CITY OF BUFFALO
URBAN RENEWAL AGENCY

(A Component Unit of the City of Buffalo, New York)
Basic Financial Statements, Required Supplementary Information, Supplementary Information and Federal Awards Information for the Year Ended June 30, 2016 and Independent Auditors' Reports

CITY OF BUFFALO URBAN RENEWAL AGENCY
Table of Contents
Year Ended June 30, 2016

(continued)

(concluded)

Page

Federal Awards Information:

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Comptroller of
the City of Buffalo, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency (the "Agency"), a component unit of the City of Buffalo, New York, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information, as listed in the table of contents, and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of the Agency'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* in considering the Agency's internal control over financial reporting and compliance.

Drescher & Malecki LLP

September 28, 2016

As management of the City of Buffalo Urban Renewal Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2016. For comparative purposes, certain items from the prior year have been reclassified to conform with the current year presentation. This document should be read in conjunction with additional information that we have furnished in the Agency's financial statements, which follow this narrative.

Financial Highlights

- The liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the Agency's primary government by $9,446,017 (*deficit net position*). This consists of $500,520 net investment in capital assets, $240,756 restricted for specific purposes, and unrestricted deficit net position deficit of $10,187,293.
- The Agency's net position increased by $1,041,228 during the year ended June 30, 2016.
- At the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of $5,167,319, a decrease of $931,058 in comparison with the prior year's fund balance of $6,098,377.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was $1,032,133. This total amount is *available for spending* at the Agency's discretion and constitutes approximately 22.6 percent of the General Fund's total fund balance of $4,573,513 at June 30, 2016.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 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 Agency's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Agency that are principally supported by operating grants and contributions (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency's include community development and interest charges. The Agency does not engage in any business-type activities.

The government-wide financial statements can be found on pages 12-13 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 Agency, 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 Agency fall within one category, governmental 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 funds* and *governmental activities*.

The Agency reports fourteen 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, Community Development Block Grant Fund, Section 8 Housing Program Fund and the HOME Program Fund, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 14-17 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 the financial statements can be found on pages 18-38 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Agency's progress in funding its obligation to provide post-employment benefits to its employees and the Agency's net pension liability. Required Supplementary Information can be found on pages 39-41 of this report.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 42-43.

Finally, the Federal Awards Information section presents the Agency's Schedule of Expenditures of Federal Awards. This section can be found on pages 44-54 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Agency, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $9,446,017 at the close of the most recent fiscal year, as compared to $10,487,245 at the close of the fiscal year ended June 30, 2015.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position

	June 30,	
	2016	2015
Current and other assets	$ 8,010,374	$ 8,145,029
Capital assets	500,520	784,570
Total assets	8,510,894	8,929,599
Deferred outflows of resources	1,146,884	186,913
Current liabilities	2,843,055	2,122,146
Noncurrent liabilities	16,055,841	17,476,125
Total liabilities	18,898,896	19,598,271
Deferred inflows of resources	204,899	5,486
Net position:		
Net investment in capital assets	500,520	784,570
Restricted	240,756	63,186
Unrestricted	(10,187,293)	(11,335,001)
Total net position	$ (9,446,017)	$ (10,487,245)

The largest positive portion of the Agency's net position, $500,520, reflects its investment in capital assets (e.g. buildings, equipment, and vehicles). The Agency uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Agency's net position, $240,756, represents resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The remaining component of the Agency's net position represents an unrestricted deficit net position of $10,187,293. This reflects long-term liabilities not related to the Agency's capital assets that are funded annually within the funds. This demonstrates that future funding will be necessary to liquidate long-term obligations.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2016 and June 30, 2015:

Table 2—Condensed Statements of Changes in Net Position

	Year Ended June 30,	
	2016	2015
Revenues:		
Charges for services	$ 4,747,292	$ 669,478
Operating grants and contributions	45,391,906	45,011,542
General revenues	5,690,568	3,665,439
Total revenues	55,829,766	49,346,459
Expenses:		
Community development	54,550,711	49,937,906
Interest expense	237,827	474,500
Total expenses	54,788,538	50,412,406
Change in net position	1,041,228	(1,065,947)
Net position—beginning	(10,487,245)	(9,421,298)
Net position—ending	$ (9,446,017)	$ (10,487,245)

Overall revenues increased 13.1 percent from the prior year, due primarily to increases in the repayment of program loans as compared to the prior year. Total expenses increased 8.7 percent from the year ended June 30, 2015, due to significantly greater activity within the Community Development Block Grant program.

