	Golf Course	Total	Total
\$ 4,117,397	\$ 72,568	\$ 4,189,965	\$ 4,144,148
(2,911,920)	(43,210)	(2,955,130)	(2,885,810)
-	741,705	15,774,738	15,141,858
<u>1,205,477</u>	<u>771,063</u>	<u>17,009,573</u>	<u>16,400,196</u>
212,207	312,598	9,431,079	11,223,640
413,714	533,654	2,815,769	287,507
60,614	159,367	3,330,282	3,084,272
<u>686,535</u>	<u>1,005,619</u>	<u>15,577,130</u>	<u>14,595,419</u>
518,942	(234,556)	1,432,443	1,804,777
(25,563)	(13,048)	389,488	742,912
(35,547)	(154,821)	(3,057,834)	(2,678,915)
153,770	-	176,334	170,074
3,218	-	20,136	10,064
-	-	-	20,846
-	-	212,754	69,450
-	-	20,778	-
42,210	400	50,487	-
<u>138,088</u>	<u>(167,469)</u>	<u>(2,187,857)</u>	<u>(1,665,569)</u>
657,030	(402,025)	(755,414)	139,208
(350,000)	-	(1,547,635)	(2,632,248)
-	-	357,675	1,520,248
<u>(350,000)</u>	<u>-</u>	<u>(1,189,960)</u>	<u>(1,112,000)</u>
307,030	(402,025)	(1,945,374)	(972,792)
641,510	(2,818,734)	33,416,754	34,389,546
-	-	(5,002,596)	-
<u>641,510</u>	<u>(2,818,734)</u>	<u>28,414,158</u>	<u>34,389,546</u>
<u>\$ 948,540</u>	<u>\$ (3,220,759)</u>	<u>\$ 26,468,784</u>	<u>\$ 33,416,754</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	Electric	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Service Users	\$ 11,125,353	\$ 3,839,716
Cash Paid to Suppliers	(7,638,032)	(1,223,020)
Cash Paid to Employees	(1,097,618)	(831,292)
Net Cash Provided (Used) by Operating Activities	2,389,703	1,785,404
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund Borrowing	(1,022,006)	(175,629)
Interfund Note Receivable	-	31,800
Repayment of Advances from Other Funds	-	-
Advance to Other Funds	-	90,000
Property Tax Revenues	22,395	-
Special Assessment Revenues	-	43,639
Miscellaneous Revenues	23,072	5,583
Intergovernmental Revenues	15,339	(260)
Checks Written in Excess of Cash in Bank	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(961,200)	(4,867)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Bonds	955,000	3,705,000
Payments on Bond Issuance Costs, Premiums and Discounts	(23,224)	115,723
Interfund Lease Payable	-	-
Access Fees	4,500	208,254
Acquisition and Construction of Capital Assets	(1,337,010)	(1,000,920)
Interest Paid on Revenue Bonds	(287,268)	(2,658,078)
Interest Paid on Capital Lease Obligations	(4,092)	-
Proceeds from Capital Lease	-	-
Principal Payments on Capital Lease Obligation	(53,689)	(60,141)
Principal Payments on Revenue Bonds	(965,000)	(9,736,836)
Net Cash Used by Capital and Related Financing Activities	(1,710,783)	(9,426,998)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	14,200	411,050
Net Cash Provided (Used) by Investing Activities	14,200	411,050
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(268,080)	(7,235,411)
Cash and Cash Equivalents - Beginning of Year	3,243,336	13,500,455
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,975,256	\$ 6,265,044
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets		
Cash	\$ 2,975,256	\$ 6,265,044
Cash and Investments with Fiscal Agent	-	-
Total Cash and Cash Equivalents	\$ 2,975,256	\$ 6,265,044
Noncash Transactions		
Contributed Capital from Other Funds	\$ 17,951	\$ 339,724

See accompanying Notes to Financial Statements.

2010			2009	
Liquor	Golf Course	Total	Total	
\$ 1,121,979	\$ 788,332	\$ 16,875,380	\$ 19,632,032	
(306,917)	(305,442)	(9,473,411)	(14,392,315)	
(426,219)	(525,006)	(2,880,135)	(334,225)	
<u>388,843</u>	<u>(42,116)</u>	<u>4,521,834</u>	<u>4,905,492</u>	
(350,000)	-	(1,547,635)	(2,632,248)	
-	-	31,800	28,260	
-	-	-	(200,000)	
-	-	90,000	90,000	
152,406	-	174,801	170,074	
-	-	43,639	20,846	
42,210	400	71,265	-	
3,217	-	18,296	10,064	
-	301,674	301,674	456,432	
<u>(152,167)</u>	<u>302,074</u>	<u>(816,160)</u>	<u>(2,056,572)</u>	
-	-	4,660,000	11,611,754	
621	-	93,120	(452,551)	
-	(55,000)	(55,000)	(50,000)	
-	-	212,754	69,450	
(9,649)	1,856	(2,345,723)	(1,656,549)	
(37,021)	-	(2,982,367)	(2,411,839)	
-	(154,821)	(158,913)	(73,365)	
-	-	-	50,595	
(74,468)	(38,945)	(227,243)	(205,572)	
(45,000)	-	(10,746,836)	(16,134,791)	
<u>(165,517)</u>	<u>(246,910)</u>	<u>(11,550,208)</u>	<u>(9,252,868)</u>	
<u>(25,563)</u>	<u>(13,048)</u>	<u>386,639</u>	<u>761,259</u>	
<u>(25,563)</u>	<u>(13,048)</u>	<u>386,639</u>	<u>761,259</u>	
45,596	-	(7,457,895)	(5,642,689)	
<u>8,345</u>	<u>-</u>	<u>16,752,136</u>	<u>22,394,825</u>	
<u>\$ 53,941</u>	<u>\$ -</u>	<u>\$ 9,294,241</u>	<u>\$ 16,752,136</u>	
\$ 53,941	\$ -	\$ 9,294,241	\$ 8,195,046	
-	-	-	8,557,090	
<u>\$ 53,941</u>	<u>\$ -</u>	<u>\$ 9,294,241</u>	<u>\$ 16,752,136</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,675</u>	<u>\$ 1,520,248</u>	

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	Electric	Water & Sewer
Operating Income (Loss)	\$ 1,460,400	\$ (312,343)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	884,856	2,225,445
Amortization	21,139	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(57,315)	(30,912)
Decrease in Hook-up Fees Receivable	-	-
Increase in Taxes Receivable	-	-
Decrease in Due from Other Governments	-	-
(Increase) Decrease in Prepaid Items	(3,037)	(1,481)
(Increase) Decrease in Inventory	188,351	-
Increase (Decrease) in Accounts and Contracts Payable	(77,691)	(82,059)
Increase (Decrease) in Accrued Expenses	(56,594)	2,066
Increase in Due to Other Governments	(22)	(200)
Decrease in Due to Other Funds	-	-
Increase in Deferred Revenue	20,485	-
Increase (Decrease) in Accrued Compensated Absences	9,131	(15,112)
Net Cash Provided (Used) by Operating Activities	\$ 2,389,703	\$ 1,785,404

See accompanying Notes to the Financial Statements.

2010			2009	
Liquor	Golf Course	Total	Total	
\$ 518,942	\$ (234,556)	\$ 1,432,443	\$ 1,804,777	
60,614	159,367	3,330,282	3,084,272	
-	1,974	23,113	22,253	
1,660	(4,069)	(90,636)	301,239	
-	-	-	40,634	
-	-	-	(541)	
-	-	-	56,708	
(560)	647	(4,431)	2,692	
(114,789)	6,379	79,941	17,636	
20,639	(1,844)	(140,955)	(297,124)	
(17,119)	531	(71,116)	(50,147)	
-	-	(222)	(7,939)	
(90,000)	(321)	(90,321)	(59,795)	
4,842	21,659	46,986	824	
4,614	8,117	6,750	(9,997)	
<u>\$ 388,843</u>	<u>\$ (42,116)</u>	<u>\$ 4,521,834</u>	<u>\$ 4,905,492</u>	

NOTES TO FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Basic Financial Statements

Government-Wide Statements

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

Government-Wide Statements (Continued)

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

Fund Financial Statements

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

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

The City reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

Capital Project Fund

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

HRA Debt Service Fund

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

Airport Fund

The airport fund provides for the operation and capital improvements of the municipal airport.

The City reports the following major proprietary funds:

Electric Fund

The electric fund accounts for customer electric service charges that are used to finance electric operating expense.

Water and Sewer Fund

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

Liquor Fund

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

Golf Course Fund

The golf course fund accounts for customer sales that are used to finance golf course operating expenses.

Additionally, the City reports the following nonmajor funds:

Special Revenue Funds

The special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Measurement Focus and Basis of Accounting

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

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

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

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The City has elected not to apply the Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its proprietary funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Electric, Water and Sewer, Liquor Stores and Golf Course Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software, be classified as capital assets. This Statement also establishes guidance specific to intangible assets related to amortization and provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances. The requirements of this Statement were implemented for the City's fiscal year ending December 31, 2010; and the City capitalized the costs of utility service territory acquisition costs incurred in 2010 in utility plant assets.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this Statement are effective for the City's fiscal year ending December 31, 2011. The effect that GASB Statement No. 54 will have on the fiscal year 2011 basic financial statements has not been determined.

Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriation budgets are adopted for the following funds: General, Park, Fire, Library, Airport, Community Center, and Civic Center.

