

CITY OF BUFFALO, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED DECEMBER 31, 2011

**CITY OF BUFFALO, MINNESOTA
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YEAR ENDED DECEMBER 31, 2011**

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INTRODUCTORY SECTION

**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2011**

Elected Officials

Term Expires

Mayor	Brad Nauman	December 31, 2012
Council Member	Steve Downer	December 31, 2014
Council Member	Scott Enter	December 31, 2014
Council Member	Teri Lachermeier	December 31, 2012
Council Member	Paul Olson	December 31, 2012

Appointed Officials

Administrator and Clerk-Treasurer	Merton Auger
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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and 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, 2011, 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'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 2010 financial statements and, in our report dated June 13, 2011, 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 as of December 31, 2011, 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 discussed in the notes to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. Adoption of this statement results in significant changes to the classification of the components of fund balance in its governmental fund types. See Note 10 for the restatement of some fund balances.

Honorable Mayor and City Council
City of Buffalo, Minnesota

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012, on our consideration of the City of Buffalo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 16 and 68 to 73, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo's basic financial statements. The other supplementary information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Buffalo, Minnesota
May 17, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

As management of the City of Buffalo (the City), Minnesota, we offer readers of the City of Buffalo's financial statements this narrative overview and analysis of the financial activities of the City of Buffalo for the fiscal year ended December 31, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City of Buffalo exceeded its liabilities at the close of the most recent fiscal year by \$59,531,816 (net assets). The unrestricted portion, the portion used to meet the City's ongoing obligations to citizens and creditors, is a deficit of \$123,823.
- The City's total net assets decreased by \$4,279,684 from 2010.
- As of the close of the current fiscal year, the City of Buffalo's governmental funds reported a combined ending fund balance of \$3,327,477, a decrease of \$2,512,977 in comparison with the prior year. The overall *unassigned fund balance* is a deficit \$1,828,751.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,712,679, or 28% of total 2011 general fund expenditures.
- The City of Buffalo's total bonded debt decreased by \$1,741,092 or 1.9% during the current fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

The *statement of net 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, 2011**

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 and unused compensated absences).

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

The government-wide financial statements can be found on pages 17-19 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, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

The City of Buffalo maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital project fund, 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 20-25 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 26-35 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 36-67 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information demonstrating* the City of Buffalo's compliance with its adopted budget for the General Fund and Airport Fund. These budgetary comparison schedules can be found on pages 68-73 of this report.

The combining statements referred to earlier in conjunction with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund and Airport Fund budgetary comparisons. Combining and individual fund statements can be found on pages 74-80.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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 \$59,531,816 at the close of the most recent fiscal year compared to \$63,811,500 at the end of 2010.

By far the largest portion of the City of Buffalo's net assets (93%) 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	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and Other Assets	\$ 10,729,759	\$ 17,518,169	\$ 5,582,112	\$ 9,082,127	\$ 16,311,871	\$ 26,600,296
Capital Assets	54,046,324	57,055,216	85,282,359	84,558,376	139,328,683	141,613,592
Total Assets	64,776,083	74,573,385	90,864,471	93,640,503	155,640,554	168,213,888
LIABILITIES						
Noncurrent Liabilities Outstanding	25,077,465	26,956,338	62,720,153	60,497,241	87,797,618	87,453,579
Other Liabilities	3,866,773	10,274,331	4,444,347	6,674,478	8,311,120	16,948,809
Total Liabilities	28,944,238	37,230,669	67,164,500	67,171,719	96,108,738	104,402,388
Net Assets:						
Invested in Capital Assets, Net of Related Debt	32,568,977	29,907,872	21,333,289	25,399,401	53,902,266	55,307,273
Restricted	3,908,905	4,375,746	-	-	3,908,905	4,375,746
Unrestricted	(646,037)	3,059,098	2,366,682	1,069,383	1,720,645	4,128,481
Total Net Assets	\$ 35,831,845	\$ 37,342,716	\$ 23,699,971	\$ 26,468,784	\$ 59,531,816	\$ 63,811,500

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. The City reports a deficit for *unrestricted net assets* that may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

Governmental activities decreased the City of Buffalo's net assets by \$1,510,871. 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.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-type activities decreased the City of Buffalo's net assets by \$2,768,813, thereby accounting for 64.7% 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 the expenses and transfers to other funds growing faster than revenues.

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, 2011:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 3,064,170	\$ 3,052,177	\$ 20,889,075	\$ 17,009,573	\$ 23,953,245	\$ 20,061,750
Operating Grants and Contributions	616,348	694,473	-	-	616,348	694,473
Capital Grants and Contributions	1,257,947	6,138,983	126,928	233,532	1,384,875	6,372,515
General Revenues:						
Property Taxes	4,641,342	4,693,768	172,908	176,334	4,814,250	4,870,102
Tax Increments	288,463	114,580	-	-	288,463	114,580
Other Taxes	1,615	1,844	-	-	1,615	1,844
Grants and Contributions, Not Restricted	463,552	431,026	26,083	20,136	489,635	451,162
Unrestricted Investment Earnings	252,164	226,431	(144)	389,488	252,020	615,919
Gain on Disposal of Capital Assets	-	5,358	-	-	-	5,358
Miscellaneous	96,605	29,970	79,382	50,487	175,987	80,457
Total Revenues	<u>10,682,206</u>	<u>15,388,610</u>	<u>21,294,232</u>	<u>17,879,550</u>	<u>31,976,438</u>	<u>33,268,160</u>
EXPENSES						
General Government	1,213,389	1,207,340	-	-	1,213,389	1,207,340
Public Safety	2,757,448	2,723,059	-	-	2,757,448	2,723,059
Highways and Streets	4,639,387	5,065,992	-	-	4,639,387	5,065,992
Culture and Recreation	2,700,295	2,218,237	-	-	2,700,295	2,218,237
Sanitation	739,634	701,271	-	-	739,634	701,271
Community Development	316,556	255,849	-	-	316,556	255,849
Interest on Long-Term Debt	1,341,013	1,261,117	-	-	1,341,013	1,261,117
Electric	-	-	10,659,603	9,974,491	10,659,603	9,974,491
Water and Sewer	-	-	6,974,107	6,777,951	6,974,107	6,777,951
Liquor Store	-	-	3,655,975	722,082	3,655,975	722,082
Golf Course	-	-	1,258,715	1,160,440	1,258,715	1,160,440
Total Expenses	<u>13,707,722</u>	<u>13,432,865</u>	<u>22,548,400</u>	<u>18,634,964</u>	<u>36,256,122</u>	<u>32,067,829</u>
Increase (Decrease) in Net Assets before Contributions and Transfers	(3,025,516)	1,955,745	(1,254,168)	(755,414)	(4,279,684)	1,200,331
Capital Contributions to Other Governments	-	(3,086,734)	-	-	-	(3,086,734)
Transfers	1,514,645	1,189,960	(1,514,645)	(1,189,960)	-	-
CHANGE IN NET ASSETS	(1,510,871)	58,971	(2,768,813)	(1,945,374)	(4,279,684)	(1,886,403)
Net Assets - Beginning of Year	<u>37,342,716</u>	<u>37,283,745</u>	<u>26,468,784</u>	<u>28,414,158</u>	<u>63,811,500</u>	<u>65,697,903</u>
NET ASSETS - END OF YEAR	<u>\$ 35,831,845</u>	<u>\$ 37,342,716</u>	<u>\$ 23,699,971</u>	<u>\$ 26,468,784</u>	<u>\$ 59,531,816</u>	<u>\$ 63,811,500</u>

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

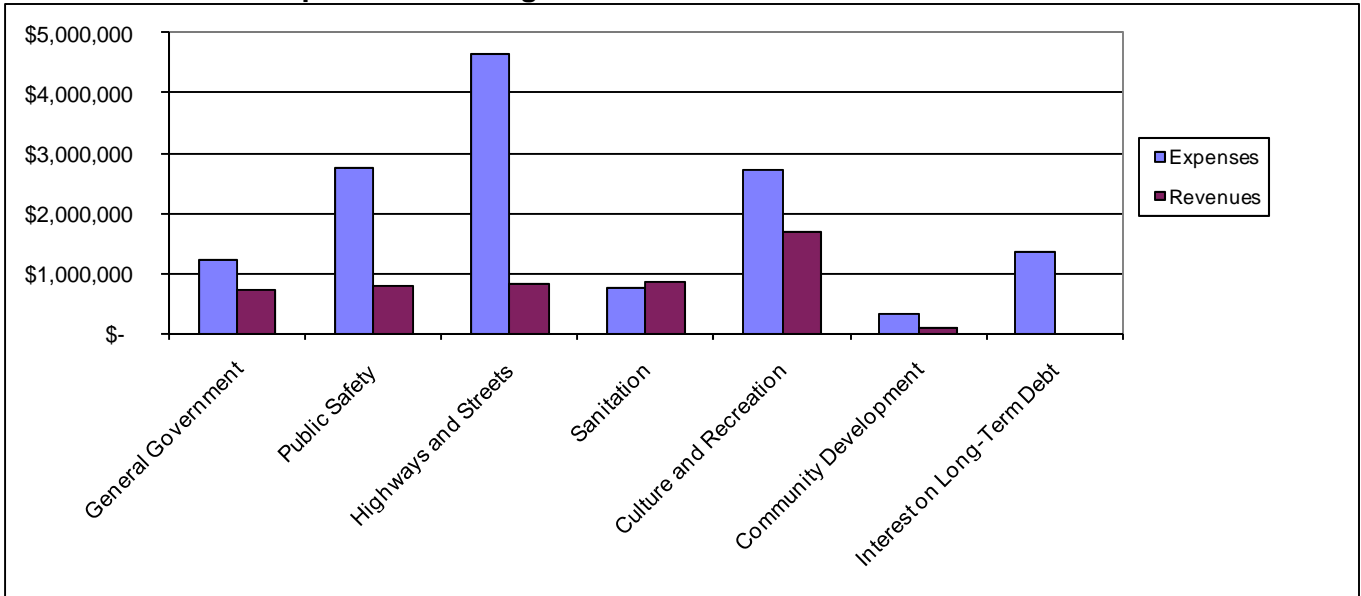
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.

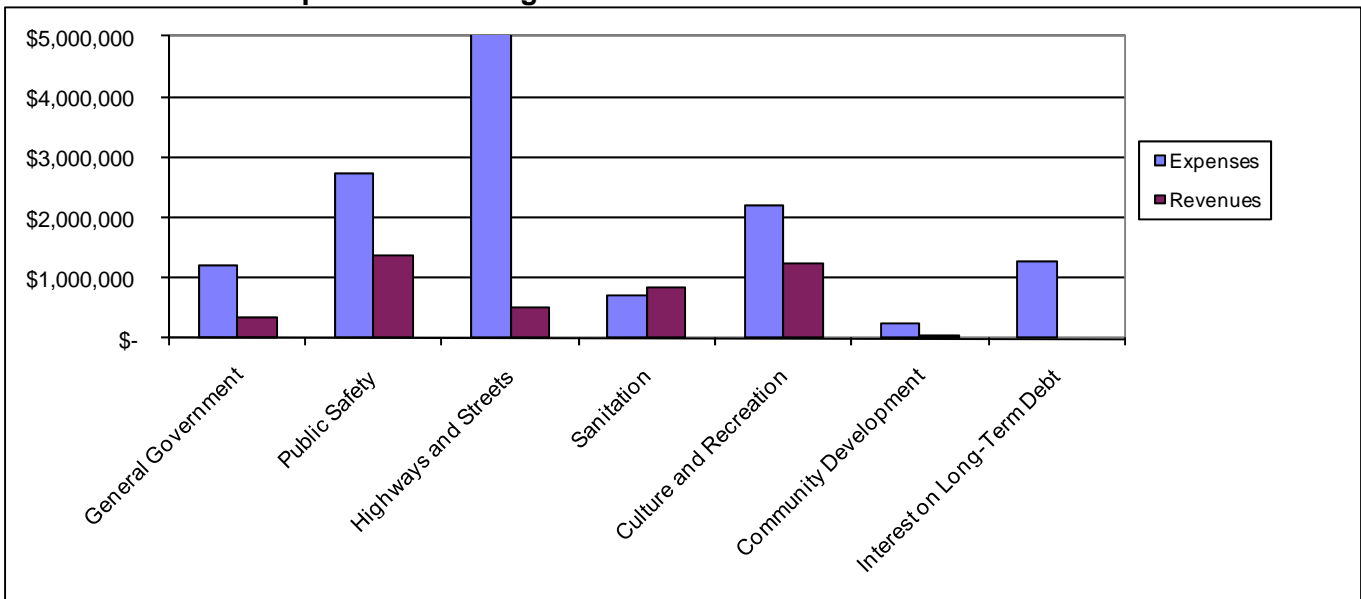
2011

Expenses and Program Revenues-Governmental Activities



2010

Expenses and Program Revenues-Governmental Activities



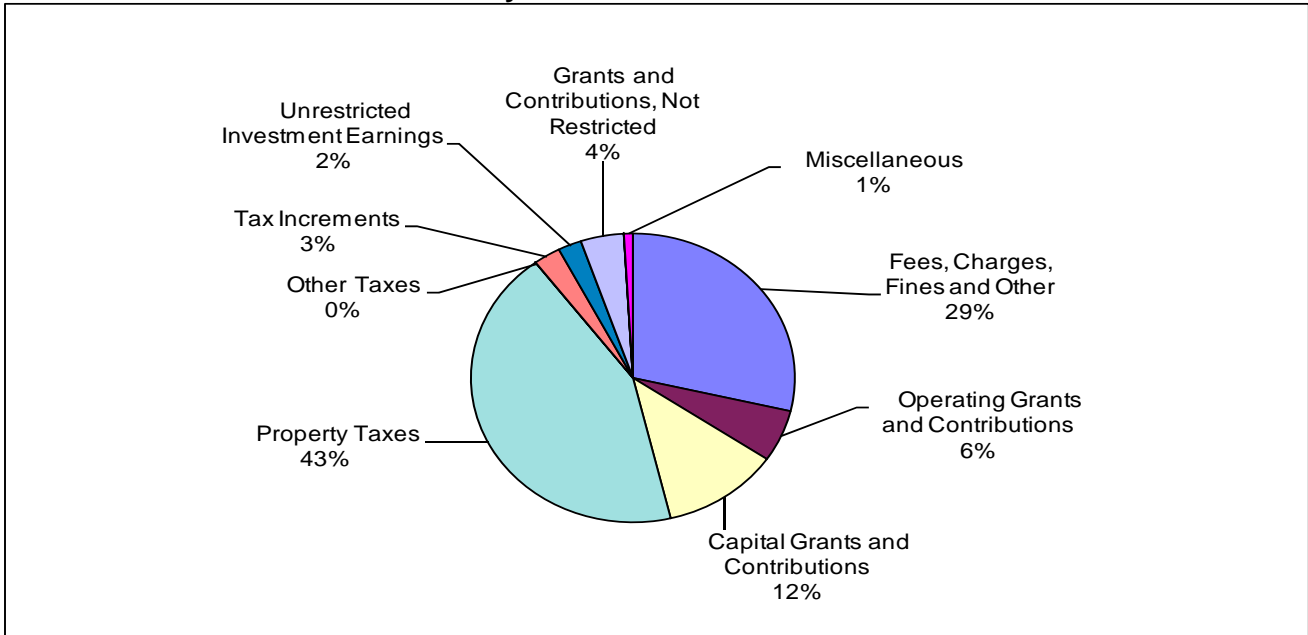
**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