A summary of sources of revenues for the years ended June 30, 2016 and June 30, 2015 is presented on the following page in Table 3.

Table 3—Summary of Sources of Revenues

	Year Ended June 30,		Increase/(Decrease)	
	2016	2015	Dollars	Percent (%)
Federal grants	$ 45,040,513	$ 45,011,542	$ 28,971	0.1
State grants	351,393	-	351,393	100.0
Repayment of program loans	4,378,103	209,251	4,168,852	1992.3
Rental income	369,189	460,227	(91,038)	(19.8)
Interest income	461,098	681,733	(220,635)	(32.4)
Miscellaneous	1,359,470	828,706	530,764	64.0
Contributions from the City of Buffalo	3,870,000	2,155,000	1,715,000	79.6
Total revenues	$ 55,829,766	$ 49,346,459	$ 6,483,307	13.1

The most significant sources of revenues for the year ended June 30, 2016 were federal grants of $45,040,513, or 80.7 percent of total revenues, and repayment of program loans of $4,378,103, or 7.8 percent of total revenues. For the year ended June 30, 2015, the largest sources of revenue were federal grants of $45,011,542, or 91.2 percent of total revenues, and contributions from the City of Buffalo for debt payments of $2,155,000, or 4.4 percent of total revenues.

A summary of program expenses for the years ended June 30, 2016 and June 30, 2015 is presented in Table 4 below:

Table 4—Summary of Program Expenses

	Year Ended June 30,		Increase/(Decrease)	
	2016	2015	Dollars	Percent (%)
Community Development:				
Public services and human service programs	$ 31,648,731	$ 32,759,643	$ (1,110,912)	(3.4)
Rehabilitation and preservation activities, including grants and loans	15,334,340	8,638,191	6,696,149	77.5
Economic development and activities, including grants and loans	105,433	234,696	(129,263)	(55.1)
Planning, management, and administration	6,409,707	5,066,427	1,343,280	26.5
OPEB expense	1,052,500	925,171	127,329	13.8
Impairment loss and loss on disposal	-	2,313,778	(2,313,778)	(100.0)
Total community development	54,550,711	49,937,906	4,612,805	9.2
Interest expense	237,827	474,500	(236,673)	(49.9)
Total expenses	$ 54,788,538	$ 50,412,406	$ 4,376,132	8.7

The most significant expense items for the year ended June 30, 2016 were public services and human service programs expenses of $31,648,731, or 57.8 percent of total expenses, rehabilitation and preservation activities, including grants and loans of $15,334,340, or 28.0 percent of total expenses, and planning, management, and administration of $6,409,707, or 11.7 percent of total expenses. Similarly, for the year ended June 30, 2015, the most significant expenses were public services and human service programs expenses of $32,759,643, or 65.0 percent of total expenses, rehabilitation and preservation activities, including grants and loans of $8,638,191, or 17.1 percent of total of expenses, and planning, management and administration expenses of $5,066,427, or 10.0 percent of total expenses.

Financial Analysis of Governmental Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use, as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the Agency itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Agency's Board of Directors.

At June 30, 2016, the Agency's governmental funds reported combined ending fund balances of $5,167,319, a decrease of $931,058 from the prior year. Approximately 19.9 percent of this amount ($1,028,090) constitutes *unassigned fund balance*, which is available for spending at the Agency's discretion. The remainder of fund balance is either *nonspendable* or *restricted* to indicate that it is: (1) not in spendable form ($3,898,473), or (2) restricted for particular purposes ($240,756).

The General Fund is the chief operating fund of the Agency. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,032,133, while total fund balance decreased to $4,573,513. The total fund balance of the Agency's General Fund decreased by $730,469 during the current fiscal year primarily due to the transfer of funds to the HOME Program Fund from the write-down of receivables from a change in accounting estimates surrounding receivables.

At the end of the current fiscal year, the Community Development Block Grant Fund fund balance was $584,373, all of which is considered to not be in spendable form as it represents real estate acquired for resale. The decrease in fund balance of $155,002 is attributable to the transfer of real estate acquired for resale to the General Fund.

The Section 8 Housing Program Fund fund balance at the end of the current fiscal year was in a deficit position of $1,343. There was no change in fund balance from the prior year.

The Home Program Fund fund balance decreased by $343 to a zero balance at June 30, 2016, due to the transfer of funds to the General Fund.