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

Legal Compliance – Budgets

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

1. Prior to September 1, the administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments, and the final tax levy and budget are adopted.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Legal Compliance – Budgets (Continued)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Fund and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds.
5. Budgets are adopted on a basis consistent with GAAP except for the enterprise funds where capital expenditures are budgeted for as an operating expense. Budgeted amounts presented are as originally adopted. The City does not budget for some special revenue funds that have minimal transactions nor is an annual budget prepared for the HRA.

Cash and Investments

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

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

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

Property Tax Credits

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

Property Tax Revenue Recognition

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenue Recognition (Continued)

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

Special Assessment Revenue Recognition

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

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Billing

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

Inventories

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

Interfund Receivables/Payables

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

Loans Receivable

The City records loans receivable for a revolving loan program that assists residents in the rehabilitation of homes. Also, the HRA issues loans to local businesses. The City estimates the allowance based on the specific identification method. The estimated allowance as of December 31, 2010 is \$15,560.

Property Held for Resale

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

Capital Assets

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during 2010 was \$29,361. Of this amount, \$2,050 was included as part of the cost of capital assets during construction in connection with street improvement projects.

Compensated Absences

Vacation

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

Sick Leave

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

Severance

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

Long-Term Obligations

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

In the governmental fund financial statements, reservations of fund balance represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

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

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

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

Allowance for Uncollectible Accounts

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

Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2 DEPOSITS AND INVESTMENTS

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Investment earnings on cash and pooled investments are credited to the General fund. In addition, other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$574,590.

Deposits

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

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

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

As of December 31, 2010, the City had the following investments in its pool:

Investment	Credit Rating	Maturity	Fair Value	Percent of Total
First American Treasury Obligations Fund - Class A	AAA	N/A	\$ 402,239	54.19%
Negotiable Certificates of Deposit:				
Bank of India, New York, NY	NR	1/26/2011	200,000	26.95%
Safra Nat'l Bank, NY	NR	6/15/2011	140,000	18.86%
			\$ 742,239	

NR - Not Rated

NA - Not Applicable

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

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

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

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

Cash	\$ 41,452
Money Market Accounts	9,561,269
Non-Negotiable Certificates of Deposits	3,319,472
Investments	<u>742,329</u>
Total Cash and Investments	<u><u>\$ 13,664,522</u></u>
Cash and Investments	\$ 17,783,236
Cash and Investments with Fiscal Agent	2,159,789
Less: Checks Written in Excess of Cash	<u>(6,278,503)</u>
Total Cash and Investments	<u><u>\$ 13,664,522</u></u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,074,547	\$ 158,602	\$ -	\$ -	\$ 1,233,149
Construction in Progress	7,388,157	3,881,787	(5,164,041)	-	6,105,903
Total Capital Assets, Not Being Depreciated	<u>8,462,704</u>	<u>4,040,389</u>	<u>(5,164,041)</u>	<u>-</u>	<u>7,339,052</u>
Capital Assets, Being Depreciated:					
Land Improvements	5,754,654	4,233,331	-	-	9,987,985
Buildings and Building Improvements	16,852,055	408,030	-	-	17,260,085
Improvements Other than Buildings	2,599,935	30,121	-	-	2,630,056
Vehicles	2,407,233	25,000	-	-	2,432,233
Equipment	6,452,781	76,347	(27,054)	(2,404)	6,499,670
Infrastructure	65,131,438	1,179,204	-	-	66,310,642
Total Capital Assets, Being Depreciated	<u>99,198,096</u>	<u>5,952,033</u>	<u>(27,054)</u>	<u>(2,404)</u>	<u>105,120,671</u>
Accumulated Depreciation for:					
Land Improvements	(2,127,283)	(410,143)	-	-	(2,537,426)
Buildings and Building Improvements	(4,498,833)	(469,514)	-	-	(4,968,347)
Improvements Other than Buildings	(744,559)	(123,447)	-	-	(868,006)
Vehicles	(1,768,930)	(98,771)	-	-	(1,867,701)
Equipment	(3,938,345)	(524,425)	27,054	2,046	(4,433,670)
Infrastructure	(38,456,560)	(2,272,797)	-	-	(40,729,357)
Total Accumulated Depreciation	<u>(51,534,510)</u>	<u>(3,899,097)</u>	<u>27,054</u>	<u>2,046</u>	<u>(55,404,507)</u>
Total Capital Assets, Being Depreciated, Net	<u>47,663,586</u>	<u>2,052,936</u>	<u>-</u>	<u>(358)</u>	<u>49,716,164</u>
Governmental Activities Capital Assets, Net	<u>\$ 56,126,290</u>	<u>\$ 6,093,325</u>	<u>\$ (5,164,041)</u>	<u>\$ (358)</u>	<u>\$ 57,055,216</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 235,646
Public Safety	303,973
Public Works	2,591,980
Parks, Culture and Recreation	767,498
Total Depreciation Expense, Governmental Activities	<u>\$ 3,899,097</u>

In 2010, \$357,675 of infrastructure assets were contributed to business-type activities from governmental activities. These infrastructure assets were included in decreases in construction in progress above, and corresponding increases in utility distribution systems in business-type activities below.

Also in 2010 there was \$3,086,734 of construction in progress that was contributed to other governments. See Note 13 for details.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,488,163	\$ 32,243	\$ -	\$ -	\$ 2,520,406
Construction in Progress	650,498	1,839,518	(1,644,349)	-	845,667
Total Capital Assets, Not Being Depreciated	<u>3,138,661</u>	<u>1,871,761</u>	<u>(1,644,349)</u>	<u>-</u>	<u>3,366,073</u>
Capital Assets, Being Depreciated:					
Land Improvements	2,649,933	-	-	-	2,649,933
Buildings and Building Improvements	49,227,426	159,071	-	-	49,386,497
Utility Distributions Systems	54,696,186	2,194,418	-	45,714	56,936,318
Machinery and Shop Equipment	6,905,871	125,863	(5,770)	(43,310)	6,982,654
Total Capital Assets, Being Depreciated	<u>113,479,416</u>	<u>2,479,352</u>	<u>(5,770)</u>	<u>2,404</u>	<u>115,955,402</u>
Accumulated Depreciation for:					
Land Improvements	(651,800)	(69,927)	-	-	(721,727)
Buildings and Building Improvements	(10,597,214)	(1,325,244)	-	40,016	(11,882,442)
Utility Distributions Systems	(15,600,896)	(1,498,698)	-	(965,105)	(18,064,699)
Machinery and Shop Equipment	(4,583,687)	(436,413)	2,825	923,043	(4,094,231)
Total Accumulated Depreciation	<u>(31,433,597)</u>	<u>(3,330,282)</u>	<u>2,825</u>	<u>(2,046)</u>	<u>(34,763,099)</u>
Total Capital Assets, Being Depreciated, Net	<u>82,045,819</u>	<u>(850,930)</u>	<u>(2,945)</u>	<u>358</u>	<u>81,192,303</u>
Business-Type Activities Capital Assets, Net	<u>\$ 85,184,480</u>	<u>\$ 1,020,831</u>	<u>\$ (1,647,294)</u>	<u>\$ 358</u>	<u>\$ 84,558,376</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2010 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2001 G.O. Library Refunding Bonds #65	\$ 700,000.00	2011	4.35-4.45%	\$ 95,000
2003 G.O. Capital Improvement Bond #89	6,000,000	2024	3.50-5.00%	5,800,000
2004 G.O. Highway Bonds #91	1,325,000	2020	2.50-4.00%	955,000
2006 G.O. Capital Improvement City Facilities #95	910,000	2017	4.00-4.30%	675,000
2006 G.O. Capital Improvement Mesh Network #95	110,000	2012	4.00-4.30%	50,000
2006 G.O. Capital Improvement Refunding #95	590,000	2012	4.00-4.30%	210,000
2008 G.O. Capital Improvement Bonds #2008C	2,145,000	2011	3.40%	2,145,000
2008 G.O. Street Reconstruction Bonds #2008D	1,715,000	2019	3.50-4.50%	1,715,000
2009 G.O. Refunding Bonds #2009A	2,460,000	2016	2.00-3.00%	2,185,000
2009 G.O. Bonds #2009D	3,685,000	2025	3.00-4.00%	3,685,000
2010 G.O. Bonds #2010A	1,070,000	2021	2.00-4.00%	1,070,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80%	2,145,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80%	425,000
Total Governmental Activities - G.O. Bonds	23,280,000			21,155,000
Business-Type Activities:				
2006 G.O. Capital Improvement Fiber Backbone #95	105,000	2012	4.00-4.30%	45,000
2006 G.O. Capital Improvement Liquor Store #95	215,000	2012	4.00-4.30%	90,000
2008 G.O. Equipment Certificates #2008A	775,000	2015	3.29%	570,000
2010 G.O. Bonds #2010A	2,385,000	2026	2.00-4.00%	2,385,000
2010 G.O. Bonds #2010C	1,320,000	2019	2.00-3.80%	1,320,000
Total Business-Type Activities - G.O. Bonds	4,800,000			4,410,000
Total General Obligation Bonds	\$ 28,080,000			\$ 25,565,000
Special Assessments Bonds:				
Governmental Activities:				
1997 Improvement Bonds #74A	\$ 515,000	2013	5.00-5.30%	\$ 140,000
2000 Improvement Bonds #83B	345,000	2016	4.70-5.20%	170,000
2002 Refunding Improvement Bonds #85D	635,000	2011	4.35-4.45%	95,000
2002 Refunding Improvement Bonds #87C	695,000	2019	4.38%	465,000
2004 Refunding Improvement Bonds #91	290,000	2012	3.50-5.00%	110,000
2004 Refunding Improvement Bonds #91	4,260,000	2012	3.25-4.00%	1,050,000
2005 Improvement Bonds #94	975,000	2016	3.25-4.00%	345,000
Total Special Assessment Bonds	\$ 7,715,000			\$ 2,375,000