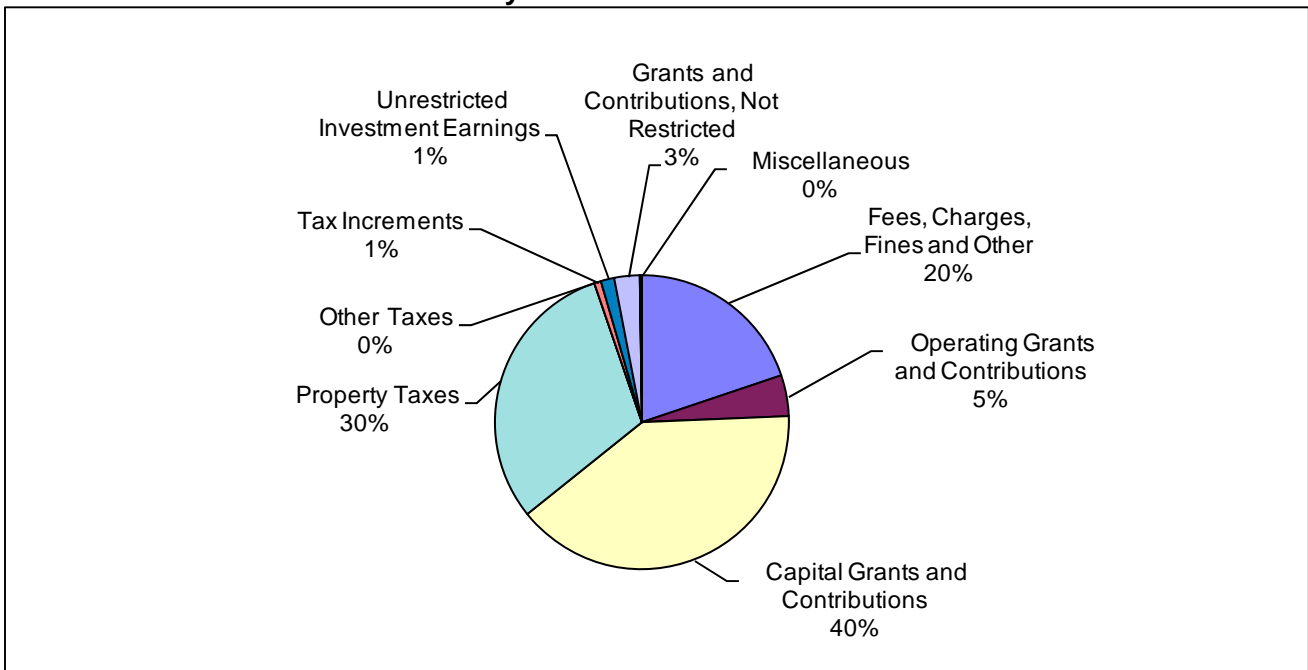
2011

Revenues by Source-Governmental Activities



2010

Revenues by Source-Governmental Activities

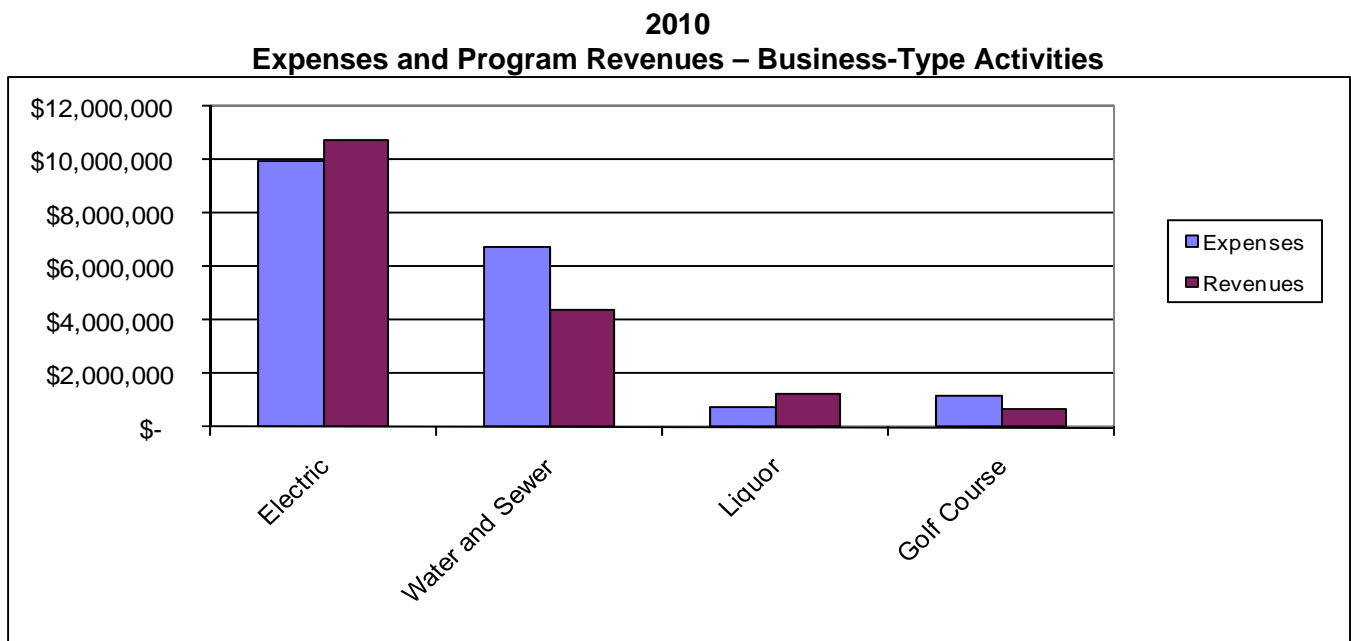
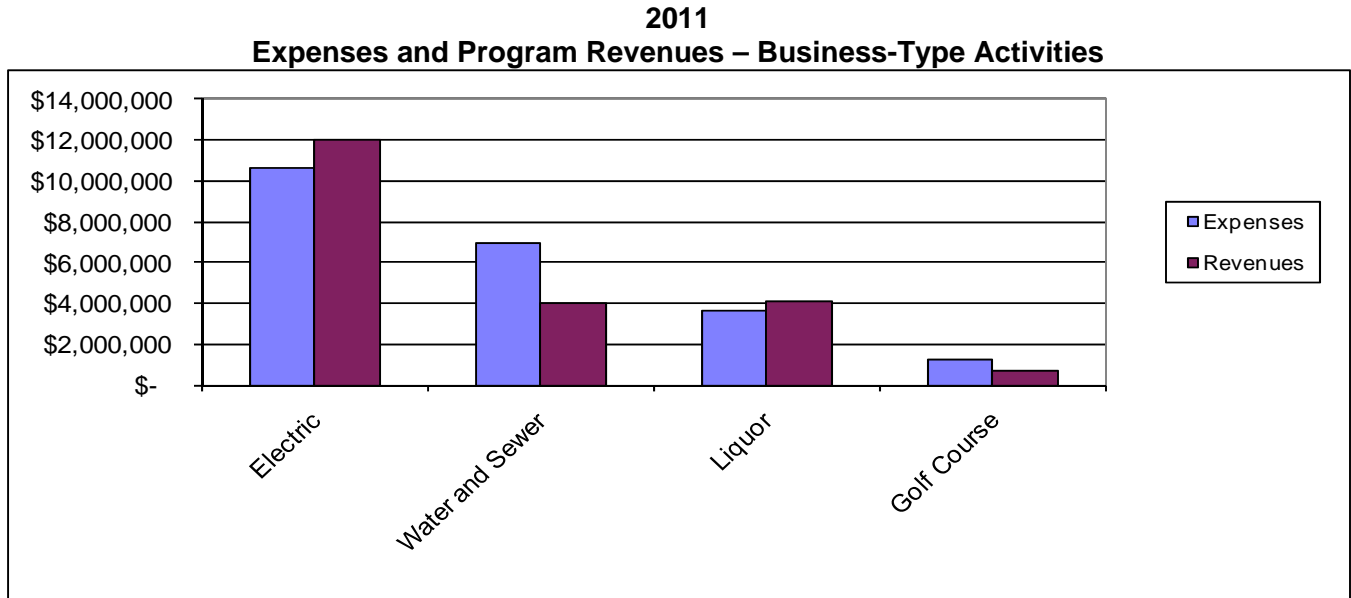


**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.



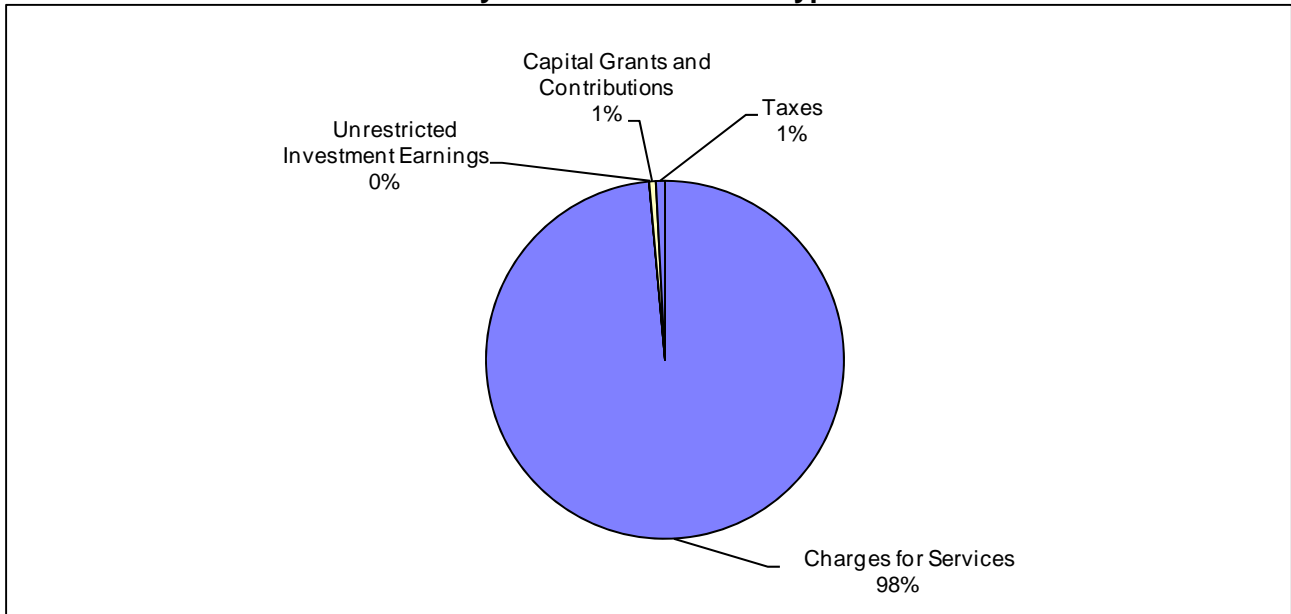
Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in program revenues in the above graphs.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

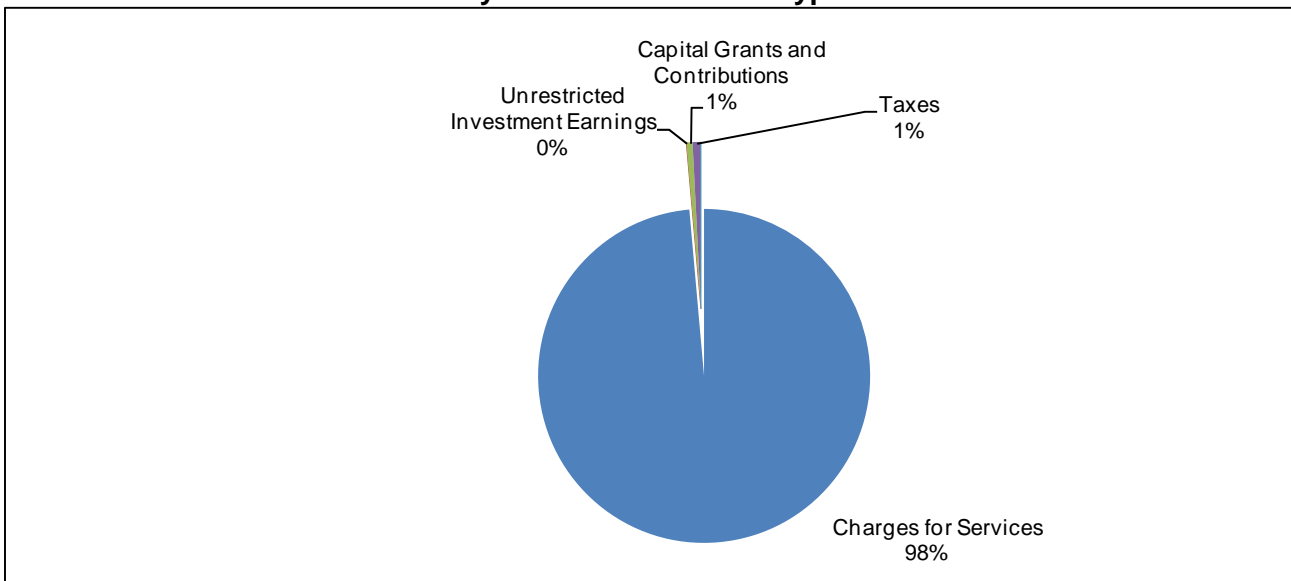
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

**2011
Revenues by Source – Business-Type Activities**



**2010
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, 2011**

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, *unassigned 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 \$3,327,477, a decrease of \$2,512,977 in comparison with 2010. The City reported deficit unassigned fund balance in the amount of \$1,828,751. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending. At December 31, 2011 fund balances were as follows:

	Balance	Increase (Decrease) From 2010
General Fund	\$ 1,756,784	\$ 422,266
Debt Service Fund	2,910,580	(2,234,854)
Capital Project Fund	669,157	(302,668)
HRA Debt Service Fund	279	5,378
Airport Fund	(922,609)	(422,741)
Other Governmental Funds	(1,086,714)	19,642
Total	<u>\$ 3,327,477</u>	<u>\$ (2,512,977)</u>

The general fund is the chief operating fund of the City of Buffalo. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,712,679.

During the current fiscal year, the City of Buffalo's general fund balance increased by \$422,266. 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 decrease in the debt service fund balance was the result of scheduled principal and interest payments.