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2002 Aerial Lift Pumper	\$ 525,000	2011	5.03%	\$ 39,272
2002 Airport Hangars Lease Purchase	470,000	2011	4.13%	29,322
2006 Laserfiche and Front End Loader	232,062	2011	4.65%	30,247
2007 Vehicles and Mower	140,377	2010	3.85%	-
2008 Vehicles	173,902	2013	3.95%	108,454
2008 Vehicles and Snowblower	174,742	2012	3.85%	61,359
2009 Technology	344,776	2012	3.85%	242,746
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 2,060,859</u>			<u>\$ 511,400</u>
Note Payable:				
Governmental Activities:				
Note Payable - State of Minnesota	\$ 202,841	2013	0.00%	\$ 57,473
General Obligation Revenue Bonds:				
Business-Type Activities:				
1998 Water & Sewer Revenue Bonds #76A (Capital Appreciation Bonds)	\$ 15,780,000	2023	4.90-5.50%	\$ -
2002 Water & Sewer Revenue Bond #85C	1,845,000	2016	4.25-4.72%	-
2002 Electric Revenue Bond #86	1,295,000	2015	4.45-5.00%	685,000
2004 Refunding Water & Sewer Revenue Bonds #91	595,000	2012	3.25-4.00%	110,000
2004 Refunding Wastewater Revenue Bonds #93	1,310,000	2009	3.25-4.00%	410,000
2004 Refunding Wastewater Revenue Bonds #93	5,920,000	2017	3.25-4.00%	4,320,000
2005 Water & Sewer Revenue Bonds #94	7,015,000	2025	4.20-4.25%	2,885,000
2005 Electric Revenue Bonds #94	1,755,000	2016	3.75-4.38%	1,130,000
2006 Electric Revenue Bonds #95	1,160,000	2022	4.50-5.00%	1,160,000
2006 Water and Sewer Rev. Refunding Bonds #95	14,995,000	2024	4.00-4.50%	13,925,000
2007 G.O. Wastewater Revenue Bonds #2007A	10,915,000	2023	4.00-4.25%	8,755,000
2008 G.O. Wastewater Rev. Refunding Bonds #2008B	29,625,000	2028	5.01-5.21%	13,028,166
2009 G.O. Water and Sewer Refunding Rev. Bonds #2009B	8,725,000	2025	4.35-4.94%	5,042,444
2009 G.O. Electric Rev. Refunding Bonds #2009C	3,025,000	2014	3.00-4.00%	2,440,000
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75%	2,824,193
2009 G.O. Water and Sewer Rev. Refunding Bonds #2009F	870,000	2016	1.00-2.65%	870,000
2010 Electric Revenue Bonds #2010B	955,000	2021	2.50-3.70%	955,000
Total Business-Type Activities Revenue Bonds	<u>108,789,194</u>			<u>58,539,803</u>
Governmental Activities:				
2001 Ice Arena Revenue Bonds #84C	3,770,000	2027	4.90-5.90%	3,040,000
2005 Wild Marsh Revenue Bonds #94	4,380,000	2027	3.50-4.50%	4,180,000
2009 G.O. Utility Revenue Bonds # 2009E	220,806	2024	2.00-3.75%	220,806
2009 HRA Revenue Bond	178,000	2020	4.82%	178,000
Total Governmental Activities Revenue Bonds	<u>8,548,806</u>			<u>7,618,806</u>
Total Revenue Bonds	<u>\$ 117,338,000</u>			<u>\$ 66,158,609</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 762,643
2006 Fiber Loop	200,000	2011	4.79%	22,197
2008 Sewer Jetter	148,000	2011	4.22%	-
2008 Vehicles and Golf Carts	167,699	2012	3.94%	58,810
2008 Vehicles and Golf Carts	50,595	2012	3.85%	35,619
Total Revenue Lease Purchase Obligations	<u>\$ 1,761,294</u>			<u>\$ 879,269</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2010:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 18,220,000	\$ 3,640,000	\$ 705,000	\$ 21,155,000	\$ 3,400,000
Special Assessment Debt with Governmental Commitments	3,270,000	-	895,000	2,375,000	950,000
Gross Revenue Ice Arena Bonds	3,145,000	-	105,000	3,040,000	110,000
General Obligation Revenue Bond	4,633,806	-	55,000	4,578,806	86,013
Bond Subtotal	29,268,806	3,640,000	1,760,000	31,148,806	4,546,013
Bond Premium	93,904	30,549	13,993	110,460	-
Bond Discount	(198,925)	(35,804)	(20,660)	(214,069)	-
Net Bond Subtotal	29,163,785	3,634,745	1,753,333	31,045,197	4,546,013
Capital Lease Obligations	838,664	-	327,264	511,400	248,870
Note Payable	77,757	-	20,284	57,473	20,284
Compensated Absences	310,941	229,184	201,386	338,739	181,304
Total Governmental Activities	30,391,147	3,863,929	2,302,267	31,952,809	4,996,471
Business-Type Activities:					
General Obligation Bonds	875,000	3,705,000	170,000	4,410,000	170,000
General Obligation Revenue Bonds	61,906,639	-	9,736,836	52,169,803	1,147,987
Electric Revenue Bonds	6,255,000	955,000	840,000	6,370,000	845,000
Bond Subtotal	69,036,639	4,660,000	10,746,836	62,949,803	2,162,987
Bond Premium	11,019	53,261	3,062	61,218	-
Bond Discount	(1,241,780)	(46,150)	(113,874)	(1,174,056)	-
Net Bond Subtotal	67,805,878	4,667,111	10,636,024	61,836,965	2,162,987
Revenue Lease Purchase Obligations	1,106,512	-	227,243	879,269	155,906
Compensated Absences	219,401	120,581	113,831	226,151	126,251
Total Business-Type Activities	69,131,791	4,787,692	10,977,098	62,942,385	2,445,144
Total Debt	\$ 99,522,938	\$ 8,651,621	\$ 13,279,365	\$ 94,895,194	\$ 7,441,615

Assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-Type Activities
Land	\$ -	\$ 2,310,759
Buildings and Improvements	429,370	2,476,044
Vehicles and Equipment	2,404,735	2,853,536
Subtotal	2,834,105	7,640,339
Less: Accumulated Depreciation	(1,493,475)	(2,155,998)
Total	\$ 1,340,630	\$ 5,484,341

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

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

Years	Governmental Activities				Totals
	Long-Term Debt		Notes and Capital Leases		
	Principal	Interest	Principal	Interest	
2011	\$ 4,546,013	\$ 1,158,608	\$ 269,904	\$ 15,793	\$ 5,990,318
2012	2,108,013	1,032,209	175,662	7,475	3,323,359
2013	1,594,013	972,192	123,307	1,940	2,691,452
2014	1,744,013	916,065	-	-	2,660,078
2015	1,850,212	853,521	-	-	2,703,733
2016-2020	8,445,472	3,249,875	-	-	11,695,347
2021-2025	8,886,070	1,514,150	-	-	10,400,220
2026-2027	1,975,000	105,874	-	-	2,080,874
Totals	\$ 31,148,806	\$ 9,802,494	\$ 568,873	\$ 25,208	\$ 41,545,381

Years	Business-Type Activities				Totals
	Long-Term Debt		Capital Leases		
	Principal	Interest	Principal	Interest	
2011	\$ 2,162,987	\$ 1,608,831	\$ 155,898	\$ 32,290	\$ 3,960,006
2012	2,227,988	1,513,900	108,262	26,863	3,877,013
2013	2,677,988	1,437,496	93,645	22,989	4,232,118
2014	2,912,988	1,341,381	86,838	19,531	4,360,738
2015	2,871,786	1,252,848	90,261	16,108	4,231,003
2016-2020	17,724,925	5,301,692	344,365	27,466	23,398,448
2021-2025	22,485,420	9,590,295	-	-	32,075,715
2026-2028	9,885,721	13,267,888	-	-	23,153,609
Totals	\$ 62,949,803	\$ 35,314,331	\$ 879,269	\$ 145,247	\$ 99,288,650

The annual requirements to amortize all long-term debt outstanding as of December 31, 2010, including interest of \$45,287,280 are as follows:

Year	Amount
2011	\$ 9,950,324
2012	7,200,372
2013	6,923,570
2014	7,020,816
2015	6,934,736
2016-2020	35,093,795
2021-2025	42,475,935
2026-2028	25,234,483
Total	\$ 140,834,031

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

During 2010, the City issued \$3,455,000 General Obligation Bonds, Series 2010A. These bonds were issued to finance CSAH 12 reconstruction improvements.

The City then issued \$955,000 Electric Revenue Bonds, Series 2010B. The bonds were issued to finance the WH Territory Acquisition.

The City also issued \$3,890,000 General Obligation partial Refunding Bonds, Series 2010C. The bonds were issued to finance the library remodel, a water and sewer project and the Wild Marsh Water Plant project. The remaining proceeds were for a current refunding of \$2,145,000 of the City's General Obligation Temporary Bonds, Series 2008C. The total cash flow loss to the City attributable to the refunding and defeasance of these bonds is \$713,416 with a net present value of approximately \$44,882.