Capital Project

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

HRA Debt Service

The increase in the HRA debt service fund balance was not significant.

Airport

The decrease in the airport fund balance was the result of airport improvement projects. The City plans to recover expenditures by applying for grant assistance.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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 2011 were \$11,268,830, of which \$3,576,262 are unrestricted. Net assets increased \$557,210 during the current year primarily due to an increase in operating revenue.

The water and sewer fund has total net assets of \$15,126,662, of which \$1,743,046 are unrestricted. The decrease in net assets of \$2,902,721 from 2010 was primarily due to interest on bonded debt service payments not covered by operating revenues.

Sewer fees were increased \$0.50 per unit.

The liquor fund has total net assets of \$1,085,698. It has unrestricted assets of \$109,172. Net assets increased by \$137,158 from 2010. Net assets increase is consistent with prior years and includes an increase in the annual transfer to the General Fund (see Note 8).

The City purchased Wild Marsh Golf Course in May 2004. Wild Marsh has total net assets of \$(3,781,219) and unrestricted net assets of \$(3,061,798) primarily due to operating losses incurred in the seven and one-half years of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$8,601 over budget due mainly to an increase in grant revenue. Expenditures came in favorably under the budgeted amounts by \$26,704 which is mainly due to fire protection expenditures. This resulted in a net fund balance increase of \$35,305 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, 2011, amounts to \$139,328,683 (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 (.02%) less than in 2010. 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, 2011**

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	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,234,845	\$ 1,233,149	\$ 2,534,091	\$ 2,520,406	\$ 3,768,936	\$ 3,753,555
Land Improvements	9,413,810	7,450,559	1,874,830	1,928,206	11,288,640	9,378,765
Buildings and Building Improvements	11,905,972	12,291,738	36,380,566	37,504,055	48,286,538	49,795,793
Improvements Other than Building	1,640,393	1,762,050	-	-	1,640,393	1,762,050
Vehicle	517,992	564,532	-	-	517,992	564,532
Equipment	1,727,297	2,066,000	2,602,737	2,888,423	4,330,034	4,954,423
Infrastructure	24,753,708	25,581,285	-	-	24,753,708	25,581,285
Utility Distribution Systems	-	-	40,001,746	38,871,619	40,001,746	38,871,619
Construction in Progress	2,852,307	6,105,903	1,888,388	845,667	4,740,695	6,951,570
Total	<u>\$ 54,046,324</u>	<u>\$ 57,055,216</u>	<u>\$ 85,282,358</u>	<u>\$ 84,558,376</u>	<u>\$ 139,328,682</u>	<u>\$ 141,613,592</u>

Long-Term Debt

At the end of the current fiscal year, the City of Buffalo had total bonded debt outstanding of \$92,357,517. Of this amount, \$18,300,000 comprises tax supported debt, \$1,425,000 is special assessment debt and \$72,632,517 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	
	2011	2010	2011	2010	2011	2010
G.O. Tax Supported Debt	\$ 18,300,000	\$ 21,155,000	\$ 4,240,000	\$ 4,410,000	\$ 22,540,000	\$ 25,565,000
G.O. Special Assessment Debt	1,425,000	2,375,000	-	-	1,425,000	2,375,000
G.O. Revenue Debt	7,357,793	7,618,806	58,197,404	56,615,394	65,555,197	64,234,200
Interest Accretion on Capital Appreciation Bonds	-	-	2,837,320	1,924,409	2,837,320	1,924,409
Total	<u>\$ 27,082,793</u>	<u>\$ 31,148,806</u>	<u>\$ 65,274,724</u>	<u>\$ 62,949,803</u>	<u>\$ 92,357,517</u>	<u>\$ 94,098,609</u>

The City of Buffalo's total bonded debt decreased by \$1,741,092 or (1.9%) during the current fiscal year. There were three new bonds issued in the current fiscal year, a \$2,865,000 Public Facility Lease Revenue Bond, a \$5,925,000 General Obligation Capital Improvement Bond, and a \$3,575,000 General Obligation Water and Sewer Revenue Bond (see Note 4).

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

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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, 2011
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2010)

	2011			2010
	Governmental Activities	Business-Type Activities	Total	Total
ASSETS				
Cash and Investments	\$ 3,254,702	\$ 5,418,823	\$ 8,673,525	\$ 17,783,236
Cash and Investments with Fiscal Agent	320,447	-	320,447	2,159,789
Restricted Cash and Investments	402,325	-	402,325	-
Taxes Receivable	113,860	4,278	118,138	148,846
Special Assessments Receivable	1,279,328	-	1,279,328	1,327,836
Accounts Receivable	237,771	1,499,990	1,737,761	1,640,251
Hook-up Fees Receivable - Current	-	54,109	54,109	70,516
Due from Other Governments	353,116	3,228	356,344	188,639
Accrued Interest Receivable	63,183	3,077	66,260	42,602
Internal Balances	3,522,969	(3,522,969)	-	-
Inventory	14,286	1,405,579	1,419,865	1,328,684
Prepaid Items	40,530	23,535	64,065	73,285
Hook-up Fees Receivable - Noncurrent	-	199,281	199,281	232,009
Loans Receivable	618,946	-	618,946	650,603
Land Held for Resale	167,459	-	167,459	167,459
Bond Issuance Costs	340,837	493,181	834,018	786,541
Capital Assets:				
Land and Construction in Progress	4,087,152	4,422,479	8,509,631	10,705,125
Other Capital Assets, Net of Depreciation	49,959,172	80,859,880	130,819,052	130,908,467
Total Assets	64,776,083	90,864,471	155,640,554	168,213,888
LIABILITIES				
Checks Written in Excess of Cash	-	-	-	6,278,503
Accounts and Contracts Payable	662,468	1,306,223	1,968,691	2,015,485
Other Accrued Liabilities	89,604	121,523	211,127	173,370
Accrued Interest Payable	320,681	385,514	706,195	711,361
Due to Other Governmental Units	3,550	7,750	11,300	27,923
Escrow Deposits	75,379	111,480	186,859	222,913
Deferred Revenue	-	56,458	56,458	77,639
Long-Term Liabilities:				
Due within One Year	2,715,091	2,455,399	5,170,490	7,441,615
Due in More than One Year	25,077,465	62,720,153	87,797,618	87,453,579
Total Liabilities	28,944,238	67,164,500	96,108,738	104,402,388
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	32,568,977	21,333,289	53,902,266	55,307,273
Restricted for:				
Debt Service	3,908,905	-	3,908,905	4,119,749
Other Purposes	-	-	-	255,997
Unrestricted	(646,037)	2,366,682	1,720,645	4,128,481
Total Net Assets	\$ 35,831,845	\$ 23,699,971	\$ 59,531,816	\$ 63,811,500

See accompanying Notes to Financial Statements.

CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

Functions/Programs	2011			
	Expenses	Fees, Charges, Fines and Other	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,213,389	\$ 732,163	\$ -	\$ -
Public Safety	2,757,448	566,283	225,330	-
Highways and Streets	4,639,387	2,308	162,976	639,378
Sanitation	739,634	847,159	-	-
Culture and Recreation	2,700,295	826,591	228,042	618,569
Community Development	316,556	89,666	-	-
Interest on Long-Term Debt	1,341,013	-	-	-
Total Governmental Activities	13,707,722	3,064,170	616,348	1,257,947
Business-Type Activities:				
Electric	10,659,603	12,048,929	-	46,528
Water and Sewer	6,974,107	4,017,213	-	80,400
Liquor	3,655,975	4,113,498	-	-
Golf Course	1,258,715	709,435	-	-
Total Business-Type Activities	22,548,400	20,889,075	-	126,928
Total	\$ 36,256,122	\$ 23,953,245	\$ 616,348	\$ 1,384,875

General Revenues:

Taxes:
 Property Taxes, Levied for General Purpose
 Tax Increments
 Other Taxes
Grants and Contributions not Restricted to Specific Programs
Unrestricted Investment Earnings (Loss)
Insurance Proceeds
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

NET ASSETS - END OF YEAR

See accompanying Notes to Financial Statements.

2011			2010
Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Total
\$ (481,226)	\$ -	\$ (481,226)	\$ (467,332)
(1,965,835)	-	(1,965,835)	(1,941,591)
(3,834,725)	-	(3,834,725)	(2,057,842)
107,525	-	107,525	150,002
(1,027,093)	-	(1,027,093)	1,799,360
(226,890)	-	(226,890)	231,288
(1,341,013)	-	(1,341,013)	(1,261,117)
(8,769,257)	-	(8,769,257)	(3,547,232)
-	1,435,854	1,435,854	1,212,992
-	(2,876,494)	(2,876,494)	(2,698,869)
-	457,523	457,523	483,395
-	(549,280)	(549,280)	(389,377)
-	(1,532,397)	(1,532,397)	(1,391,859)
(8,769,257)	(1,532,397)	(10,301,654)	(4,939,091)
4,641,342	172,908	4,814,250	4,870,102
288,463	-	288,463	114,580
1,615	-	1,615	1,844
463,552	26,083	489,635	451,162
252,164	(144)	252,020	615,919
24,775	-	24,775	4,923
-	-	-	5,358
71,830	79,382	151,212	75,534
-	-	-	(3,086,734)
1,514,645	(1,514,645)	-	-
7,258,386	(1,236,416)	6,021,970	3,052,688
(1,510,871)	(2,768,813)	(4,279,684)	(1,886,403)
37,342,716	26,468,784	63,811,500	65,697,903
\$ 35,831,845	\$ 23,699,971	\$ 59,531,816	\$ 63,811,500

CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2010)

	General	Debt Service	Capital Project
ASSETS			
Cash and Investments	\$ -	\$ 2,575,787	\$ 623,215
Cash and Investments with Fiscal Agent	-	320,447	-
Restricted Cash and Investments	-	-	-
Taxes Receivable:			
Delinquent	72,204	39,399	-
Special Assessments Receivable:			
Delinquent	-	89,288	-
Deferred	-	1,190,040	-
Accounts Receivable	161,904	-	6,435
Due from Other Governmental Units	45,115	14,346	113,952
Accrued Interest Receivable	-	-	-
Due from Other Funds	1,955,588	-	257,879
Advances to Other Funds	-	-	-
Interfund Lease Receivable	-	-	-
Inventory	-	-	-
Prepaid Expenses	36,305	-	-
Loans Receivable, Net of Allowance	-	-	-
Land Held for Resale	7,800	-	-
	<u>\$ 2,278,916</u>	<u>\$ 4,229,307</u>	<u>\$ 1,001,481</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Checks Written in Excess of Cash	\$ -	\$ -	\$ -
Accounts and Contracts Payable	160,195	-	332,324
Other Accrued Liabilities	68,461	-	-
Due to Other Governmental Units	3,550	-	-
Due to Other Funds	148,441	-	-
Interfund Notes Payable	-	-	-
Advances From Other Funds	-	-	-
Escrow Deposits	68,781	-	-
Deferred Revenue	72,704	1,318,727	-
Total Liabilities	<u>522,132</u>	<u>1,318,727</u>	<u>332,324</u>
FUND BALANCES (DEFICITS)			
Nonspendable	44,105	-	-
Restricted	-	2,910,580	669,157
Committed	-	-	-
Assigned	-	-	-
Unassigned	1,712,679	-	-
Total Fund Balances (Deficits)	<u>1,756,784</u>	<u>2,910,580</u>	<u>669,157</u>
	<u>\$ 2,278,916</u>	<u>\$ 4,229,307</u>	<u>\$ 1,001,481</u>

See accompanying Notes to Financial Statements.

2011				2010	
HRA Debt Service	Airport	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 55,700	\$ -	\$ -	\$ 3,254,702	\$ 8,488,995	
-	-	-	320,447	2,159,789	
402,325	-	-	402,325	-	
-	276	1,981	113,860	143,687	
-	-	-	89,288	64,098	
-	-	-	1,190,040	1,263,738	
-	51	69,381	237,771	238,400	
-	159,572	20,131	353,116	186,091	
-	-	63,183	63,183	37,183	
29,563	-	1,423,159	3,666,189	51,116	
-	-	20,000	20,000	147,408	
4,125,000	-	-	4,125,000	4,180,000	
-	14,286	-	14,286	-	
-	150	4,075	40,530	43,538	
-	-	618,946	618,946	650,603	
-	-	159,659	167,459	167,459	
<u>\$ 4,612,588</u>	<u>\$ 174,335</u>	<u>\$ 2,380,515</u>	<u>\$ 14,677,142</u>	<u>\$ 17,822,105</u>	
\$ -	\$ -	\$ -	\$ -	\$ 3,813,428	
-	64,255	105,694	662,468	821,774	
-	191	20,952	89,604	88,700	
-	-	-	3,550	24,590	
-	837,834	2,649,811	3,636,086	86,232	
-	-	-	-	31,800	
457,746	194,388	-	652,134	457,746	
-	-	6,598	75,379	111,433	
4,154,563	276	684,174	6,230,444	6,545,948	
4,612,309	1,096,944	3,467,229	11,349,665	11,981,651	
-	14,436	201,234	259,775	861,600	
279	-	-	3,580,016	6,117,259	
-	-	563,661	563,661	102,296	
-	-	752,776	752,776	618,806	
-	(937,045)	(2,604,385)	(1,828,751)	(1,859,507)	
279	(922,609)	(1,086,714)	3,327,477	5,840,454	
<u>\$ 4,612,588</u>	<u>\$ 174,335</u>	<u>\$ 2,380,515</u>	<u>\$ 14,677,142</u>	<u>\$ 17,822,105</u>	

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010)**

	2011	2010
Total Fund Balance for Governmental Funds	\$ 3,327,477	\$ 5,840,454
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	1,234,845	1,233,149
Construction in Progress	2,852,307	6,105,903
Land Improvements	12,486,965	9,987,985
Buildings and Improvements	17,357,426	17,260,085
Improvements Other than Buildings	2,630,649	2,630,056
Vehicles	2,485,674	2,432,233
Equipment	6,631,394	6,499,670
Infrastructure	67,873,230	66,310,642
Less: Accumulated Depreciation	(59,506,166)	(55,404,507)
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.	6,230,444	6,532,792
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.	(320,681)	(404,779)
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	(27,082,793)	(31,148,806)
Unamortized Discounts and Premium and Bond Issuance Costs	511,715	375,451
Note Payable	(273,671)	(57,473)
Obligations Under Capital Leases	(246,912)	(511,400)
Compensated Absences Payable	(360,058)	(338,739)
Total Net Assets of Governmental Activities	\$ 35,831,845	\$ 37,342,716

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, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	General	Debt Service	Capital Project
REVENUES			
General Property Taxes	\$ 2,852,603	\$ 1,723,042	\$ -
Tax Increments	-	-	-
Other Taxes	1,615	-	-
Licenses and Permits	148,618	-	-
Intergovernmental	537,123	213,480	52,413
Special Assessments	-	282,959	-
Charges for Services	1,419,350	-	-
Fines and Forfeits	39,971	-	-
Investment Earnings (Loss)	2,411	7,318	9,674
Refunds and Reimbursements	96,452	-	496,997
Grants and Contributions	37,379	-	-
Miscellaneous	35,079	3,139	6,600
Total Revenues	<u>5,170,601</u>	<u>2,229,938</u>	<u>565,684</u>
EXPENDITURES			
Current:			
General Government	971,502	-	-
Public Safety	2,091,458	-	-
Public Works	1,191,432	-	-
Sanitation	739,634	-	-
Culture and Recreation	765,088	-	-
Community Development	-	-	-
Capital Outlay:			
General Government	23,763	-	-
Public Safety	-	-	-
Public Works	58,699	-	1,250,931
Culture and Recreation	6,188	-	-
Community Development	-	-	-
Capital Leases:			
Principal	194,900	-	-
Interest and Fiscal Charges	15,281	-	-
Debt Service:			
Principal	15,207	4,477,014	-
Interest and Fiscal Charges	5,696	1,208,765	-
Total Expenditures	<u>6,078,848</u>	<u>5,685,779</u>	<u>1,250,931</u>
Revenue Over (Under) Expenditures	(908,247)	(3,455,841)	(685,247)
OTHER FINANCING SOURCES (USES)			
Transfer In	1,437,381	778,368	453,519
Transfer Out	(106,868)	(37,381)	(70,940)
Bond Proceeds	-	8,790,000	-
Proceeds from Sale of Capital Assets	-	-	-
Insurance Proceeds	-	-	-
Payment of Refunded Bonds	-	(8,310,000)	-
Bond Premium	-	-	-
Total Other Financing Sources (Uses)	<u>1,330,513</u>	<u>1,220,987</u>	<u>382,579</u>
Net Change in Fund Balances	422,266	(2,234,854)	(302,668)
Fund Balance - Beginning of Year, as Restated	1,334,518	5,145,434	971,825
FUND BALANCE - END OF YEAR	<u>\$ 1,756,784</u>	<u>\$ 2,910,580</u>	<u>\$ 669,157</u>

See accompanying Notes to the Financial Statements.

2011			2010	
HRA Debt Service	Airport	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ -	\$ 19,180	\$ 262,619	\$ 4,857,444	\$ 4,803,938
-	-	101,991	101,991	114,580
-	-	-	1,615	1,844
-	-	-	148,618	143,362
-	737,358	120,289	1,660,663	5,487,870
-	-	-	282,959	150,977
-	282,254	1,064,747	2,766,351	2,682,530
-	-	-	39,971	34,207
195,136	(2,210)	(497)	211,832	185,102
57,000	-	25,408	675,857	1,617,581
-	-	52,840	90,219	98,467
-	-	1,869	46,687	24,412
<u>252,136</u>	<u>1,036,582</u>	<u>1,629,266</u>	<u>10,884,207</u>	<u>15,344,870</u>
-	-	-	971,502	934,545
-	-	356,389	2,447,847	2,371,192
-	-	-	1,191,432	1,151,599
-	-	-	739,634	701,271
-	267,248	601,287	1,633,623	1,693,895
1,000	-	257,561	258,561	468,131
-	-	-	23,763	988
-	-	59,816	59,816	55,975
-	-	-	1,309,630	5,309,211
-	877,993	5,480	889,661	4,055,323
-	-	33,798	33,798	-
39,274	29,322	992	264,488	327,263
987	620	93	16,981	32,401
69,000	18,594	-	4,579,815	1,780,284
206,150	-	-	1,420,611	1,215,519
<u>316,411</u>	<u>1,193,777</u>	<u>1,315,416</u>	<u>15,841,162</u>	<u>20,097,597</u>
(64,275)	(157,195)	313,850	(4,956,955)	(4,752,727)
69,653	50,000	65,000	2,853,921	2,673,662
-	(315,546)	(383,983)	(914,718)	(1,126,027)
-	-	-	8,790,000	3,640,000
-	-	-	-	5,358
-	-	24,775	24,775	29,206
-	-	-	(8,310,000)	-
-	-	-	-	30,549
<u>69,653</u>	<u>(265,546)</u>	<u>(294,208)</u>	<u>2,443,978</u>	<u>5,252,748</u>
5,378	(422,741)	19,642	(2,512,977)	500,021
(5,099)	(499,868)	(1,106,356)	5,840,454	5,340,433
<u>\$ 279</u>	<u>\$ (922,609)</u>	<u>\$ (1,086,714)</u>	<u>\$ 3,327,477</u>	<u>\$ 5,840,454</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, 2011
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011	2010
Net Change in Fund Balances-Total Governmental Funds	\$ (2,512,977)	\$ 500,021
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Capital Outlays	1,097,009	8,011,157
Gain (Loss) on Disposal of Capital Assets	-	(96,042)
Capital Contributions to Other Governments	-	(3,086,734)
Proceeds from Sales of Capital Assets	-	(358)
Depreciation Expense	(4,105,901)	(3,899,097)
<p>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.</p>		
Principal Payments for Capital Leases	264,488	327,264
<p>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:</p>		
General Obligation Bond Proceeds	(8,790,000)	(3,640,000)
Notes Payable	(250,000)	-
Payment of Refunded Bonds	8,310,000	-
Bond Discount/Premium	119,751	5,255
Bond Issuance Costs	124,281	40,245
Repayment of Bond Principal and Note Payable	4,579,815	1,780,284
Change in Accrued Interest Expense for General Obligation Bonds	84,098	(17,759)
Amortization of Bond Issuance Costs	(55,286)	(36,501)
Amortization of Bond Discount/Premium	(52,482)	(6,667)
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.	(302,348)	205,701
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).	(21,319)	(27,798)
Change in Net Assets of Governmental Activities	\$ (1,510,871)	\$ 58,971

See accompanying Notes to the Financial Statements.

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2011
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2010)**

ASSETS	<u>Electric</u>	<u>Water & Sewer</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,455,091	\$ 2,843,633
Accounts Receivable	1,095,871	390,866
Accrued Interest Receivable	3,077	-
Taxes Receivable	717	211
Sewer and Water Hook-up Fees Receivable - Current Portion	-	54,109
Due from Other Governments	1,946	120
Due from Other Funds	-	3,037,269
Interfund Note Receivable	-	-
Inventory	798,539	8,335
Prepaid Expenses	12,638	6,480
Total Current Assets	<u>4,367,879</u>	<u>6,341,023</u>
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	199,281
Unamortized Bond Issuance Costs	86,525	374,445
Advance to Other Funds	174,388	300,000
Capital Assets:		
Land, Buildings, Infrastructure and Improvements	20,631,905	88,509,749
Equipment	4,811,730	1,153,286
Construction in Progress	-	1,888,388
Total Capital Assets	<u>25,443,635</u>	<u>91,551,423</u>
Less: Allowance for Depreciation	<u>(11,891,855)</u>	<u>(24,489,691)</u>
Total Net Capital Assets	<u>13,551,780</u>	<u>67,061,732</u>
Total Long-Term Assets	<u>13,812,693</u>	<u>67,935,458</u>
Total Assets	<u><u>\$ 18,180,572</u></u>	<u><u>\$ 74,276,481</u></u>

See accompanying Notes to the Financial Statements.

2011			2010
Liquor	Golf Course	Total	Total
\$ 120,099	\$ -	\$ 5,418,823	\$ 9,294,241
2,357	10,896	1,499,990	1,401,851
-	-	3,077	5,419
3,350	-	4,278	5,159
-	-	54,109	70,516
1,162	-	3,228	2,548
-	-	3,037,269	455,000
-	-	-	31,800
575,549	23,156	1,405,579	1,328,684
3,148	1,269	23,535	29,747
<u>705,665</u>	<u>35,321</u>	<u>11,449,888</u>	<u>12,624,965</u>
-	-	199,281	232,009
621	31,590	493,181	514,699
-	457,746	932,134	457,746
1,990,638	3,270,853	114,403,145	111,493,155
428,274	773,189	7,166,479	6,982,653
-	-	1,888,388	845,667
<u>2,418,912</u>	<u>4,044,042</u>	<u>123,458,012</u>	<u>119,321,475</u>
<u>(712,136)</u>	<u>(1,081,971)</u>	<u>(38,175,653)</u>	<u>(34,763,099)</u>
<u>1,706,776</u>	<u>2,962,071</u>	<u>85,282,359</u>	<u>84,558,376</u>
<u>1,707,397</u>	<u>3,451,407</u>	<u>86,906,955</u>	<u>85,762,830</u>
<u>\$ 2,413,062</u>	<u>\$ 3,486,728</u>	<u>\$ 98,356,843</u>	<u>\$ 98,387,795</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS (CONTINUED)
 DECEMBER 31, 2011
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2010)**

LIABILITIES	<u>Electric</u>	<u>Water & Sewer</u>
CURRENT LIABILITIES		
Checks Written in Excess of Cash	\$ -	\$ -
Accounts and Contracts Payable	634,464	449,639
Accrued Expenses	61,764	14,144
Due to Other Governments	-	-
Due to Other Funds	540	-
Accrued Interest	102,116	276,342
Deferred Revenue	25,120	-
Compensated Absences - Current Portion	57,696	35,185
Capital Lease Obligation - Current Portion	11,720	2,252
Interfund Lease Payable - Current Portion	-	-
Bonds Payable - Current Portion	1,010,000	1,172,987
Total Current Liabilities	<u>1,903,420</u>	<u>1,950,549</u>
LONG-TERM LIABILITIES		
Escrow Deposits	-	111,480
Compensated Absences - Long-Term	58,721	27,283
Capital Lease Obligation - Long-Term	9,101	773
Bonds Payable - Long-Term	4,940,500	57,059,734
Interfund Lease Payable	-	-
Advance from Other Funds	-	-
Total Long-Term Liabilities	<u>5,008,322</u>	<u>57,199,270</u>
Total Liabilities	6,911,742	59,149,819
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	7,692,568	13,383,616
Unrestricted	3,576,262	1,743,046
Total Net Assets	<u>11,268,830</u>	<u>15,126,662</u>
Total Liabilities and Net Assets	<u>\$ 18,180,572</u>	<u>\$ 74,276,481</u>

See accompanying Notes to Financial Statements.

2011			2010
Liquor	Golf Course	Total	Total
\$ -	\$ -	\$ -	\$ 2,465,075
212,566	9,554	1,306,223	1,193,711
42,472	3,143	121,523	84,670
591	7,159	7,750	3,333
-	3,066,832	3,067,372	419,884
7,056	-	385,514	306,582
3,350	27,988	56,458	64,483
14,419	11,596	118,896	126,251
80,305	14,239	108,516	155,906
-	70,000	70,000	55,000
45,000	-	2,227,987	2,162,987
<u>405,759</u>	<u>3,210,511</u>	<u>7,470,239</u>	<u>7,037,882</u>
-	-	111,480	111,480
16,658	2,436	105,098	99,900
604,947	-	614,821	723,363
-	-	62,000,234	59,673,978
-	4,055,000	4,055,000	4,125,000
300,000	-	300,000	147,408
<u>921,605</u>	<u>4,057,436</u>	<u>67,186,633</u>	<u>64,881,129</u>
1,327,364	7,267,947	74,656,872	71,919,011
976,526	(719,421)	21,333,289	25,399,401
109,172	(3,061,798)	2,366,682	1,069,383
<u>1,085,698</u>	<u>(3,781,219)</u>	<u>23,699,971</u>	<u>26,468,784</u>
<u>\$ 2,413,062</u>	<u>\$ 3,486,728</u>	<u>\$ 98,356,843</u>	<u>\$ 98,387,795</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED DECEMBER 31, 2011
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	Electric	Water & Sewer
OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	-	-
Charges for Services	12,048,929	4,017,213
Total Gross Profit and Operating Revenues	<u>12,048,929</u>	<u>4,017,213</u>
OPERATING EXPENSES		
Cost of Sales and Services	8,331,466	1,235,640
Compensation and Employee Benefits	1,104,783	865,235
Depreciation	958,733	2,261,730
Total Operating Expenses	<u>10,394,982</u>	<u>4,362,605</u>
OPERATING INCOME (LOSS)	1,653,947	(345,392)
OTHER INCOME (EXPENSES)		
Interest Income (Loss)	9,425	20,072
Interest Expense	(264,621)	(2,611,502)
Taxes and Special Assessments	12,165	14,678
Intergovernmental Revenues	22,771	303
Access Fees	3,500	80,400
Refunds and Reimbursements	43,028	-
Miscellaneous Revenue	1,382	28,978
Total Other Income (Expense)	<u>(172,350)</u>	<u>(2,467,071)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,481,597	(2,812,463)
CONTRIBUTIONS AND TRANSFERS		
Transfers Out	(950,000)	(489,203)
Capital Contributed from Other Funds	25,613	398,945
Total Contributions and Transfers	<u>(924,387)</u>	<u>(90,258)</u>
CHANGE IN NET ASSETS	557,210	(2,902,721)
Net Assets - Beginning of Year	<u>10,711,620</u>	<u>18,029,383</u>
NET ASSETS - END OF YEAR	<u>\$ 11,268,830</u>	<u>\$ 15,126,662</u>

See accompanying Notes to Financial Statements.