During 2009, the City issued \$2,460,000 General Obligation Refunding Bonds, Series 2009A. These Bonds were issued for a current refunding of the following two bonds: General Obligation Improvement Bonds, Series 1998 of \$685,000; General Obligation Park Bonds, Series 2000B of \$1,790,000. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$298,076 with a net present value of approximately \$281,851.

The City also issued \$4,712,561 General Obligation Water and Sewer Refunding Bonds, Series 2009B. The Bonds were issued for a current refunding of: General Obligation Bonds, Series 2000C of \$565,000; and an advance refunding of General Obligation Water and Sewer Revenue Bonds, Series 2001A of \$1,575,000; and General Obligation Wastewater Revenue Bonds, Series 2007A of \$3,430,000. The refunding bond proceeds were placed in an escrow account and used to purchase U.S. Government Securities. The total cash flow loss to the City attributable to the refunding and defeasance of these bonds is a net present value of approximately \$318,634.

The City also issued \$3,025,000 Electric Revenue Refunding Bonds, Series 2009C. The bonds were for a current refunding of \$2,930,000 of the City's Electric Revenues Bonds, Series 2001B. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$59,248 with a net present value of approximately \$56,045.

During 2009, the City issued \$3,685,000 General Obligation Bonds, Series 2009D. The bonds were issued to finance street reconstruction improvements.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The City also issued \$3,225,000 General Obligation Utility Revenue Bonds, Series 2009E. The bonds were issued to redeem \$2,055,000 of the \$4,200,000 General Obligation Temporary Bonds, Series 2008C, and to finance water and sewer improvements.

The City issued \$870,000 General Obligation Water and Sewer Revenue Refunding Bonds, Series 2009F. The Bonds were issued for a current refunding of General Obligation Water and Sewer Revenue Refunding Bonds, Series 2002A of \$845,000. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$41,028 with a net present value of approximately \$40,682.

Also during 2009, The HRA issued \$178,000 Revenue Bonds, Series 2009A. The Bonds were issued to finance a redevelopment project.

During 2008, the City issued \$775,000 General Obligation Equipment Certificates, Series 2008A. These certificates were issued to finance the acquisition of capital equipment for the City.

During 2008, The City issued \$11,433,639 General Obligation Water and Sewer Revenue Refunding bonds, Series 2008B. These bonds were issued to advance refund the following three bonds: General Obligation Bonds, Series 2000D of \$1,145,000; General Obligation Waste Water Revenue Bonds, Series 2004B of \$6,275,000; and General Obligation Water and Sewer Bonds, Series 2005A of \$3,350,000. The refunding bond proceeds were placed in an escrow account and used to purchase U.S. Government Securities. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$15,575,982 with a net present value of approximately \$1,218,102.

Also during 2008, the City issued \$4,200,000 General Obligation Temporary Bonds, Series 2008C to provide for current improvements. The City also issued \$1,715,000 General Obligation Street Reconstruction Bonds, Series 2008D. These bonds were issued to provide financing for the street reconstruction projects within the City, including improvements to Trunk Highway 55 and County Road 134; Division Street, and Griffing Park Road and First Street NE.

During 2007, the City issued \$10,915,000 in General Obligation Wastewater Revenue Bonds, Series 2007A. These bonds were issued to provide resources to fund the Biosolids Project at the Wastewater treatment plant.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

In 2006, the City issued \$14,995,000 Water and Sewer Revenue Refunding Bonds, Series 2006A. These bonds were issued to provide resources of \$1,050,000 for current improvements, \$5,150,000 to advance refund the remaining balance of General Obligation Sewer and Water Revenue Bonds, Series 1999A (GO 1999A) on November 1, 2009, and \$8,795,000 to crossover refund the remaining balance of General Obligation Water and Sewer Revenue Bonds, Series 1998 (GO 1998) when this issue was called on August 1, 2010. Refunding bond proceeds of \$8,666,194 to refund GO 1998 were placed in an escrow account and used to purchase U.S. Government Securities. After the August 1, 2010 crossover date, the City assumes the full debt service of principal and interest payments on the portion of the 2006A issue that refunded GO 1998. The total cash flow savings to the City attributable to the refunding of GO 1998 is \$945,530 with a net present value benefit of approximately \$519,527.

During 2005, the HRA issued the \$4,380,000 Public Facility Lease Revenue Bond, Series 2005. These bonds were issued to provide resources to the Golf Course Fund to currently refund the Wild Marsh Temporary General Obligation Bond and to provide additional funds to help complete the Wild Marsh Golf Course remodeling.

As of December 31, 2010, the City had funds held with an escrow agent for the repayment of \$2 million of the Series 2007A G.O. Wastewater Revenue Bond which was defeased as part of an advance refunding issuance in 2009 and therefore neither the cash nor the debt is shown on the financial statements of the City.

NOTE 5 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. The annuity accrual rate is 1.9% for each year of service for PECF members. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. The City of Buffalo is required to contribute the following percentages of annual covered payroll: 11.78% for GERS Basic Plan members, 7% for GERS Coordinated Plan members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2010, 2009 and 2008 were \$266,680, \$265,198, and \$246,703, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2010, 2009 and 2008 were \$128,590, \$138,297, and \$123,292, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

City of Buffalo Fire Relief Association

Plan Description

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

Funding Policy

The funding policy provides for contributions from the State of Minnesota and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the state contribution payment, and the provision for administrative expenses. The City's contributions for the years ended December 31, 2010, 2009 and 2008 were \$76,198, \$36,995 and \$0-, respectively, equal to the required contributions for each year.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances/Net Assets

The City has deficit fund balances/retained earnings at December 31, 2010 as follows:

Governmental Funds:	
HRA Debt Service	\$ (5,099)
Airport Fund	(499,868)
Other Governmental Funds:	
Park	(965,176)
Civic Center	(2,486,786)
Proprietary Funds:	
Golf Course	(3,220,759)

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

Expenditures in Excess of Budget

Actual expenditures exceeded 2010 budgets in the following fund:

	<u>Budget</u>	<u>Expenditures</u>	<u>Expenditures Over Budget</u>
General Fund	\$ 5,133,748	\$ 5,138,944	\$ 5,196
Airport Fund	4,358,409	4,397,679	39,270
Other Governmental Funds:			
Park Fund	644,079	645,939	1,860
Fire Fund	267,233	334,402	67,169
Library Fund	90,674	91,448	774
Community Center Fund	152,531	152,623	92
Civic Center Fund	520,870	531,171	10,301

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Expenditures in Excess of Budget (Continued)

The overage in the General Fund was the result of additional building inspection and street maintenance costs.

The overage in the Airport Fund was due to increased airport improvement project costs.

The overage in the Park Fund was the result of the purchase of equipment.

The overage in the Fire Fund was the result of state aid Fire Relief Association benefits paid out. This was offset by state aid revenue.

The overage in the Library Fund was due to additional maintenance and supplies costs.

The overage in the Civic Center Fund resulted from additional maintenance and repairs as well as interest expense incurred.

The overages in the funds listed above were funded by property taxes, charges for services, and other governmental revenues of these governmental funds.

NOTE 7 DEFERRED AD VALOREM TAX LEVIES – BONDED DEBT

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

These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2010 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2010 totaled \$22,000,639.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 DESIGNATIONS AND RESERVATIONS OF FUND BALANCE

At December 31, 2010, the City had reserved or restricted portions of its various fund balances based upon legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2010 are shown on the various balance sheets as segregations of the fund balance. A summary of such reserves/restrictions is as follows:

Governmental Funds

General Fund:		
Reserved for Prepaid Expenses	\$	38,152
Reserved for Property Held for Resale		7,800
Debt Service Fund:		
Reserved for Debt Retirement		5,145,434
Other Governmental Funds:		
Reserved for Prepaid Expenses		5,386
Reserved for Property Held for Resale		159,659
Reserved for Loan Commitment		45,000

NOTE 9 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual fund receivable and payable balances at December 31, 2010 are as follows:

Fund	Due from Other Funds	Due to Other Funds	Description
General Fund	\$ 1,232	\$ -	
Airport	-	85,000	Capital Improvements
Other Governmental Funds	20,000	1,232	Capital Improvements
HRA Debt Service Fund	29,884	-	Lease Purchase Funding
Proprietary Funds:			
Electric	65,000	-	Capital Improvements
Water and Sewer	390,000	-	Capital Improvements
Liquor Store	-	390,000	Capital Improvements
Golf Course	-	29,884	Lease Purchase Funding
Total Due To/From	<u>\$ 506,116</u>	<u>\$ 506,116</u>	

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 9 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Advances To/From Other Funds

Fund	Advances To Other Funds	Advances From Other Funds
Debt Service Fund	\$ 147,408	\$ -
HRA Debt Service Fund	-	457,746
Proprietary Funds:		
Electric	-	147,408
Golf Course	457,746	-
Total Advances	\$ 605,154	\$ 605,154

The advance in the amount of \$147,408 represents special assessments incurred by the Electric Fund payable to the Debt Service Fund. The advance between the HRA Debt Service and the Golf Course represents restricted cash held by HRA Debt Service in accordance with golf course purchase agreement.

Interfund Receivables/ Payables

Fund	Interfund Note Receivable	Interfund Note Payable
General Fund	\$ -	\$ 31,800
Proprietary Funds:		
Water and Sewer	31,800	-
Total Interfund Notes	\$ 31,800	\$ 31,800

This represents a loan from the Water and Sewer Fund to the General Fund for the purchase of equipment and will be repaid over a five-year term.

Fund	Interfund Lease Receivable	Interfund Lease Payable
HRA Debt Service Fund	\$ 4,180,000	\$ -
Proprietary Funds:		
Wild Marsh Golf Course	-	4,180,000
Total Interfund Leases	\$ 4,180,000	\$ 4,180,000
Total Interfund Receivables/Payables	\$ 5,323,070	\$ 5,323,070

This represents the lease between HRA and the Golf Course for bonds issued by the HRA (see also Note 4). The lease payment schedule follows the bond repayment schedule. A principal payment of \$55,000 is due in 2011.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 9 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Transfers between funds during 2010 are as follows:

	<u>Amount</u>	<u>Description</u>
<u>Major Governmental Funds</u>		
Transfers to General Fund from:		
Electric Fund	\$ 900,000	Annual Contribution
Water and Sewer Fund	100,000	Annual Contribution
Debt Service Fund	63,216	Defeased Bonds
Capital Project Fund	2,567	Transfer of Project Costs
Total Transfers to General Fund	<u>1,065,783</u>	
Transfers to Debt Service Fund from:		
General Fund	68,376	Transfer of Debt Payment
Capital Project Fund	39,765	Transfer of Project Costs
HRA Fund	40,041	Transfer of Debt Payment
Civic Center Fund	281,140	Transfer of Debt Payment
Fire Fund	110,400	Transfer of Debt Payment
Total Transfers to Debt Service Fund	<u>539,722</u>	
Transfer to Capital Projects Fund from:		
Electric Fund	72,006	Transfer of Project Costs
Water and Sewer Fund	75,628	Transfer of Project Costs
Total Transfer to Capital Projects Fund	<u>147,634</u>	
Transfer to HRA Debt Service Fund from:		
Fire Fund	80,523	Transfer of Debt Payment
Transfer to Airport Fund from:		
General Fund	<u>50,000</u>	Annual Contribution
Total Transfers to Major Funds	1,883,662	
<u>Nonmajor Governmental Funds</u>		
Transfers to Park Fund from:		
Liquor Fund	350,000	Annual Contribution
General Fund	250,000	Annual Contribution
Total Transfers to Park Fund	<u>600,000</u>	
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfer to Community Center Fund from:		
General Fund	125,000	Annual Contribution
Transfer to Civic Center Fund from:		
Electric	<u>50,000</u>	Annual Contribution
Total Transfers to Nonmajor Governmental Funds	<u>790,000</u>	
Total Interfund Transfers	<u><u>\$ 2,673,662</u></u>	

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 9 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Also reported on the government-wide statement of activities, from the governmental activities to the business-type activities, is a transfer of \$357,675. This is the transfer of capital assets from the governmental activities to the business-type activities.

NOTE 10 RISK MANAGEMENT

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

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

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

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

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Funds

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Electric Power Purchase Agreement

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

Construction Commitments

The City entered into construction contracts for various construction projects started during the year.

The following contracts had been entered into and were at various stages of completion at December 31, 2010:

Project	Contract Cost	Estimated Project Costs Incurred to Date *	Remaining Committed
Airport Runway Extension/Lighting	\$ 3,258,311	\$ 3,209,650	\$ 48,661
5 Year Street CIP	1,483,357	1,400,501	82,856
CSAH 12 Reconstruction	3,801,165	2,615,151	1,186,014
Sundance Ridge Electrical	339,411	333,772	5,639
CSAH 12 Wastewater Forcemain	581,599	544,103	37,496
	<u>\$ 9,463,843</u>	<u>\$ 8,103,177</u>	<u>\$ 1,360,666</u>

* Includes contracts payable amount

NOTE 12 CONDUIT DEBT OBLIGATIONS

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 12 CONDUIT DEBT OBLIGATIONS (CONTINUED)

As of December 31, 2010, there were 14 series of Industrial Revenue Bonds and other similar type Revenue Bonds outstanding. The aggregate principal amount payable for the eight (8) series issued prior to January 4, 1997, could not be determined; however, their original issue amounts totaled \$26.165 million. An Industrial Revenue Note totaling \$2,750,000 and maturing in March, 2030 was issued in 2000. Three Industrial Revenue Notes totaling \$20,130,000 and maturing in March 2033 were issued in 2003. Two conduit debt issues were issued during 2006: (1) Health Care Refunding Revenue Bonds, Series 2006 totaling \$19,965,000 and (2) Educational Facilities Revenue Note, Series 2005A totaling \$5,500,000.

NOTE 13 CAPITAL CONTRIBUTIONS TO OTHER GOVERNMENTS

The State of Minnesota, Wright County, and the City of Buffalo entered into a joint project on Highway 55 creating turn lanes, installing signal lights, and updating water and sewer services. The City was the project manager and contracted the project. While the project was ongoing, the construction in progress was included in the City's government-wide financial statements. The Capital Contributions to Other Governments of \$3,086,734 reflected in the statement of activities on page 19 is to adjust for the State and County portion of the project.

NOTE 14 SUBSEQUENT EVENT

On May 26, 2011 the City's Housing and Redevelopment Authority (HRA) issued \$2,865,000 in Public Facility Lease Revenue Bonds (Series 2011A) to refund the Series 2001C \$3,770,000 Gross Revenue Ice Arena Bonds. The interest rate on this bond fluctuates from 0.65% to 4.60% and is set to mature in 2027.

NOTE 15 PRIOR PERIOD ADJUSTMENT

The City's net assets at January 1, 2010 were restated to reflect a \$5,002,596 overstatement of net assets due to previously unrecorded accretion on capital appreciation bonds, as follows: 1998 Water & Sewer Revenue Bonds, 2008 G.O. Wastewater Revenue Refunding Bonds Series 2008B, and 2009 G.O. Water and Sewer Refunding Revenue Bonds Series 2009B. This restatement also affected the net assets of the business-type activities in the government-wide financial statements as of January 1, 2010.

		As Previously Reported	Adjustment	As Restated
Water & Sewer Fund	Net Assets, 1/1/2010	\$ 25,150,120	\$ (5,002,596)	\$ 20,147,524
Business-Type Activities	Net Assets, 1/1/2010	\$ 33,416,754	\$ (5,002,596)	\$ 28,414,158

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			Variance from Final Budget	2009
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 2,654,185	\$ 2,664,379	\$ 2,664,379	\$ -	\$ 2,350,382
Other Taxes	1,750	1,844	1,844	-	1,733
Total Taxes	2,655,935	2,666,223	2,666,223	-	2,352,115
Licenses and Permits	256,742	143,363	143,362	(1)	175,762
Intergovernmental:					
Federal:					
Grants	-	23,758	26,194	2,436	2,733
State:					
Local Government Aid	145,886	145,886	145,886	-	469,435
Market Value Credit	277,891	55,718	55,718	-	136,146
State Police Aid	91,500	103,687	103,687	-	115,895
State Highway Aid	153,400	149,155	149,155	-	148,039
Other	16,186	15,281	15,281	-	24,171
Total Intergovernmental	684,863	493,485	495,921	2,436	896,419
Charges for Services:					
General Government	98,491	93,051	93,118	67	85,511
Engineering	5,100	1,100	1,100	-	75
Public Safety	56,800	60,913	60,913	-	71,833
Streets	1,100	386	868	482	886
Sanitation	838,000	847,140	851,273	4,133	853,636
Storm Sewer	382,000	387,716	389,340	1,624	382,231
Total Charges for Services	1,381,491	1,390,306	1,396,612	6,306	1,394,172
Fines and Forfeits	51,600	32,540	34,207	1,667	39,977
Investment Earnings	20,000	6,229	8,715	2,486	4,317
Refunds/Reimbursements	-	109,196	109,196	-	69,566
Grants and Contributions	-	13,995	13,995	-	11,368
Miscellaneous	1,450	8,515	8,660	145	10,981
Total Revenues	5,052,081	4,863,852	4,876,891	13,039	4,954,677

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

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			Variance from Final Budget	2009
	Original Budget	Final Budget	Actual		Actual
EXPENDITURES					
General Government:					
Mayor and Council:					
Current:					
Personal Services	\$ 76,682	\$ 52,255	\$ 52,255	\$ -	\$ 50,591
Financial Administration:					
Current:					
Salaries	308,343	282,973	282,973	-	293,479
Employee Benefits	71,506	66,789	66,374	415	66,544
Other Expenses:					
Audit / Accounting	9,600	8,740	8,740	-	8,607
Building Permits, Surcharges	8,000	4,031	4,031	-	2,321
Insurance	14,619	12,832	12,832	-	13,173
Planning and Zoning	88,187	89,265	89,265	-	75,505
Assessor	66,000	62,838	62,838	-	63,559
City Attorney	27,000	9,245	9,245	-	17,879
Professional Services	50,000	4,825	4,950	(125)	10,732
Elections	15,000	11,524	11,524	-	983
Other Expense	119,100	82,698	81,498	1,200	99,015
Capital Lease Payments:					
Principal	18,354	18,354	17,657	697	20,846
Interest	-	-	733	(733)	4,276
Capital Outlay	-	-	-	-	1,003
Total Financial Administration	<u>795,709</u>	<u>654,114</u>	<u>652,660</u>	<u>1,454</u>	<u>677,922</u>
MIS:					
Current:					
Salaries	61,717	60,010	60,010	-	60,024
Employee Benefits	23,393	20,681	20,499	182	21,931
Other Services and Charges	15,350	10,439	10,439	-	14,443
Capital Outlay	-	988	988	-	165,284
Total MIS	<u>100,460</u>	<u>92,118</u>	<u>91,936</u>	<u>182</u>	<u>261,682</u>
Engineering:					
Current:					
Salaries	101,571	102,389	102,389	-	103,282
Employee Benefits	30,037	23,196	24,028	(832)	31,432
Other Services and Charges	13,173	3,928	3,928	-	5,610
Capital Lease Payments:					
Principal	51,159	51,160	45,325	5,835	15,907
Interest	-	-	5,835	(5,835)	2,287
Total Engineering	<u>195,940</u>	<u>180,673</u>	<u>181,505</u>	<u>(832)</u>	<u>158,518</u>
Transportation:					
Current:					
Salaries	15,000	9,296	9,296	-	9,202
Employee Benefits	1,306	1,185	1,185	-	952
Other Services and Charges	10,250	16,123	16,246	(123)	13,217
Total Transportation	<u>26,556</u>	<u>26,604</u>	<u>26,727</u>	<u>(123)</u>	<u>23,371</u>
Total General Government	1,195,347	1,005,764	1,005,083	681	1,172,084