2011			2010
Liquor	Golf Course	Total	Total
\$ 4,113,498	\$ 67,404	\$ 4,180,902	\$ 4,189,965
(2,952,792)	(45,856)	(2,998,648)	(2,955,130)
-	642,031	16,708,173	15,774,738
<u>1,160,706</u>	<u>663,579</u>	<u>17,890,427</u>	<u>17,009,573</u>
209,030	369,454	10,145,590	9,431,079
403,737	516,219	2,889,974	2,815,769
59,985	144,759	3,425,207	3,330,282
<u>672,752</u>	<u>1,030,432</u>	<u>16,460,771</u>	<u>15,577,130</u>
487,954	(366,853)	1,429,656	1,432,443
(18,461)	(11,180)	(144)	389,488
(30,431)	(182,427)	(3,088,981)	(3,057,834)
146,065	-	172,908	176,334
3,009	-	26,083	20,136
-	-	83,900	212,754
-	-	43,028	20,778
49,022	-	79,382	50,487
<u>149,204</u>	<u>(193,607)</u>	<u>(2,683,824)</u>	<u>(2,187,857)</u>
637,158	(560,460)	(1,254,168)	(755,414)
(500,000)	-	(1,939,203)	(1,547,635)
-	-	424,558	357,675
<u>(500,000)</u>	<u>-</u>	<u>(1,514,645)</u>	<u>(1,189,960)</u>
137,158	(560,460)	(2,768,813)	(1,945,374)
948,540	(3,220,759)	26,468,784	28,414,158
<u>\$ 1,085,698</u>	<u>\$ (3,781,219)</u>	<u>\$ 23,699,971</u>	<u>\$ 26,468,784</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2011
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	Electric	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Service Users	\$ 11,974,638	\$ 3,987,491
Cash Paid to Suppliers	(8,550,297)	(1,060,183)
Cash Paid to Employees	(1,079,882)	(857,931)
Net Cash Provided by Operating Activities	2,344,459	2,069,377
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund Borrowing	(950,000)	(489,203)
Interfund Note Receivable	-	121,800
Repayment of Advances from Other Funds	(147,408)	-
Advance to Other Funds	(108,848)	(3,037,269)
Advance From Other Funds	-	-
Property Tax Revenues	12,158	14,467
Special Assessment Revenues	-	49,135
Miscellaneous Revenues	44,410	28,978
Intergovernmental Revenues	22,517	443
Checks Written in Excess of Cash in Bank	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(1,127,171)	(3,311,649)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Bonds	-	3,575,000
Payments on Bond Issuance Costs, Premiums and Discounts	-	-
Interfund Lease Payable	-	-
Access Fees	3,500	80,400
Acquisition and Construction of Capital Assets	(503,133)	(3,151,034)
Interest Paid on Revenue Bonds	(242,029)	(1,551,031)
Interest Paid on Capital Lease Obligations	(4,092)	-
Principal Payments on Capital Lease Obligation	(33,466)	(4,556)
Principal Payments on Revenue Bonds	(970,000)	(1,147,990)
Net Cash Used by Capital and Related Financing Activities	(1,749,220)	(2,199,211)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	11,767	20,072
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(520,165)	(3,421,411)
Cash and Cash Equivalents - Beginning of Year	2,975,256	6,265,044
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,455,091	\$ 2,843,633
NONCASH TRANSACTIONS		
Contributed Capital from Other Funds	\$ 25,613	\$ 398,945
Interest Accretion on Capital Appreciation Bonds	-	912,911
Amortized Bond Issue Costs, Premiums and Discounts	-	49,799
Total Noncash Investing, Capital and Financing Activities	\$ 25,613	\$ 1,361,655

See accompanying Notes to Financial Statements.

2011			2010	
Liquor	Golf Course	Total	Total	
\$ 3,716,645	\$ 714,140	\$ 20,392,914	\$ 16,875,380	
(3,076,101)	(414,491)	(13,101,072)	(9,473,411)	
<u>(388,369)</u>	<u>(526,016)</u>	<u>(2,852,198)</u>	<u>(2,880,135)</u>	
252,175	(226,367)	4,439,644	4,521,834	
(500,000)	571,873	(1,367,330)	(1,547,635)	
-	-	121,800	31,800	
-	-	(147,408)	-	
-	-	(3,146,117)	90,000	
300,000	-	300,000	-	
147,164	-	173,789	174,801	
-	-	49,135	43,639	
49,022	-	122,410	71,265	
2,443	-	25,403	18,296	
-	-	-	301,674	
<u>(1,371)</u>	<u>571,873</u>	<u>(3,868,318)</u>	<u>(816,160)</u>	
-	-	3,575,000	4,660,000	
-	-	-	93,120	
-	(55,000)	(55,000)	(55,000)	
-	-	83,900	212,754	
(12,113)	(58,352)	(3,724,632)	(2,345,723)	
(31,683)	-	(1,824,743)	(2,982,367)	
-	(180,453)	(184,545)	(158,913)	
(77,389)	(40,521)	(155,932)	(227,243)	
<u>(45,000)</u>	<u>-</u>	<u>(2,162,990)</u>	<u>(10,746,836)</u>	
<u>(166,185)</u>	<u>(334,326)</u>	<u>(4,448,942)</u>	<u>(11,550,208)</u>	
<u>(18,461)</u>	<u>(11,180)</u>	<u>2,198</u>	<u>386,639</u>	
66,158	-	(3,875,418)	(7,457,895)	
53,941	-	9,294,241	16,752,136	
<u>\$ 120,099</u>	<u>\$ -</u>	<u>\$ 5,418,823</u>	<u>\$ 9,294,241</u>	
\$ -	\$ -	\$ 424,558	\$ 357,675	
-	-	912,911	-	
-	-	49,799	-	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,387,268</u>	<u>\$ 357,675</u>	

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2011
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	Electric	Water & Sewer
	Operating Income (Loss)	\$ 1,653,947
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	958,733	2,261,730
Amortization	-	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(78,363)	(29,722)
(Increase) Decrease in Prepaid Items	1,654	2,614
(Increase) Decrease in Inventory	(36,483)	-
Increase (Decrease) in Accounts and Contracts Payable	(184,002)	172,097
Increase (Decrease) in Accrued Expenses	24,789	746
Increase (Decrease) in Due to Other Governments	-	-
Increase (Decrease) in Due to Other Funds	-	-
Increase in Deferred Revenue	4,072	-
Increase (Decrease) in Accrued Compensated Absences	112	7,304
Net Cash Provided (Used) by Operating Activities	\$ 2,344,459	\$ 2,069,377

See accompanying Notes to the Financial Statements.

2011			2010	
Liquor	Golf Course	Total	Total	
\$ 487,954	\$ (366,853)	\$ 1,429,656	\$ 1,432,443	
59,985	144,759	3,425,207	3,330,282	
-	-	-	23,113	
(2,276)	12,225	(98,136)	(90,636)	
214	1,730	6,212	(4,431)	
(38,326)	(2,086)	(76,895)	79,941	
123,833	1,175	113,103	(140,955)	
13,277	1,867	40,679	(71,116)	
-	-	-	(222)	
(390,000)	-	(390,000)	(90,321)	
(4,577)	(7,520)	(8,025)	46,986	
2,091	(11,664)	(2,157)	6,750	
<u>\$ 252,175</u>	<u>\$ (226,367)</u>	<u>\$ 4,439,644</u>	<u>\$ 4,521,834</u>	

NOTES TO FINANCIAL STATEMENTS

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

For the year ended December 31, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

1. 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, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

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

The City reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

Capital Project Fund

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

HRA Debt Service Fund

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

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.

C. Measurement Focus and Basis of Accounting

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. 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.

D. Budgets

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

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

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

E. Assets, Liabilities, and Net Assets or Fund Balances

1. Cash and Investments

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

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

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

2. Property Tax Credits

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Property Tax Revenue Recognition

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

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

4. Special Assessment Revenue Recognition

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Special Assessment Revenue Recognition (Continued)

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

5. Utility Billing

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

6. Inventories

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

7. Interfund Receivables/Payables

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

8. Loans Receivable

The City records loans receivable for a revolving loan program that assists residents in the rehabilitation of homes. Also, the HRA issues loans to local businesses. The City estimates the allowance based on the specific identification method. The estimated allowance as of December 31, 2011 is \$57,995.

9. Property Held for Resale

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Capital Assets

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

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

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

11. Compensated Absences

Vacation

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

Sick Leave

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

Severance

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Long-Term Obligations

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

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

13. Interfund Transactions

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

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

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

14. Allowance for Uncollectible Accounts

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

15. Comparative Data

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

16. Net Assets

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

17. Fund Balance

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

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

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

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

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, based on market prices. Investment earnings on cash and pooled investments are credited to all funds based on their cash balances each month. In addition, some funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$10,618.

A. Deposits

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

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

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

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;
- General obligations rated "A" or better; revenue obligations rated "AA" or better;
- General obligations of the Minnesota Housing Finance Agency rated "A" or better;
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- 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, 2011, the City had the following investments in its pool:

Investment	Credit Rating	Maturity	Fair Value	Percent of Total
First American Treasury Obligations Fund - Class A	AAA	N/A	\$ 402,325	43.60%
US Treasury NT	Aaa	1/31/2013	320,447	34.73%
Negotiable Certificates of Deposit:				
Bank of China, NY	NR	2/16/2012	199,936	21.67%
			<u>\$ 922,708</u>	

NR - Not Rated

NA - Not Applicable

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

**CITY OF BUFFALO, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

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

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

Cash	\$ 5,887,593
Money Market Accounts	7,357
Non-Negotiable Certificates of Deposits	2,578,639
Investments	<u>922,708</u>
Total Cash and Investments	<u><u>\$ 9,396,297</u></u>
Cash and Investments	\$ 8,673,525
Cash and Investments with Fiscal Agent	320,447
Restricted Cash and Investments	<u>402,325</u>
Total Cash and Investments	<u><u>\$ 9,396,297</u></u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,233,149	\$ 1,696	\$ -	\$ 1,234,845
Construction in Progress	6,105,903	1,251,373	(4,504,969)	2,852,307
Total Capital Assets, Not Being Depreciated	7,339,052	1,253,069	(4,504,969)	4,087,152
Capital Assets, Being Depreciated:				
Land Improvements	9,987,985	2,531,351	(32,371)	12,486,965
Buildings and Building Improvements	17,260,085	97,341	-	17,357,426
Improvements Other than Buildings	2,630,056	593	-	2,630,649
Vehicles	2,432,233	53,441	-	2,485,674
Equipment	6,499,670	134,667	(2,943)	6,631,394
Infrastructure	66,310,642	1,562,588	-	67,873,230
Total Capital Assets, Being Depreciated	105,120,671	4,379,981	(35,314)	109,465,338
Accumulated Depreciation for:				
Land Improvements	(2,537,426)	(537,028)	1,299	(3,073,155)
Buildings and Building Improvements	(4,968,347)	(483,107)	-	(5,451,454)
Improvements Other than Buildings	(868,006)	(122,250)	-	(990,256)
Vehicles	(1,867,701)	(99,981)	-	(1,967,682)
Equipment	(4,433,670)	(473,370)	2,943	(4,904,097)
Infrastructure	(40,729,357)	(2,390,165)	-	(43,119,522)
Total Accumulated Depreciation	(55,404,507)	(4,105,901)	4,242	(59,506,166)
Total Capital Assets, Being Depreciated, Net	49,716,164	274,080	(31,072)	49,959,172
Governmental Activities Capital Assets, Net	<u>\$ 57,055,216</u>	<u>\$ 1,527,149</u>	<u>\$ (4,536,041)</u>	<u>\$ 54,046,324</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 205,729
Public Safety	299,606
Public Works	2,807,567
Parks, Culture and Recreation	792,999
Total Depreciation Expense, Governmental Activities	<u>\$ 4,105,901</u>

In 2011, \$424,558 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.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,520,406	\$ 13,685	\$ -	\$ 2,534,091
Construction in Progress	845,667	2,044,042	(1,001,321)	1,888,388
Total Capital Assets, Not Being Depreciated	<u>3,366,073</u>	<u>2,057,727</u>	<u>(1,001,321)</u>	<u>4,422,479</u>
Capital Assets, Being Depreciated:				
Land Improvements	2,649,933	17,524	-	2,667,457
Buildings and Building Improvements	49,386,497	197,209	-	49,583,706
Utility Distributions Systems	56,936,318	2,681,574	-	59,617,892
Machinery and Shop Equipment	6,982,654	196,476	(12,653)	7,166,477
Total Capital Assets, Being Depreciated	<u>115,955,402</u>	<u>3,092,783</u>	<u>(12,653)</u>	<u>119,035,533</u>
Accumulated Depreciation for:				
Land Improvements	(721,727)	(70,900)	-	(792,627)
Buildings and Building Improvements	(11,882,442)	(1,320,698)	-	(13,203,140)
Utility Distributions Systems	(18,064,699)	(1,551,447)	-	(19,616,146)
Machinery and Shop Equipment	(4,094,231)	(482,162)	12,653	(4,563,740)
Total Accumulated Depreciation	<u>(34,763,099)</u>	<u>(3,425,207)</u>	<u>12,653</u>	<u>(38,175,653)</u>
Total Capital Assets, Being Depreciated, Net	<u>81,192,303</u>	<u>(332,424)</u>	<u>-</u>	<u>80,859,880</u>
Business-Type Activities Capital Assets, Net	<u>\$ 84,558,376</u>	<u>\$ 1,725,303</u>	<u>\$ (1,001,321)</u>	<u>\$ 85,282,359</u>

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

Business-Type Activities:	
Electric	\$ 958,733
Water and Sewer	2,261,730
Liquor	59,985
Golf Course	144,759
Total Depreciation Expense, Business-Type Activities	<u>\$ 3,425,207</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2011 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2003 G.O. Capital Improvement Bond #89	\$ 6,000,000	2024	3.50-5.00%	\$ 310,000
2004 G.O. Highway Bonds #91	1,325,000	2020	2.50-4.00%	875,000
2006 G.O. Capital Improvement City Facilities #95	910,000	2017	4.00-4.30%	585,000
2006 G.O. Capital Improvement Mesh Network #95	110,000	2012	4.00-4.30%	25,000
2006 G.O. Capital Improvement Refunding #95	590,000	2012	4.00-4.30%	110,000
2008 G.O. Street Reconstruction Bonds #2008D	1,715,000	2019	3.50-4.50%	1,550,000
2009 G.O. Refunding Bonds #2009A	2,460,000	2016	2.00-3.00%	1,905,000
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%	760,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80%	2,145,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80%	425,000
2011 G.O. Capital Improvement Refunding #2011A	5,925,000	2024	0.40-3.15%	5,925,000
Total Governmental Activities - G.O. Bonds	26,360,000			18,300,000
Business-Type Activities:				
2006 G.O. Capital Improvement Fiber Backbone #95	105,000	2012	4.00-4.30%	25,000
2006 G.O. Capital Improvement Liquor Store #95	215,000	2012	4.00-4.30%	45,000
2008 G.O. Equipment Certificates #2008A	775,000	2015	3.29%	465,000
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			4,240,000
Total General Obligation Bonds	\$ 31,160,000			\$ 22,540,000
Special Assessments Bonds:				
Governmental Activities:				
1997 Improvement Bonds #74A	\$ 515,000	2013	5.00-5.30%	\$ 95,000
2000 Improvement Bonds #83B	345,000	2016	4.70-5.20%	145,000
2002 Refunding Improvement Bonds #87C	695,000	2019	4.38%	420,000
2004 Refunding Improvement Bonds #91	290,000	2012	3.50-5.00%	60,000
2004 Refunding Improvement Bonds #91	4,260,000	2012	3.25-4.00%	535,000
2005 Improvement Bonds #94	975,000	2016	3.25-4.00%	170,000
Total Special Assessment Bonds	\$ 7,080,000			\$ 1,425,000