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

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			Variance from Final Budget	2009
	Original Budget	Final Budget	Actual		Actual
EXPENDITURES (CONTINUED)					
Public Safety:					
Police Protection:					
Current:					
Office Wages and Benefits	\$ 181,090	\$ 187,317	\$ 187,317	\$ -	\$ 199,137
Officer Wages and Benefits	1,298,338	1,250,293	1,251,496	(1,203)	1,313,718
Training	9,500	4,748	4,748	-	8,051
Legal Fees	64,000	65,054	65,054	-	81,209
Capital Lease Payments:					
Principal	82,542	82,650	74,957	7,693	54,035
Interest	-	-	7,693	(7,693)	5,437
Other Services and Charges	228,300	202,347	201,700	647	199,958
Capital Outlay	25,000	55,685	55,685	-	172,528
Total Police	<u>1,888,770</u>	<u>1,848,094</u>	<u>1,848,650</u>	<u>(556)</u>	<u>2,034,073</u>
Fire Protection	325,000	298,162	298,162	-	299,576
Civil Defense - Capital Outlay	324	277	277	-	280
Building Inspections	122,500	57,347	29,411	27,936	83,019
Total Public Safety	<u>2,336,594</u>	<u>2,203,880</u>	<u>2,176,500</u>	<u>27,380</u>	<u>2,416,948</u>
Public Works:					
Street Department:					
Current:					
Employee Benefits	93,140	103,084	102,142	942	98,132
Street Maintenance	486,206	484,154	481,322	2,832	462,339
Storm Sewer Maintenance	57,916	18,750	18,750	-	42,765
Snow and Ice Removal	88,790	109,235	109,235	-	78,589
Capital Lease Payments:					
Principal	101,311	65,611	92,961	(27,350)	88,524
Interest	34,980	3,180	11,530	(8,350)	13,165
Other	492,088	438,821	440,150	(1,329)	457,806
Capital Outlay - Equipment	-	-	-	-	3,010
Capital Outlay - Streets	-	-	-	-	4,478
Total Street Department	<u>1,354,431</u>	<u>1,222,835</u>	<u>1,256,090</u>	<u>(33,255)</u>	<u>1,248,808</u>
Sanitation	728,650	701,269	701,271	(2)	704,105
Total Public Works	<u>2,083,081</u>	<u>1,924,104</u>	<u>1,957,361</u>	<u>(33,257)</u>	<u>1,952,913</u>
Total Expenditures	<u>5,615,022</u>	<u>5,133,748</u>	<u>5,138,944</u>	<u>(5,196)</u>	<u>5,541,945</u>
REVENUES OVER (UNDER) EXPENDITURES	(562,941)	(269,896)	(262,053)	7,843	(587,268)

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

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			2009	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	\$ -	\$ 5,000	\$ 5,000	\$ -	\$ 5,100
Capital Lease Proceeds	-	-	-	-	340,763
Transfer In	1,200,000	1,002,567	1,065,783	63,216	1,300,000
Transfer Out	(420,000)	(420,000)	(508,376)	(88,376)	(323,225)
Total Other Financing Sources (Uses)	<u>780,000</u>	<u>587,567</u>	<u>562,407</u>	<u>(25,160)</u>	<u>1,322,638</u>
NET CHANGE IN FUND BALANCES	<u>\$ 217,059</u>	<u>\$ 317,671</u>	300,354	<u>\$ (17,317)</u>	735,370
Fund Balance - Beginning of Year			<u>1,986,241</u>		<u>1,250,871</u>
FUND BALANCE - END OF YEAR			<u>\$ 2,286,595</u>		<u>\$ 1,986,241</u>

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

**CITY OF BUFFALO, MINNESOTA
AIRPORT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			2009	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ 20,284	\$ 18,688	\$ 18,688	\$ -	\$ -
Intergovernmental:					
Federal Grants	2,945,000	2,895,644	2,881,978	(13,666)	299,221
State Aid and Grants	9,028	9,028	263,394	254,366	9,028
Total intergovernmental	<u>2,954,028</u>	<u>2,904,672</u>	<u>3,145,372</u>	<u>240,700</u>	<u>308,249</u>
Charges for Services:					
Airport Services	311,541	279,113	230,548	(48,565)	258,932
Refunds and Reimbursement	-	5,000	5,065	65	-
Total Revenues	<u>3,265,569</u>	<u>3,188,785</u>	<u>3,399,673</u>	<u>192,200</u>	<u>567,181</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	28,846	18,253	18,253	-	3,479
Other	248,216	300,332	301,136	(804)	474,796
Capital Outlay	3,625,000	4,025,540	4,028,220	(2,680)	99,244
Capital Lease Payments:					
Principal	-	-	13,949	(13,949)	13,152
Interest	-	-	1,553	(1,553)	2,350
Debt Service:					
Principal	-	-	20,284	(20,284)	20,284
Interest	-	14,284	14,284	-	-
Total Expenditures	<u>3,902,062</u>	<u>4,358,409</u>	<u>4,397,679</u>	<u>(39,270)</u>	<u>613,305</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(636,493)	(1,169,624)	(998,006)	152,930	(46,124)
OTHER FINANCING SOURCES					
Transfer In	-	-	50,000	50,000	-
Bond Proceeds	312,500	744,021	744,021	-	-
Bond Premium	-	10,184	10,184	-	-
Total Other Financing Sources	<u>312,500</u>	<u>754,205</u>	<u>804,205</u>	<u>50,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>\$ (323,993)</u>	<u>\$ (415,419)</u>	(193,801)	<u>\$ 202,930</u>	(46,124)
Fund Deficit - Beginning of Year			(306,067)		(259,943)
FUND DEFICIT - END OF YEAR			<u>\$ (499,868)</u>		<u>\$ (306,067)</u>

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010**

BUDGETARY INFORMATION

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

1. Prior to September 1, the City administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Council chambers at City Hall to obtain taxpayer comments, and the final budget is adopted and the tax levy certified.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are final, as amended by the City Council in 2010.
4. The City has legally adopted budgets for the General Fund, certain Special Revenue Funds, and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, capital outlay, etc.) within each program. All amounts over budget have been approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the Capital Projects or Debt Service funds.
5. Budgets for the General, and certain Special Revenue Funds are adopted on a basis consistent with GAAP. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2009)**

	Special Revenue			
	Park	Revolving Grant	Fire	Library
ASSETS				
Cash and Investments	\$ -	\$ -	\$ 633,515	\$ 88,273
Accounts Receivable	4,826	-	-	106
Accrued Interest Receivable	-	-	-	-
Loans Receivable, Net of Allowance	-	196,615	-	-
Due from Other Governmental Units	10,635	33,436	73,246	312
Due from Other Funds	-	-	-	-
Delinquent Taxes Receivable	130	-	-	2,492
Prepaid Items	-	-	-	470
Land Held for Resale	-	143,800	-	-
Total Assets	\$ 15,591	\$ 373,851	\$ 706,761	\$ 91,653
LIABILITIES AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Checks Written in Excess of Cash	\$ 924,267	\$ 1,863	\$ -	\$ -
Accounts and Contracts Payable	53,884	31,362	73,241	7,675
Accrued Expenses	2,486	-	14,714	553
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Deferred Revenue	130	196,615	-	2,492
Deposits - Escrow	-	-	-	-
Total Liabilities	980,767	229,840	87,955	10,720
FUND BALANCE (DEFICIT)				
Reserved:				
Reserved for Prepaid Expenses	-	-	-	470
Reserved for Land Held for Resale	-	143,800	-	-
Reserved for Loan Commitment	-	-	-	-
Unreserved, Undesignated	(965,176)	211	618,806	80,463
Total Fund Balance (Deficit)	(965,176)	144,011	618,806	80,933
Total Liabilities and Fund Balance (Deficit)	\$ 15,591	\$ 373,851	\$ 706,761	\$ 91,653