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2008 Vehicles	\$ 173,902	2013	3.95%	\$ 73,724
2008 Vehicles and Snowblower	174,742	2012	3.85%	15,680
2009 Technology	344,776	2012	3.85%	157,508
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 693,420</u>			<u>\$ 246,912</u>
Note Payable:				
Governmental Activities:				
Note Payable - State of Minnesota	\$ 202,841	2013	0.00%	\$ 38,878
Note Payable - ISD 877	250,000	2018	4.25%	234,793
Total Notes Payable	<u>\$ 452,841</u>			<u>\$ 273,671</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
2002 Electric Revenue Bond #86	\$ 1,295,000	2015	4.45-5.00%	\$ 585,000
2004 Refunding Water & Sewer Revenue Bonds #91	595,000	2012	3.25-4.00%	55,000
2004 Refunding Wastewater Revenue Bonds #93	1,310,000	2009	3.25-4.00%	210,000
2004 Refunding Wastewater Revenue Bonds #93	5,920,000	2017	3.25-4.00%	3,875,000
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	3.752-4.38%	960,000
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%	13,850,000
2007 G.O. Wastewater Revenue Bonds #2007A	10,915,000	2023	4.00-4.25%	8,755,000
2008 G.O. Wastewater Rev. Refunding Bonds #2008B	11,433,639	2028	5.01-5.21%	11,433,639
2009 G.O. Water and Sewer Refunding Rev. Bonds #2009B	4,712,560	2025	4.35-4.94%	4,712,560
2009 G.O. Electric Rev. Refunding Bonds #2009C	3,025,000	2014	3.00-4.00%	1,865,000
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75%	2,651,205
2009 G.O. Water and Sewer Rev. Refunding Bonds #2009F	870,000	2016	1.00-2.65%	670,000
2010 Electric Revenue Bonds #2010B	955,000	2021	2.50-3.70%	955,000
2011 G.O. Water and Sewer Revenue Bonds, #2011B	3,575,000	2032	0.65-4.30%	3,575,000
Total Business-Type Activities Revenue Bonds	<u>72,535,393</u>			<u>58,197,404</u>
Governmental Activities:				
2005 Wild Marsh Revenue Bonds #94	4,380,000	2027	3.50-4.50%	4,125,000
2009 G.O. Utility Revenue Bonds # 2009E	220,806	2024	2.00-3.75%	203,793
2009 HRA Revenue Bond	178,000	2020	4.82%	164,000
2011 Public Facility Lease Revenue Bonds #2011A	2,865,000	2027	0.65-4.60%	2,865,000
Total Governmental Activities Revenue Bonds	<u>7,643,806</u>			<u>7,357,793</u>
Total Revenue Bonds	<u>\$ 80,179,199</u>			<u>\$ 65,555,197</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 685,252
2008 Vehicles and Golf Carts	167,699	2012	3.94%	14,974
2008 Vehicles and Golf Carts	50,595	2012	3.85%	23,111
Total Revenue Lease Purchase Obligations	<u>\$ 1,413,294</u>			<u>\$ 723,337</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2011:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 21,155,000	\$ 5,925,000	\$ 8,780,000	\$ 18,300,000	\$ 1,225,000
Special Assessment Debt with Governmental Commitments	2,375,000	-	950,000	1,425,000	820,000
Gross Revenue Ice Arena Bonds	3,040,000	-	3,040,000	-	-
General Obligation Revenue Bond	4,578,806	2,865,000	86,013	7,357,793	283,013
Bond Subtotal	31,148,806	8,790,000	12,856,013	27,082,793	2,328,013
Bond Premium	110,460	-	15,435	95,025	-
Bond Discount	(214,069)	(119,751)	(67,917)	(265,903)	-
Net Bond Subtotal	31,045,197	8,670,249	12,803,531	26,911,915	2,328,013
Capital Lease Obligations	511,400	-	264,488	246,912	140,470
Note Payable	57,473	250,000	33,802	273,671	52,288
Compensated Absences	338,739	202,918	181,599	360,058	194,320
Total Governmental Activities	31,952,809	9,123,167	13,283,420	27,792,556	2,715,091
Business-Type Activities:					
General Obligation Bonds	4,410,000	-	170,000	4,240,000	180,000
General Obligation Revenue Bonds	50,245,394	3,575,000	1,147,990	52,672,404	1,172,987
Electric Revenue Bonds	6,370,000	-	845,000	5,525,000	875,000
Bond Subtotal	61,025,394	3,575,000	2,162,990	62,437,404	2,227,987
Interest Accretion on Capital Appreciation Bonds	1,924,409	912,911	-	2,837,320	-
Bond Premium	61,218	-	4,863	56,355	-
Bond Discount	(1,174,056)	(42,900)	(114,098)	(1,102,858)	-
Net Bond Subtotal	61,836,965	4,445,011	2,053,755	64,228,221	2,227,987
Revenue Lease Purchase Obligations	879,269	-	155,932	723,337	108,516
Compensated Absences	226,151	131,209	133,366	223,994	118,896
Total Business-Type Activities	62,942,385	4,576,220	2,343,053	65,175,552	2,455,399
Total Debt	\$ 94,895,194	\$ 13,699,387	\$ 15,626,473	\$ 92,968,108	\$ 5,170,490

Assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-Type Activities
Land	\$ -	\$ 2,310,759
Buildings and Improvements	-	2,476,044
Vehicles and Equipment	695,341	1,577,074
Subtotal	695,341	6,363,877
Less: Accumulated Depreciation	(375,700)	(1,414,050)
Total	\$ 319,641	\$ 4,949,827

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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	
2012	\$ 2,328,013	\$ 1,091,341	\$ 192,758	\$ 16,821	\$ 3,628,933
2013	1,684,013	914,291	158,462	10,321	2,767,087
2014	1,829,013	749,696	34,882	6,925	2,620,516
2015	1,930,213	696,793	36,401	5,406	2,668,813
2016	1,946,214	639,659	37,975	3,832	2,627,680
2017-2021	8,379,874	2,648,993	60,105	2,606	11,091,578
2022-2026	7,890,453	1,301,515	-	-	9,191,968
2027-2028	1,095,000	95,276	-	-	1,190,276
Totals	\$ 27,082,793	\$ 8,137,564	\$ 520,583	\$ 45,911	\$ 35,786,851

Years	Business-Type Activities				Totals
	Long-Term Debt		Capital Leases		
	Principal	Interest	Principal	Interest	
2012	\$ 2,227,987	\$ 1,617,753	\$ 108,516	\$ 26,863	\$ 3,981,119
2013	2,817,988	1,545,864	93,643	22,989	4,480,484
2014	3,052,988	1,448,908	86,838	19,531	4,608,265
2015	3,011,786	1,359,396	90,261	16,108	4,477,551
2016	3,041,786	1,251,442	93,781	12,588	4,399,597
2017-2021	20,399,298	5,927,331	250,298	14,879	26,591,806
2022-2026	21,523,914	12,944,511	-	-	34,468,425
2027-2031	6,111,657	9,190,593	-	-	15,302,250
2032	250,000	10,750	-	-	260,750
Totals	\$ 62,437,404	\$ 35,296,548	\$ 723,337	\$ 112,958	\$ 98,570,247

The annual requirements to amortize all long-term debt outstanding as of December 31, 2011, including interest of \$43,592,981 are as follows:

Year	Amount
2012	\$ 7,610,052
2013	7,247,571
2014	7,228,781
2015	7,146,364
2016	7,027,277
2017-2021	37,683,384
2022-2026	43,660,393
2027-2031	16,492,526
2032	260,750
Total	\$ 134,357,098

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

During 2011, the City's Housing and Redevelopment Authority (HRA) issued \$2,865,000 in Public Facility Lease Revenue Bonds (Series 2011A) to refund \$2,930,000 of outstanding principal of the Series 2001C Gross Revenue Ice Arena Bonds. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$541,318 with a net present value of approximately \$323,156.

The City then issued \$5,925,000 General Obligation Capital Improvement Bonds (Series 2011A), to refund \$5,380,000 of outstanding principal of the Series 2003B \$6,000,000 General Obligation Capital Improvement Bonds. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$456,418 with a net present value of approximately \$389,252.

In addition, the City issued \$3,575,000 General Obligation Sewer and Water Revenue Bonds, Series 2011B for the Northwest Area construction project.

In 2011 the City entered into a note payable with the Buffalo School District for a lease relating to the tennis courts. The School issued the \$500,000 lease and the City is reimbursing the School for \$250,000.

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.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

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.

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, 2011**

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, 2011, the City had funds held with an escrow agent for the repayment of \$2,930,000 of the Series 2001C G.O. Ice Arena Revenue Bond and repayment of \$5,380,000 of the 2003B G.O. Capital Improvement Bonds which were defeased as part of advance refunding issuances in 2011, and therefore neither the cash nor the debt is shown on the financial statements of the City.

NOTE 5 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

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

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

A. Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. The annuity accrual rate is 1.9% for each year of service for PECF members. For all PEPFF members and GEF 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 GEF 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, 2011**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. The City of Buffalo is required to contribute the following percentages of annual covered payroll: 11.78% for GERS Basic Plan members, 7.25% for GERS Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2011, 2010 and 2009 were \$278,198, \$266,680, and \$265,198, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2011, 2010 and 2009 were \$135,656, \$128,590, and \$138,297, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

C. City of Buffalo Fire Relief Association

1. Plan Description

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.

2. Funding Policy

The funding policy provides for contributions from the State of Minnesota and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the state contribution payment, and the provision for administrative expenses. The City's contributions for the years ended December 31, 2011, 2010 and 2009 were \$75,448, \$76,198 and \$36,995, respectively, equal to the required contributions for each year.

**CITY OF BUFFALO, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011**

NOTE 6 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balances/Net Assets

The City has deficit fund balances/net assets at December 31, 2011 as follows:

Governmental Funds:	
Airport Fund	\$ (922,609)
Other Governmental Funds:	
Civic Center	(2,596,332)
Proprietary Funds:	
Golf Course	(3,781,219)

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

B. Expenditures in Excess of Budget

Actual expenditures exceeded 2011 budgets in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Expenditures Over Budget</u>
Other Governmental Funds:			
Fire Fund	\$ 417,285	\$ 417,290	\$ 5
Civic Center Fund	525,765	525,804	39

Expenditures in excess of budget were not significant.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 DEFERRED AD VALOREM TAX LEVIES – BONDED DEBT

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

These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2011 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2011 totaled \$19,711,020.

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual fund receivable and payable balances at December 31, 2011 are as follows:

Fund	Due from Other Funds	Due to Other Funds	Description
General Fund	\$ 1,955,588	\$ 148,441	Reimbursement for Services/Deficit Cash
Capital Project Fund	257,879	-	Eliminate Deficit Cash
HRA Debt Service Fund	29,563	-	Lease Purchase Funding
Airport	-	837,834	Eliminate Deficit Cash
Other Governmental Funds	1,423,159	2,649,811	Reimbursement for Services/Deficit Cash
Proprietary Funds:			
Electric	-	540	Reimbursement for Services
Water and Sewer	3,037,269	-	Eliminate Deficit Cash
Golf Course	-	3,066,832	Lease Purchase Funding/Deficit Cash
Total Due To/From	\$ 6,703,458	\$ 6,703,458	

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, 2011**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

A. Advances To/From Other Funds

Fund	Advances To Other Funds	Advances From Other Funds
HRA Debt Service Fund	\$ -	\$ 457,746
Airport Fund	-	194,388
Other Governmental Funds	20,000	-
Proprietary Funds:		
Electric	174,388	-
Water and Sewer	300,000	-
Liquor	-	300,000
Golf Course	457,746	-
Total Advances	<u>\$ 952,134</u>	<u>\$ 952,134</u>

The advance in the amount of \$300,000 represents remodeling expense incurred by the Liquor Fund payable to the Water and Sewer Fund. The advance in the amount of \$194,388 payable by the Airport Fund to the Electric (\$174,388) and Other Governmental Funds (\$20,000) is an advance of construction funds. The advance between the HRA Debt Service and the Golf Course represents restricted cash held by HRA Debt Service in accordance with golf course purchase agreement.

B. Interfund Receivables/ Payables

Fund	Interfund Lease Receivable	Interfund Lease Payable
HRA Debt Service Fund	\$ 4,125,000	\$ -
Proprietary Funds:		
Wild Marsh Golf Course	-	4,125,000
Total Interfund Leases	<u>\$ 4,125,000</u>	<u>\$ 4,125,000</u>
Total Interfund Receivables/Payables	<u>\$ 11,780,592</u>	<u>\$ 11,780,592</u>

This represents the lease between HRA and the Golf Course for bonds issued by the HRA (see also Note 4). The lease payment schedule follows the bond repayment schedule. A principal payment of \$70,000 is due in 2012.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

C. Transfers

Transfers between funds during 2011 are as follows:

	<u>Amount</u>	<u>Description</u>
<u>Major Governmental Funds</u>		
Transfers to General Fund from:		
Debt Service Fund	\$ 37,381	Defeased Bonds
Electric Fund	900,000	Annual Contribution
Liquor Fund	500,000	Annual Contribution
Total Transfers to General Fund	<u>1,437,381</u>	
Transfers to Debt Service Fund from:		
General Fund	41,867	Transfer of Debt Payment
Capital Project Fund	70,940	Transfer of Project Costs
HRA Fund	83,672	Transfer of Debt Payment
Airport Fund	315,546	Transfer of Debt Payment
Civic Center Fund	213,883	Transfer of Debt Payment
Fire Fund	16,775	Transfer of Debt Payment
Water and Sewer Fund	35,685	Transfer of Debt Payment
Total Transfers to Debt Service Fund	<u>778,368</u>	
Transfer to Capital Projects Fund from:		
Water and Sewer Fund	453,519	Transfer of Project Costs
Total Transfer to Capital Projects Fund	<u>453,519</u>	
Transfer to HRA Debt Service Fund from:		
HRA Fund	29,392	Transfer of Debt Payment
Fire Fund	40,261	Transfer of Debt Payment
Total Transfer to HRA Debt Service Fund	<u>69,653</u>	
Transfer to Airport Fund from:		
General Fund	50,000	Annual Contribution
Total Transfers to Major Funds	<u>2,788,921</u>	
<u>Nonmajor Governmental Funds</u>		
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfer to Civic Center Fund from:		
Electric	50,000	Annual Contribution
Total Transfers to Nonmajor Governmental Funds	<u>65,000</u>	
Total Interfund Transfers	<u>\$ 2,853,921</u>	

Also reported on the government-wide statement of activities, from the governmental activities to the business-type activities, is a transfer of \$424,558. This is the transfer of capital assets from the governmental activities to the business-type activities.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 9 FUND BALANCE CLASSIFICATIONS

The fund balance classifications of the governmental funds as of December 31, 2011, were as follows:

	General	Debt Service	Capital Project	HRA Debt Service	Airport	Other Governmental Funds	Governmental Funds Total
Nonspendable							
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 14,286	\$ -	\$ 14,286
Prepaid Expenses	36,305	-	-	-	150	4,075	40,530
Loan Commitments	-	-	-	-	-	37,500	37,500
Land Held for Resale	7,800	-	-	-	-	159,659	167,459
Total Nonspendable	<u>44,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,436</u>	<u>201,234</u>	<u>259,775</u>
Restricted							
Debt Service	-	2,910,580	-	279	-	-	2,910,859
Capital Projects	-	-	669,157	-	-	-	669,157
Total Restricted	<u>-</u>	<u>2,910,580</u>	<u>669,157</u>	<u>279</u>	<u>-</u>	<u>-</u>	<u>3,580,016</u>
Committed							
Library	-	-	-	-	-	92,763	92,763
The Buffalo HRA	-	-	-	-	-	470,898	470,898
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>563,661</u>	<u>563,661</u>
Assigned							
Fire Operations	-	-	-	-	-	752,776	752,776
Unassigned	1,712,679	-	-	-	(937,045)	(2,604,385)	(1,828,751)
Total Fund Balance	<u>\$ 1,756,784</u>	<u>\$ 2,910,580</u>	<u>\$ 669,157</u>	<u>\$ 279</u>	<u>\$ (922,609)</u>	<u>\$ (1,086,714)</u>	<u>\$ 3,327,477</u>

NOTE 10 CHANGE IN ACCOUNTING PRINCIPLE

As a result of the implementation of GASB Statement No. 54, the City reclassified several of its funds for financial statement reporting purposes. Fund balances at the beginning of the year were restated as follows:

	General	Debt Service	Capital Project	HRA Debt Service	Airport	Other Governmental Funds	Governmental Funds Total
Fund Balance, January 1, 2011 as Previously Stated	\$ 2,286,595	\$ 5,145,434	\$ 971,825	\$ (5,099)	\$ (499,868)	\$ (2,058,433)	\$ 5,840,454
Funds Reclassified Due to GASB Statement No. 54							
Park Fund	(965,176)	-	-	-	-	965,176	-
Community Center Fund	13,099	-	-	-	-	(13,099)	-
Fund Balance, January 1, 2011 as Restated	<u>\$ 1,334,518</u>	<u>\$ 5,145,434</u>	<u>\$ 971,825</u>	<u>\$ (5,099)</u>	<u>\$ (499,868)</u>	<u>\$ (1,106,356)</u>	<u>\$ 5,840,454</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 11 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 12 COMMITMENTS AND CONTINGENCIES

A. Federal and State Funds

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

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

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Electric Power Purchase Agreement

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

C. Construction Commitments

The City entered into construction contracts for various construction projects started during the year. The following contracts had been entered into and were at various stages of completion at December 31, 2011:

Project	Contract Cost	Estimated Project Costs Incurred to Date *	Remaining Committed
Airport Hanger Drainage	\$ 183,976	\$ 179,609	\$ 4,367
NW Area Reconstruction	4,697,734	1,225,277	3,472,457
Total	<u>\$ 4,881,710</u>	<u>\$ 1,404,886</u>	<u>\$ 3,476,824</u>

* Includes contracts payable amount

NOTE 13 CONDUIT DEBT OBLIGATIONS

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

As of December 31, 2011, there were 14 series of Industrial Revenue Bonds and other similar type Revenue Bonds outstanding. The aggregate principal amount payable for the eight (8) series issued prior to January 4, 1997, could not be determined; however, their original issue amounts totaled \$26.165 million. An Industrial Revenue Note totaling \$2,750,000 and maturing in March, 2030 was issued in 2000. Three Industrial Revenue Notes totaling \$20,130,000 and maturing in March 2033 were issued in 2003. Two conduit debt issues were issued during 2006: (1) Health Care Refunding Revenue Bonds, Series 2006 totaling \$19,965,000 and (2) Educational Facilities Revenue Note, Series 2005A totaling \$5,500,000.

**CITY OF BUFFALO, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 14 SUBSEQUENT EVENTS

On March 28, 2012, the City issued \$5,610,000 in General Obligation Sewer and Water Revenue Bonds (Series 2012A) for the purpose of financing the construction of various utility system improvements within the City. The interest rate on this bond ranges from 2.55% to 3.00% and is set to mature in 2033. In addition, the City also issued \$1,555,000 in General Obligation Refunding Bonds (Series 2012B) to refund the following bonds: Series 2002F \$695,000 General Obligation Bonds, Series 2004A \$1,325,000 General Obligation Highway Bonds, Series 2006B \$1,930,000 General Obligation Bonds. The interest rate on this bond is 2.0% and is set to mature in 2020.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			Variance from Final Budget	2010
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 2,966,994	\$ 2,852,603	\$ 2,852,603	\$ -	\$ 2,664,379
Other Taxes	1,750	1,615	1,615	-	1,844
Total Taxes	<u>2,968,744</u>	<u>2,854,218</u>	<u>2,854,218</u>	-	<u>2,666,223</u>
Licenses and Permits	164,742	148,621	148,618	(3)	143,362
Intergovernmental:					
Federal:					
Grants	-	2,463	6,067	3,604	26,194
State:					
Local Government Aid	541,489	145,886	145,886	-	145,886
Market Value Credit	58,676	58,676	58,676	-	55,718
State Police Aid	103,687	107,730	107,730	-	103,687
State Highway Aid	145,000	162,976	162,976	-	149,155
Other	15,281	33,518	33,518	-	15,281
Total Intergovernmental	<u>864,133</u>	<u>511,249</u>	<u>514,853</u>	<u>3,604</u>	<u>495,921</u>
Special Assessments	1,000	-	-	-	-
Charges for Services:					
General Government	92,587	107,506	107,506	-	93,118
Engineering	600	-	-	-	1,100
Public Safety	53,600	54,866	54,866	-	60,913
Streets	1,100	138	138	-	868
Sanitation	843,600	844,443	847,159	2,716	851,273
Storm Sewer	391,900	389,172	389,943	771	389,340
Total Charges for Services	<u>1,383,387</u>	<u>1,396,125</u>	<u>1,399,612</u>	<u>3,487</u>	<u>1,396,612</u>
Fines and Forfeits	47,000	39,971	39,971	-	34,207
Investment Earnings	10,000	5,801	7,312	1,511	8,715
Refunds/Reimbursements	-	83,702	83,702	-	109,196
Grants and Contributions	9,500	12,925	12,925	-	13,995
Miscellaneous	1,450	32,184	32,186	2	8,660
Total Revenues	<u>5,449,956</u>	<u>5,084,796</u>	<u>5,093,397</u>	<u>8,601</u>	<u>4,876,891</u>

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, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			Variance from Final Budget	2010
	Original Budget	Final Budget	Actual		Actual As Restated
EXPENDITURES					
General Government:					
Mayor and Council:					
Current:					
Personal Services	\$ 76,682	\$ 45,763	\$ 45,768	\$ (5)	\$ 52,255
Financial Administration:					
Current:					
Salaries	294,966	278,407	278,407	-	282,973
Employee Benefits	72,120	70,020	70,020	-	66,374
Other Expenses:					
Audit / Accounting	9,600	9,060	9,060	-	8,740
Building Permits, Surcharges	2,000	8,677	8,677	-	4,031
Insurance	14,705	11,874	11,874	-	12,832
Planning and Zoning	88,519	86,517	86,517	-	89,265
Assessor	64,000	63,221	63,221	-	62,838
City Attorney	25,000	13,723	13,723	-	9,245
Professional Services	25,000	9,788	9,788	-	4,950
Elections	-	760	760	-	11,524
Other Expense	117,200	92,660	93,468	(808)	81,498
Capital Lease Payments:					
Principal	7,615	7,803	7,755	48	5,778
Interest	115	115	115	-	12,612
Total Financial Administration	<u>770,840</u>	<u>652,625</u>	<u>653,385</u>	<u>(760)</u>	<u>652,660</u>
MIS:					
Current:					
Salaries	61,717	56,121	56,121	-	60,010
Employee Benefits	22,583	21,255	21,255	-	20,499
Other Services and Charges	15,150	15,190	15,190	-	10,439
Capital Outlay	40,000	22,566	22,566	-	988
Total MIS	<u>139,450</u>	<u>115,132</u>	<u>115,132</u>	<u>-</u>	<u>91,936</u>
Engineering:					
Current:					
Salaries	106,041	107,980	107,980	-	102,389
Employee Benefits	26,251	26,040	26,040	-	24,028
Other Services and Charges	12,250	19,517	19,517	-	3,928
Capital Outlay	-	1,197	1,197	-	-
Capital Lease Payments:					
Principal	46,583	46,583	46,629	(46)	-
Interest	4,034	4,034	4,034	-	51,160
Total Engineering	<u>195,159</u>	<u>205,351</u>	<u>205,397</u>	<u>(46)</u>	<u>181,505</u>
Transportation:					
Current:					
Salaries	15,000	12,025	12,025	-	9,296
Employee Benefits	2,236	1,455	1,455	-	1,185
Other Services and Charges	20,270	20,636	20,636	-	16,246
Total Transportation	<u>37,506</u>	<u>34,116</u>	<u>34,116</u>	<u>-</u>	<u>26,727</u>
Total General Government	1,219,637	1,052,987	1,053,798	(811)	1,005,083

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, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			Variance from Final Budget	2010
	Original Budget	Final Budget	Actual		Actual As Restated
EXPENDITURES (CONTINUED)					
Public Safety:					
Police Protection:					
Current:					
Office Wages and Benefits	\$ 181,887	\$ 189,672	\$ 189,672	\$ -	\$ 187,317
Officer Wages and Benefits	1,328,569	1,287,487	1,291,091	(3,604)	1,251,496
Training	10,500	6,098	6,099	(1)	4,748
Legal Fees	63,500	62,576	61,362	1,214	65,054
Capital Lease Payments:					
Principal	59,907	59,908	59,908	-	33,252
Interest	5,154	5,154	5,154	-	49,398
Other Services and Charges	230,450	218,630	216,928	1,702	201,700
Capital Outlay	28,000	-	-	-	55,685
Total Police	<u>1,907,967</u>	<u>1,829,525</u>	<u>1,830,214</u>	<u>(689)</u>	<u>1,848,650</u>
Fire Protection	325,000	325,000	296,882	28,118	298,162
Civil Defense - Capital Outlay	-	-	-	-	277
Building Inspections	70,000	29,424	29,424	-	29,411
Total Public Safety	<u>2,302,967</u>	<u>2,183,949</u>	<u>2,156,520</u>	<u>27,429</u>	<u>2,176,500</u>
Public Works:					
Street Department:					
Current:					
Employee Benefits	109,274	98,879	98,879	-	102,142
Street Maintenance	486,926	519,922	519,922	-	481,322
Storm Sewer Maintenance	57,940	42,320	42,320	-	18,750
Snow and Ice Removal	88,940	61,827	61,827	-	109,235
Capital Lease Payments:					
Principal	80,021	80,610	80,610	-	92,961
Interest	37,775	5,975	5,976	(1)	11,530
Other	490,591	468,570	468,484	86	440,150
Capital Outlay - Streets	30,000	58,699	58,699	-	-
Total Public Works	<u>1,381,467</u>	<u>1,336,802</u>	<u>1,336,717</u>	<u>85</u>	<u>1,256,090</u>
Sanitation:	720,650	739,635	739,634	1	701,271
Total Expenditures	<u>5,624,721</u>	<u>5,313,373</u>	<u>5,286,669</u>	<u>26,704</u>	<u>5,138,944</u>
REVENUES OVER (UNDER) EXPENDITURES	(174,765)	(228,577)	(193,272)	35,305	(262,053)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	-	-	-	5,000
Transfer In	1,200,000	937,381	937,381	-	1,065,783
Transfer Out	(420,000)	(420,000)	(106,868)	313,132	(508,376)
Total Other Financing Sources (Uses)	<u>830,000</u>	<u>517,381</u>	<u>830,513</u>	<u>313,132</u>	<u>562,407</u>
NET CHANGE IN FUND BALANCES	<u>\$ 655,235</u>	<u>\$ 288,804</u>	637,241	<u>\$ 348,437</u>	300,354
Fund Balance - Beginning of Year				<u>2,286,595</u>	<u>1,986,241</u>
FUND BALANCE - END OF YEAR				<u>\$ 2,923,836</u>	<u>\$ 2,286,595</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, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			2010	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
General Property Taxes	\$ 20,284	\$ 19,180	\$ 19,180	\$ -	\$ 18,688
Intergovernmental:					
Federal Grants	-	429,916	589,338	159,422	2,881,978
State Aid and Grants	9,028	148,020	148,020	-	263,394
Total intergovernmental	9,028	577,936	737,358	159,422	3,145,372
Charges for Services:					
Airport Services	260,557	282,254	282,254	-	230,548
Investment Earnings (Loss)	(10,000)	(1,750)	(2,210)	(460)	-
Refunds and Reimbursement	-	-	-	-	5,065
Total Revenues	279,869	877,620	1,036,582	158,962	3,399,673
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	23,084	24,521	24,521	-	18,253
Other	235,716	257,013	242,727	14,286	301,136
Capital Outlay	-	873,613	877,993	(4,380)	4,028,220
Capital Lease Payments:					
Principal	14,882	29,322	29,322	-	13,949
Interest	620	620	620	-	1,553
Debt Service:					
Principal	20,283	18,594	18,594	-	20,284
Interest	-	-	-	-	14,284
Total Expenditures	294,585	1,203,683	1,193,777	9,906	4,397,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,716)	(326,063)	(157,195)	168,868	(998,006)
OTHER FINANCING SOURCES					
Transfer In	50,000	50,000	50,000	-	50,000
Transfer Out	-	-	(315,546)	(315,546)	-
Bond Proceeds	-	-	-	-	744,021
Bond Premium	-	-	-	-	10,184
Total Other Financing Sources	50,000	50,000	(265,546)	(315,546)	804,205
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>\$ 35,284</u>	<u>\$ (276,063)</u>	(422,741)	<u>\$ 168,868</u>	(193,801)
Fund Deficit - Beginning of Year			(499,868)		(306,067)
FUND DEFICIT - END OF YEAR			<u>\$ (922,609)</u>		<u>\$ (499,868)</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, 2011

NOTE 1 BASIS OF ACCOUNTING

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

NOTE 2 BUDGETARY INFORMATION

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

3. 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.
4. 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.
5. 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 2011.
6. 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.
7. 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.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2011

NOTE 3 BUDGETARY COMPARISON SCHEDULE RECONCILIATION

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

	General Fund				
	Total Revenues	Total Expenditures	Other Financing Sources/Uses	Beginning Fund Balance	Ending Fund Balance
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 5,170,601	\$ 6,078,848	\$ 1,330,513	\$ 1,334,518	\$ 1,756,784
Funds included in General Fund for GASB Statement No. 54 purposes:					
Park Fund	(57,921)	(638,281)	(500,000)	965,176	1,045,536
Community Center Fund	(19,283)	(153,898)	-	(13,099)	121,516
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	<u>\$ 5,093,397</u>	<u>\$ 5,286,669</u>	<u>\$ 830,513</u>	<u>\$ 2,286,595</u>	<u>\$ 2,923,836</u>

SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2010)**

ASSETS	Revolving Grant	Fire	Library
Cash and Investments	\$ -	\$ -	\$ -
Delinquent Taxes Receivable	-	-	1,963
Accounts Receivable	-	-	80
Due from Other Governmental Units	-	-	616
Accrued Interest Receivable	-	-	-
Due from Other Funds	-	780,701	97,524
Advances to Other Funds	-	-	-
Prepaid Items	-	-	400
Loans Receivable, Net of Allowance	154,180	-	-
Land Held for Resale	143,800	-	-
Total Assets	<u>\$ 297,980</u>	<u>\$ 780,701</u>	<u>\$ 100,583</u>
LIABILITIES AND FUND BALANCE (DEFICIT)			
LIABILITIES			
Checks Written in Excess of Cash	\$ -	\$ -	\$ -
Accounts and Contracts Payable	241	12,084	4,992
Accrued Expenses	-	15,841	465
Due to Other Funds	4,137	-	-
Deferred Revenue	154,180	-	1,963
Deposits - Escrow	-	-	-
Total Liabilities	<u>158,558</u>	<u>27,925</u>	<u>7,420</u>
FUND BALANCE (DEFICIT)			
Nonspendable	143,800	-	400
Committed	-	-	92,763
Assigned	-	752,776	-
Unassigned	(4,378)	-	-
Total Fund Balance (Deficit)	<u>139,422</u>	<u>752,776</u>	<u>93,163</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 297,980</u>	<u>\$ 780,701</u>	<u>\$ 100,583</u>

2011

Civic Center	The HRA of Buffalo	2011 Total	2010 Total
\$ -	\$ -	\$ -	\$ 1,230,998
-	18	1,981	2,510
69,301	-	69,381	75,707
17,877	1,638	20,131	119,897
-	63,183	63,183	37,183
540	544,394	1,423,159	20,000
-	20,000	20,000	-
3,675	-	4,075	4,161
-	464,766	618,946	650,603
-	15,859	159,659	159,659
<u>\$ 91,393</u>	<u>\$ 1,109,858</u>	<u>\$ 2,380,515</u>	<u>\$ 2,300,718</u>

\$ -	\$ -	\$ -	\$ 2,529,870
37,405	50,972	105,694	158,644
4,646	-	20,952	19,799
2,645,674	-	2,649,811	1,232
-	528,031	684,174	690,931
-	6,598	6,598	6,598
<u>2,687,725</u>	<u>585,601</u>	<u>3,467,229</u>	<u>3,407,074</u>

3,675	53,359	201,234	814,423
-	470,898	563,661	102,296
-	-	752,776	618,806
<u>(2,600,007)</u>	<u>-</u>	<u>(2,604,385)</u>	<u>(2,641,881)</u>
<u>(2,596,332)</u>	<u>524,257</u>	<u>(1,086,714)</u>	<u>(1,106,356)</u>
<u>\$ 91,393</u>	<u>\$ 1,109,858</u>	<u>\$ 2,380,515</u>	<u>\$ 2,300,718</u>

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	Revolving Grant	Fire	Library
REVENUE			
General Property Taxes	\$ -	\$ -	\$ 76,341
Tax Increments	-	-	-
Intergovernmental	-	106,137	1,575
Charges for Services	-	471,446	-
Investment Earnings (Loss)	-	2,455	277
Refunds and Reimbursements	-	25,408	-
Grants and Contributions	-	2,840	-
Miscellaneous	-	10	-
Total Revenue	<u>-</u>	<u>608,296</u>	<u>78,193</u>
EXPENDITURES			
Current:			
Public Safety:			
Public Safety	-	356,389	-
Culture and Recreation	-	-	79,095
Community Development	4,589	-	-
Capital Outlay:			
Public Safety	-	59,816	-
Culture and Recreation	-	-	1,868
Community Development	-	-	-
Capital Leases:			
Principal	-	992	-
Interest and Fiscal Charges	-	93	-
Debt Service:			
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>4,589</u>	<u>417,290</u>	<u>80,963</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(4,589)	191,006	(2,770)
OTHER FINANCING SOURCES (USES)			
Transfer In	-	-	15,000
Transfer Out	-	(57,036)	-
Insurance Proceeds	-	-	-
Capital Lease Proceeds	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(57,036)</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	(4,589)	133,970	12,230
Fund Balance (Deficit) - Beginning of Year, as Restated	<u>144,011</u>	<u>618,806</u>	<u>80,933</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 139,422</u>	<u>\$ 752,776</u>	<u>\$ 93,163</u>

2011

Civic Center	The HRA of Buffalo	2011 Total	2010 Total
\$ -	\$ 186,278	\$ 262,619	\$ 278,664
-	101,991	101,991	114,580
-	12,577	120,289	454,356
514,413	78,888	1,064,747	1,032,152
(10,651)	7,422	(497)	8,807
-	-	25,408	197
50,000	-	52,840	53,000
1,604	255	1,869	4,348
<u>555,366</u>	<u>387,411</u>	<u>1,629,266</u>	<u>1,946,104</u>
-	-	356,389	333,027
522,192	-	601,287	603,186
-	252,972	257,561	463,131
-	-	59,816	290
3,612	-	5,480	5,724
-	33,798	33,798	-
-	-	992	954
-	-	93	131
-	-	-	13,709
<u>525,804</u>	<u>286,770</u>	<u>1,315,416</u>	<u>1,420,152</u>
29,562	100,641	313,850	525,952
50,000	-	65,000	65,000
(213,883)	(113,064)	(383,983)	(512,104)
24,775	-	24,775	-
-	-	-	29,206
<u>(139,108)</u>	<u>(113,064)</u>	<u>(294,208)</u>	<u>(417,898)</u>
(109,546)	(12,423)	19,642	108,054
<u>(2,486,786)</u>	<u>536,680</u>	<u>(1,106,356)</u>	<u>(1,214,410)</u>
<u>\$ (2,596,332)</u>	<u>\$ 524,257</u>	<u>\$ (1,086,714)</u>	<u>\$ (1,106,356)</u>

**CITY OF BUFFALO, MINNESOTA
 FIRE SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED DECEMBER 31, 2011
 (WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011		2010	
	Final Budget	Actual	Over (Under) Budget	Actual
REVENUES				
Charges for Services:				
Fire Contracts and Charges	\$ 471,446	\$ 471,446	\$ -	\$ 486,590
Intergovernmental:				
Federal Disaster Aid	26,094	26,094	-	-
State Aid and Grants	80,043	80,043	-	69,097
Grants and Contributions	2,840	2,840	-	1,000
Investment Earnings	2,105	2,455	350	3,113
Refunds and Reimbursements	25,408	25,408	-	-
Miscellaneous	10	10	-	1,710
Total Revenues	607,946	608,296	350	561,510
EXPENDITURES				
Public Safety:				
Fire Relief	74,968	74,968	-	66,600
Wages and Benefits	78,618	78,620	(2)	74,550
Truck Expense	4,943	4,943	-	4,330
Supplies	9,813	9,816	(3)	4,217
Repairs and Maintenance	33,853	33,853	-	28,623
Radio and Telephone	4,933	4,933	-	5,422
Utilities	19,513	19,513	-	21,794
Insurance	30,980	29,793	1,187	27,065
Training	7,314	7,314	-	9,148
Other	91,449	92,636	(1,187)	91,278
Capital Outlay	59,816	59,816	-	290
Capital Lease Payments:				
Principal	992	992	-	-
Interest	93	93	-	1,085
Total Expenditures	417,285	417,290	(5)	334,402
EXCESS (DEFICIENCY) OF REVENUE AND OVER (UNDER) EXPENDITURES	190,661	191,006	(345)	227,108
OTHER FINANCING SOURCES (USES)				
Transfers Out	(57,036)	(57,036)	-	(190,923)
NET CHANGE IN FUND BALANCE	\$ 133,625	133,970	\$ (345)	36,185
Fund Balance - Beginning of Year		618,806		582,621
FUND BALANCE - END OF YEAR		\$ 752,776		\$ 618,806

**CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			2010
	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES				
General Property Taxes	\$ 76,341	\$ 76,341	\$ -	\$ 75,630
Intergovernmental:				
MV Tax Credit	1,575	1,575	-	1,579
Investment Earnings	223	277	54	356
Refunds and Reimbursements	-	-	-	98
Miscellaneous	-	-	-	498
Total Revenues	<u>78,139</u>	<u>78,193</u>	<u>54</u>	<u>78,161</u>
EXPENDITURES				
Culture and Recreation:				
Wages and Benefits	27,784	27,783	1	29,282
Supplies and Maintenance	17,146	17,146	-	22,030
Insurance	1,875	1,875	-	2,071
Telephone	609	609	-	812
Utilities	28,492	28,492	-	29,012
Other	3,189	3,190	(1)	2,517
Capital Outlay - Equipment	1,868	1,868	-	5,724
Total Expenditures	<u>80,963</u>	<u>80,963</u>	<u>-</u>	<u>91,448</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,824)	(2,770)	54	(13,287)
OTHER FINANCING SOURCES				
Transfers in from General Fund	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ 12,176</u>	12,230	<u>\$ 54</u>	1,713
Fund Balance - Beginning of Year		<u>80,933</u>		<u>79,220</u>
FUND BALANCE - END OF YEAR		<u>\$ 93,163</u>		<u>\$ 80,933</u>

**CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	2011			2010
	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES				
Charges for Services:				
Ice Time	\$ 359,982	\$ 359,982	\$ -	\$ 340,131
Building Rent	13,278	13,278	-	12,882
Lease Payment	55,000	55,000	-	55,000
Gate Receipts and Concessions	75,430	75,430	-	73,553
Other	10,629	10,723	94	9,144
Grants and Contributions	50,000	50,000	-	50,000
Investment Earnings	(9,187)	(10,651)	(1,464)	-
Miscellaneous	1,604	1,604	-	1,885
Total Revenues	<u>556,736</u>	<u>555,366</u>	<u>(1,370)</u>	<u>542,595</u>
EXPENDITURES				
Culture and Recreation:				
Wages and Benefits	225,619	225,619	-	226,433
Maintenance and Repair	50,122	50,161	(39)	66,749
Utilities	163,906	163,906	-	150,486
Other	67,634	67,634	-	59,958
Insurance	14,872	14,872	-	13,836
Interest Expense	-	-	-	13,709
Capital Outlay	3,612	3,612	-	-
Total Expenditures	<u>525,765</u>	<u>525,804</u>	<u>(39)</u>	<u>531,171</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	30,971	29,562	(1,409)	11,424
OTHER FINANCING SOURCES (USES)				
Transfer In	50,000	50,000	-	50,000
Transfer Out	(223,931)	(213,883)	10,048	(281,140)
Insurance Proceeds	24,775	24,775	-	29,206
Total Other Financing Sources (Uses)	<u>(149,156)</u>	<u>(139,108)</u>	<u>10,048</u>	<u>(201,934)</u>
NET CHANGE IN FUND DEFICIT	<u>\$ (118,185)</u>	<u>(109,546)</u>	<u>\$ 8,639</u>	<u>(190,510)</u>
Fund Deficit - Beginning of Year		<u>(2,486,786)</u>		<u>(2,296,276)</u>
FUND DEFICIT - END OF YEAR		<u>\$ (2,596,332)</u>		<u>\$ (2,486,786)</u>

**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**CITY OF BUFFALO, MINNESOTA
 COMPUTATION OF LEGAL DEBT MARGIN
 DECEMBER 31, 2011
 (UNAUDITED)**

Market Valuation		<u>\$ 1,070,002,412</u>
Debt limit - 3% of market valuation		\$ 32,100,072
Total Indebtedness	<u>\$ 89,520,197</u>	
Less:		
Other deductions allowed by law:		
(1) Obligations payable wholly or partly from special assessments	1,425,000	
(2) Obligations issued for acquisition and improvement of public utilities and conveniences from which revenue may be derived	54,622,405	
(3) Obligations payable wholly from the income from revenue producing conveniences	<u>7,357,794</u>	
 Total Deductions	 <u>63,405,199</u>	
 Total Amount of Debt Applied Against Debt Limit		 <u>26,114,998</u>
 Legal Debt Margin		 <u>\$ 5,985,074</u>

CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2011
(UNAUDITED)

Year of Levy for Collection in the Following Year	General Obligation Improvement Bonds of 2000 Bond #83B	General Obligation Improvement Bonds of 2002 Bond #87C	General Obligation Highway Bonds of 2004A Bond #91	General Obligation Equipment Certificates of 2008 Series 2008A	General Obligation Street Reconstruction Bonds of 2008 Series 2008D	General Obligation Refunding Bonds of 2009 Series 2009A	General Obligation Refunding Bonds of 2009 Series 2009D
2012	\$ 27,400	\$ 55,300	\$ 122,000	\$ 134,300	\$ 242,800	\$ 422,600	\$ 252,000
2013	25,800	48,000	118,900	130,200	245,700	422,600	254,300
2014	24,200	51,500	120,800	-	243,000	329,900	397,100
2015	-	49,200	122,500	-	240,000	-	121,300
2016	-	52,200	123,800	-	246,300	-	142,800
2017	-	49,600	124,900	-	241,400	-	152,300
2018	-	-	125,600	-	-	-	387,900
2019	-	-	-	-	-	-	510,100
2020	-	-	-	-	-	-	507,200
2021	-	-	-	-	-	-	513,800
2022	-	-	-	-	-	-	519,140
2023	-	-	-	-	-	-	1,288,900
2024	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-
Total	\$ 77,400	\$ 305,800	\$ 858,500	\$ 264,500	\$ 1,459,200	\$ 1,175,100	\$ 5,046,840

General Obligation Improvement Bonds of 2010 Series 2010A	General Obligation Improvement Bonds of 2010 Series 2010C	General Obligation Capital Improvement Refunding Bonds of 2011 Series 2010A	Total
\$ 54,889	\$ 180,351	\$ 380,200	\$ 1,871,840
54,049	178,041	383,639	1,861,229
53,209	175,731	370,548	1,765,988
57,619	147,171	734,740	1,472,530
56,201	350,136	740,226	1,711,663
54,784	150,006	738,646	1,511,636
53,366	147,761	735,601	1,450,228
51,948	160,918	741,229	1,464,195
55,781	157,568	745,030	1,465,579
54,206	154,103	747,261	1,469,370
-	150,523	741,906	1,411,569
-	146,769	-	1,435,669
-	158,592	-	158,592
-	216,998	-	216,998
-	220,505	-	220,505
-	223,429	-	223,429
<u>\$ 546,052</u>	<u>\$ 2,918,602</u>	<u>\$ 7,059,026</u>	<u>\$ 19,711,020</u>

CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS
DECEMBER 31, 2011
(UNAUDITED)

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

* 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

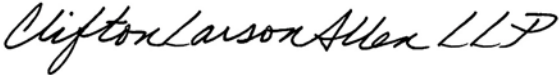
We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information which collectively comprise the basic financial statements of the City of Buffalo, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 17, 2012.

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 Statutes* 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 management and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.



CliftonLarsonAllen LLP

Buffalo, Minnesota
May 17, 2012