Special Revenue

Community Center	Civic Center	The HRA of Buffalo	2010 Total	2009 Total
\$ 16,159	\$ -	\$ 509,210	\$ 1,247,157	\$ 1,139,674
1,033	75,601	-	81,566	108,924
-	-	37,183	37,183	6,153
-	-	453,988	650,603	394,485
-	12,072	831	130,532	14,568
-	-	20,000	20,000	20,000
-	-	18	2,640	2,303
1,225	3,691	-	5,386	4,924
-	-	15,859	159,659	15,859
<u>\$ 18,417</u>	<u>\$ 91,364</u>	<u>\$ 1,037,089</u>	<u>\$ 2,334,726</u>	<u>\$ 1,706,890</u>
\$ -	\$ 2,528,007	\$ -	\$ 3,454,137	\$ 3,263,127
2,147	44,976	1,390	214,675	164,647
3,171	4,532	-	25,456	24,359
-	-	1,232	1,232	-
-	-	-	-	347
-	635	491,189	691,061	432,250
-	-	6,598	6,598	8,598
<u>5,318</u>	<u>2,578,150</u>	<u>500,409</u>	<u>4,393,159</u>	<u>3,893,328</u>
1,225	3,691	-	5,386	4,924
-	-	15,859	159,659	15,859
-	-	45,000	45,000	-
<u>11,874</u>	<u>(2,490,477)</u>	<u>475,821</u>	<u>(2,268,478)</u>	<u>(2,207,221)</u>
<u>13,099</u>	<u>(2,486,786)</u>	<u>536,680</u>	<u>(2,058,433)</u>	<u>(2,186,438)</u>
<u>\$ 18,417</u>	<u>\$ 91,364</u>	<u>\$ 1,037,089</u>	<u>\$ 2,334,726</u>	<u>\$ 1,706,890</u>

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	Special Revenue			
	Park	Revolving Grant	Fire	Library
REVENUE				
General Property Taxes	\$ 5,653	\$ -	\$ -	\$ 75,630
Tax Increments	-	-	-	-
Intergovernmental	15,611	370,683	69,097	1,579
Charges for Services	19,683	-	486,590	-
Investment Earnings	-	-	3,113	356
Grants and Contributions	21,275	-	1,000	-
Refunds and Reimbursements	88	-	-	98
Miscellaneous	5,067	-	1,710	498
Total Revenue	<u>67,377</u>	<u>370,683</u>	<u>561,510</u>	<u>78,161</u>
EXPENDITURES				
Current:				
Public Safety:				
Public Safety	-	-	333,027	-
Culture and Recreation	619,624	-	-	85,724
Community Development	-	226,322	-	-
Capital Outlay:				
Public Safety	-	-	290	-
Culture and Recreation	20,452	-	-	5,724
Capital Leases:				
Principal	5,779	-	954	-
Interest and Fiscal Charges	84	-	131	-
Debt Service:				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	<u>645,939</u>	<u>226,322</u>	<u>334,402</u>	<u>91,448</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(578,562)	144,361	227,108	(13,287)
OTHER FINANCING SOURCES (USES)				
Transfer In	600,000	-	-	15,000
Transfer Out	-	-	(190,923)	-
Proceeds from Sale of Capital Assets	-	-	-	-
Insurance Proceeds	-	-	-	-
Capital Lease Proceeds	-	-	-	-
Total Other Financing Sources (Uses)	<u>600,000</u>	<u>-</u>	<u>(190,923)</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	21,438	144,361	36,185	1,713
Fund Balance (Deficit) - Beginning of Year	<u>(986,614)</u>	<u>(350)</u>	<u>582,621</u>	<u>79,220</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (965,176)</u>	<u>\$ 144,011</u>	<u>\$ 618,806</u>	<u>\$ 80,933</u>

Special Revenue

Community Center	Civic Center	The HRA of Buffalo	2010 Total	2009 Total
\$ -	\$ -	\$ 203,034	\$ 284,317	\$ 307,896
-	-	114,580	114,580	104,890
-	-	12,997	469,967	167,326
3,535	490,611	54,951	1,055,370	1,060,824
17	-	5,338	8,824	13,518
10,197	50,000	2,000	84,472	86,507
12,029	99	-	12,314	13,282
-	1,885	255	9,415	10,147
<u>25,778</u>	<u>542,595</u>	<u>393,155</u>	<u>2,039,259</u>	<u>1,764,390</u>
-	-	-	333,027	394,001
151,696	517,462	-	1,374,506	1,457,379
-	-	236,809	463,131	410,228
-	-	-	290	99,454
927	-	-	27,103	33,585
-	-	-	6,733	9,746
-	-	-	215	9,024
-	-	-	-	-
-	13,709	-	13,709	30,262
<u>152,623</u>	<u>531,171</u>	<u>236,809</u>	<u>2,218,714</u>	<u>2,443,679</u>
(126,845)	11,424	156,346	(179,455)	(679,289)
125,000	50,000	-	790,000	823,225
-	(281,140)	(40,041)	(512,104)	(390,388)
358	-	-	358	-
-	29,206	-	29,206	33,201
-	-	-	-	4,013
<u>125,358</u>	<u>(201,934)</u>	<u>(40,041)</u>	<u>307,460</u>	<u>470,051</u>
(1,487)	(190,510)	116,305	128,005	(209,238)
<u>14,586</u>	<u>(2,296,276)</u>	<u>420,375</u>	<u>(2,186,438)</u>	<u>(1,977,200)</u>
<u>\$ 13,099</u>	<u>\$ (2,486,786)</u>	<u>\$ 536,680</u>	<u>\$ (2,058,433)</u>	<u>\$ (2,186,438)</u>

**CITY OF BUFFALO, MINNESOTA
 PARK SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED DECEMBER 31, 2010**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			Variance from Final Budget	2009
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 9,989	\$ 5,653	\$ 5,653	\$ -	\$ 9,293
Intergovernmental	-	114	15,611	15,497	548
Charges for Services	15,000	19,653	19,683	30	18,756
Grants and Contributions	12,000	20,665	21,275	610	19,699
Refunds and Reimbursements	-	50	88	38	145
Miscellaneous	3,500	5,067	5,067	-	7,209
Total Revenues	<u>40,489</u>	<u>51,202</u>	<u>67,377</u>	<u>16,175</u>	<u>55,650</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	302,392	285,359	285,359	-	315,839
Park Supplies and Maintenance	311,465	246,073	246,761	(688)	260,980
School District #877 Joint Programs	61,750	71,694	71,694	-	70,678
Interest	-	5,771	6,818	(1,047)	15,478
Miscellaneous	5,250	538	8,992	(8,454)	2,761
Capital Outlay:					
Equipment and Other Improvements	-	27,513	19,184	8,329	11,171
Other	1,000	1,268	1,268	-	-
Capital Leases:					
Principal	5,827	5,863	5,779	84	9,513
Interest	-	-	84	(84)	476
Total Expenditures	<u>687,684</u>	<u>644,079</u>	<u>645,939</u>	<u>(1,860)</u>	<u>686,896</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(647,195)	(592,877)	(578,562)	14,315	(631,246)
OTHER FINANCING SOURCES					
Transfer In	-	-	600,000	600,000	650,000
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>\$ (647,195)</u>	<u>\$ (592,877)</u>	21,438	<u>\$ 614,315</u>	18,754
Fund Deficit - Beginning of Year			(986,614)		(1,005,368)
FUND DEFICIT - END OF YEAR			<u>\$ (965,176)</u>		<u>\$ (986,614)</u>

**CITY OF BUFFALO, MINNESOTA
FIRE SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			2009	
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
REVENUES					
Charges for Services:					
Fire Contracts and Charges	\$ 537,590	\$ 486,590	\$ 486,590	\$ -	\$ 486,590
Intergovernmental:					
State Aid and Grants	100,000	2,497	69,097	66,600	132,287
Grants and Contributions	-	1,000	1,000	-	2,338
Investment Earnings	5,000	2,502	3,113	611	5,965
Miscellaneous	-	1,710	1,710	-	5
Total Revenues	<u>642,590</u>	<u>494,299</u>	<u>561,510</u>	<u>67,211</u>	<u>627,185</u>
EXPENDITURES					
Public Safety:					
Fire Relief	75,000	-	66,600	(66,600)	64,044
Wages and Benefits	106,097	74,550	74,550	-	90,048
Truck Expense	24,000	4,330	4,330	-	4,606
Supplies	12,550	4,217	4,217	-	10,635
Repairs and Maintenance	42,685	28,052	28,623	(571)	44,447
Radio and Telephone	7,900	5,422	5,422	-	3,069
Utilities	29,000	21,794	21,794	-	21,041
Insurance	25,450	27,065	27,065	-	23,364
Training	12,000	9,148	9,148	-	11,603
Other	97,948	91,278	91,278	-	49,131
Capital Outlay	-	292	290	2	99,454
Technology Lease Rental	-	-	-	-	233
Capital Lease Payments:					
Principal	1,085	1,085	954	131	72,013
Interest	-	-	131	(131)	8,548
Total Expenditures	<u>433,715</u>	<u>267,233</u>	<u>334,402</u>	<u>(67,169)</u>	<u>502,236</u>
EXCESS (DEFICIENCY) OF REVENUE AND OVER (UNDER) EXPENDITURES	208,875	227,066	227,108	(42)	124,949
OTHER FINANCING SOURCES (USES)					
Transfers Out	-	-	(190,923)	190,923	(109,300)
Capital Lease Proceeds	-	-	-	-	4,013
NET CHANGE IN FUND BALANCE	<u>\$ 208,875</u>	<u>\$ 227,066</u>	36,185	<u>\$ 190,881</u>	19,662
Fund Balance - Beginning of Year			<u>582,621</u>		<u>\$ 562,959</u>
FUND BALANCE - END OF YEAR			<u>\$ 618,806</u>		<u>\$ 582,621</u>

**CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			2009	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ 80,628	\$ 75,630	\$ 75,630	\$ -	\$ 76,390
Intergovernmental:					
MV Tax Credit	-	1,579	1,579	-	4,422
Grants and Contributions	-	-	-	-	-
Investment Earnings	500	271	356	85	569
Refunds and Reimbursements	-	98	98	-	-
Miscellaneous	1,400	481	498	17	1,169
Total Revenues	<u>82,528</u>	<u>78,059</u>	<u>78,161</u>	<u>102</u>	<u>82,550</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	24,459	29,282	29,282	-	24,550
Supplies and Maintenance	22,200	21,260	22,030	(770)	18,364
Insurance	1,704	2,071	2,071	-	1,491
Telephone	780	810	812	(2)	852
Utilities	41,000	29,012	29,012	-	30,965
Other	3,475	2,515	2,517	(2)	2,345
Capital Outlay - Equipment	-	5,724	5,724	-	-
Total Expenditures	<u>93,618</u>	<u>90,674</u>	<u>91,448</u>	<u>(774)</u>	<u>78,567</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,090)	(12,615)	(13,287)	(672)	3,983
OTHER FINANCING SOURCES					
Transfers in from General Fund	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>12,778</u>
NET CHANGE IN FUND BALANCE	<u>\$ 3,910</u>	<u>\$ 2,385</u>	1,713	<u>\$ (672)</u>	16,761
Fund Balance - Beginning of Year			<u>79,220</u>		<u>62,459</u>
FUND BALANCE - END OF YEAR			<u>\$ 80,933</u>		<u>\$ 79,220</u>

**CITY OF BUFFALO, MINNESOTA
COMMUNITY CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			Variance from Final Budget	2009
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Charges for Services:					
Program Revenue	\$ 6,000	\$ 3,535	\$ 3,535	\$ -	\$ 4,505
Investment Earnings	-	-	17	17	11
Grants and Contributions	10,000	10,197	10,197	-	14,470
Refunds and Reimbursements	11,500	11,822	12,029	207	12,351
Total Revenues	<u>27,500</u>	<u>25,554</u>	<u>25,778</u>	224	<u>31,337</u>
EXPENDITURES					
Culture and Recreation:					
Wages, Contract Pay and Benefits	100,566	114,142	113,974	168	100,938
Maintenance and Repair	3,500	3,239	3,422	(183)	5,365
Utilities	16,500	10,896	10,896	-	12,205
Miscellaneous	12,748	9,268	9,265	3	7,616
Program Expense	17,000	14,059	14,139	(80)	17,061
Capital Outlay	-	927	927	-	4,451
Total Expenditures	<u>150,314</u>	<u>152,531</u>	<u>152,623</u>	<u>(92)</u>	<u>147,636</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(122,814)	(126,977)	(126,845)	132	(116,299)
OTHER FINANCING SOURCES					
Transfer In	125,000	125,000	125,000	-	110,000
Proceeds from Sale of Capital Assets	-	-	358	358	-
Total Other Financing Sources	<u>125,000</u>	<u>125,000</u>	<u>125,358</u>	<u>-</u>	<u>110,000</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>\$ 2,186</u>	<u>\$ (1,977)</u>	(1,487)	<u>\$ 490</u>	(6,299)
Fund Balance - Beginning of Year			<u>14,586</u>		<u>20,885</u>
FUND BALANCE - END OF YEAR			<u>\$ 13,099</u>		<u>\$ 14,586</u>

**CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2009)**

	2010			2009	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Charges for Services:					
Ice Time	\$ 421,500	\$ 340,131	\$ 340,131	\$ -	\$ 348,634
Building Rent	22,000	12,882	12,882	-	13,507
Lease Payment	55,000	55,000	55,000	-	55,000
Gate Receipts and Concessions	95,500	70,373	73,553	3,180	77,467
Other	12,000	9,045	9,045	-	8,800
Grants and Contributions	50,000	50,000	50,000	-	50,000
Refunds and Reimbursements	-	99	99	-	-
Miscellaneous	1,500	1,885	1,885	-	1,614
Total Revenues	<u>657,500</u>	<u>539,415</u>	<u>542,595</u>	<u>3,180</u>	<u>555,022</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	230,645	226,795	226,433	362	223,878
Maintenance and Repair	19,000	58,840	66,749	(7,909)	82,097
Utilities	188,000	150,486	150,486	-	185,553
Other	70,425	59,641	59,958	(317)	61,998
Insurance	20,770	13,836	13,836	-	16,365
Interest Expense	45,000	11,272	13,709	(2,437)	30,262
Capital Outlay	-	-	-	-	17,963
Total Expenditures	<u>573,840</u>	<u>520,870</u>	<u>531,171</u>	<u>(10,301)</u>	<u>618,116</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	83,660	18,545	11,424	(7,121)	(63,094)
OTHER FINANCING SOURCES (USES)					
Transfer In	50,000	50,000	50,000	-	50,000
Transfer Out	(278,568)	(281,140)	(281,140)	-	(281,088)
Insurance Proceeds	-	4,923	29,206	24,283	33,201
Total Other Financing Sources (Uses)	<u>(228,568)</u>	<u>(226,217)</u>	<u>(201,934)</u>	<u>24,283</u>	<u>(197,887)</u>
NET CHANGE IN FUND DEFICIT	<u>\$ (144,908)</u>	<u>\$ (207,672)</u>	(190,510)	<u>\$ 17,162</u>	(260,981)
Fund Deficit - Beginning of Year			<u>(2,296,276)</u>		<u>(2,035,295)</u>
FUND DEFICIT - END OF YEAR			<u>\$ (2,486,786)</u>		<u>\$ (2,296,276)</u>

**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**CITY OF BUFFALO, MINNESOTA
 COMPUTATION OF LEGAL DEBT MARGIN
 DECEMBER 31, 2010
 (UNAUDITED)**

Market Valuation		<u>\$ 1,267,939,800</u>
Debt limit - 3% of market valuation		\$ 38,038,194
Total Indebtedness	<u>\$ 94,098,609</u>	
Less:		
Other deductions allowed by law:		
(1) Obligations payable wholly or partly from special assessments	2,375,000	
(2) Obligations issued for acquisition and improvement of public utilities and conveniences from which revenue may be derived	58,539,803	
(3) Obligations payable wholly from the income from revenue producing conveniences	<u>7,618,806</u>	
 Total Deductions	 <u>68,533,609</u>	
 Total Amount of Debt Applied Against Debt Limit		 <u>25,565,000</u>
 Legal Debt Margin		 <u>\$ 12,473,194</u>

**CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2010
(UNAUDITED)**

Year of Levy for Collection in the Following Year	General Obligation Improvement Bonds of 1997 Bond #74A	General Obligation Improvement Bonds of 2000 Bond #83B	General Obligation Improvement Bonds of 2002 Bond #87C	General Obligation Improvement Bonds of 2003B Bond #89	General Obligation Highway Bonds of 2004A Bond #91	General Obligation Improvement Bonds of 2004 Bond #93	General Obligation Equipment Certificates of 2008 Series 2008A
2011	\$ 47,900	\$ 29,000	\$ 51,700	\$ 418,910	\$ 119,600	\$ 64,200	\$ 133,100
2012	-	27,400	55,300	422,900	122,000	-	134,300
2013	-	25,800	48,000	421,220	118,900	-	130,200
2014	-	24,200	51,500	408,831	120,800	-	-
2015	-	-	49,200	774,651	122,500	-	-
2016	-	-	52,200	779,061	123,800	-	-
2017	-	-	49,600	776,026	124,900	-	-
2018	-	-	-	777,063	125,600	-	-
2019	-	-	-	781,305	-	-	-
2020	-	-	-	783,510	-	-	-
2021	-	-	-	784,298	-	-	-
2022	-	-	-	782,775	-	-	-
2023	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-
	<u>\$ 47,900</u>	<u>\$ 106,400</u>	<u>\$ 357,500</u>	<u>\$ 7,910,550</u>	<u>\$ 978,100</u>	<u>\$ 64,200</u>	<u>\$ 397,600</u>

General Obligation Street Reconstruction Bonds of 2008 Series 2008D	General Obligation Refunding Bonds of 2009 Series 2009A	General Obligation Refunding Bonds of 2009 Series 2009D	General Obligation Improvement Bonds of 2010 Series 2010A	General Obligation Improvement Bonds of 2010 Series 2010C	Total
\$ 244,900	\$ 421,500	\$ 255,400	\$ -	\$ 70,795	\$ 1,857,005
242,800	422,600	252,000	54,889	180,351	1,914,540
245,700	422,600	254,300	54,049	178,041	1,898,810
243,000	329,900	397,100	53,209	175,731	1,804,271
240,000	-	121,300	57,619	147,171	1,512,441
246,300	-	142,800	56,201	350,136	1,750,498
241,400	-	152,300	54,784	150,006	1,549,016
-	-	387,900	53,366	147,761	1,491,690
-	-	510,100	51,948	160,918	1,504,271
-	-	507,200	55,781	157,568	1,504,059
-	-	513,800	54,206	154,103	1,506,407
-	-	519,140	-	150,523	1,452,438
-	-	1,288,900	-	146,769	1,435,669
-	-	-	-	158,592	158,592
-	-	-	-	216,998	216,998
-	-	-	-	220,505	220,505
-	-	-	-	223,429	223,429
<u>\$ 1,704,100</u>	<u>\$ 1,596,600</u>	<u>\$ 5,302,240</u>	<u>\$ 546,052</u>	<u>\$ 2,989,397</u>	<u>\$ 22,000,639</u>

**CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS
DECEMBER 31, 2010
(UNAUDITED)**

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

* Amounts from Wright County's Auditors office.

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

OTHER REPORT SECTION

REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the basic financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information which collectively comprise the basic financial statements of the City of Buffalo, Minnesota, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 13, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and city and county miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Buffalo, Minnesota, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City of Buffalo, Minnesota, management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

LarsonAllen LLP
LarsonAllen LLP

Buffalo, Minnesota
June 13, 2011