Capital Assets and Debt Administration

Capital assets—The Agency's capital assets for its governmental activities as of June 30, 2016 amounted to $500,520 (net of accumulated depreciation). This investment in capital assets includes buildings, equipment and vehicles. The Agency does not own any infrastructure assets such as roads, bridges or sewers. All depreciable capital assets were depreciated from acquisition date to the end of the current year, as outlined in the Agency's policy. During the year ended June 30, 2016, the Agency performed an inventory which resulted in the adjustment of transferred and obsolete items.

Capital assets, net of depreciation for governmental activities at the years ended June 30, 2016 and June 30, 2015 are presented below in Table 5:

Table 5—Summary of Capital Assets (Net of Depreciation)

	June 30,	
	2016	2015
Buildings	$ 500,520	$ 778,350
Equipment	-	6,220
Total	$ 500,520	$ 784,570

Additional information on the Agency's capital assets can be found in Note 4 to the financial statements.

Long-term liabilities— During the year ended June 30, 2016, the Buffalo Economic Renaissance Corporation ("BERC") sold property for which the Section 108 debt was issued. A portion of the proceeds of this sale, $2,260,000, was given by BERC to the City to repay the Section 108 debt. In addition to this, the City contributed the remaining $1,610,000 of the total outstanding principal balance of $3,870,000 to the Agency for principal reduction of the debt. As a result of these payments the debt has been removed from the Agency's financial statements.

A summary of the Agency's long-term liabilities at June 30, 2016 and June 30, 2015 is presented below in Table 6:

Table 6—Summary of Long-Term Liabilities

	June 30,	
	2016	2015
Section 108 debt	$ -	$ 3,870,000
Compensated absences	221,960	229,600
OPEB obligation	13,992,011	12,939,511
Long-term retirement liability	143,079	164,972
Net pension liability	1,196,017	272,042
Long-term due to other governments	502,774	-
Total	$ 16,055,841	$ 17,476,125

Additional information on the Agency's long-term liabilities can be found in Note 9 to the financial statements.

Economic Factors and Next Year's Grant Information

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

- Are near emerging employment and economic development engines that can serve as a stabilizing influence.

- Have developed a cohesive network of community-based and institutional support and have secured and leveraged funding to support their efforts.

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

- Two significant neighborhood revitalization initiatives that are separately funded or seeking funds include the Buffalo Promise Neighborhood ("BPN") and the Northland Corridor Initiative ("NCI").

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

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

- The NCI has been initiated with the acquisition and site planning of 50 acres of vacant or underutilized industrial land within the Northland Avenue Belt Line Corridor on Buffalo's East Side. The New York Workforce Development Center will be located on Northland Avenue. This is a training center that will complement existing programs in creating a diverse and qualified workforce. This new hub will receive $44 million to provide training for careers in advanced manufacturing and energy. Between now and 2020, there will be an estimate 17,000 job vacancies in these sectors. The Workforce Development Center will be part of a business park that will provide residents with employment opportunities within walking distance of their homes.

Requests for Information

This financial report is designed to provide the citizens, taxpayers and elected officials of the City of Buffalo, New York with a general overview of the City of Buffalo Urban Renewal Agency's finances and to show the Agency's accountability for the monies it receives. If you have any questions about this report, or need additional financial information, contact BURA, Room 213 City Hall, Buffalo, New York 14202.

BASIC FINANCIAL STATEMENTS

** THIS PAGE INTENTIONALLY LEFT BLANK **

CITY OF BUFFALO URBAN RENEWAL AGENCY

Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 334,689
Restricted cash and cash equivalents	333,179
Receivables (net of allowance for uncollectibles)	1,127,064
Intergovernmental receivables	2,316,969
Real estate acquired for resale	3,862,882
Prepaid items	35,591
Capital assets, net of accumulated depreciation	500,520
Total assets	8,510,894
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to pensions	1,146,884
Total deferred outflows of resources	1,146,884
LIABILITIES	
Accounts payable and accrued expenses	2,582,209
Intergovernmental payable	260,846
Noncurrent liabilities:	
Due within one year	32,345
Due within more than one year	16,023,496
Total liabilities	18,898,896
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows—relating to pensions	204,899
Total deferred inflows of resources	204,899
NET POSITION	
Net investment in capital assets	500,520
Restricted	240,756
Unrestricted	(10,187,293)
Total net position	$ (9,446,017)

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO URBAN RENEWAL AGENCY
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:				
Community development	$ 54,550,711	$ 4,747,292	$ 45,391,906	$ (4,411,513)
Interest expense	237,827	-	-	(237,827)
Total primary government	$ 54,788,538	$ 4,747,292	$ 45,391,906	(4,649,340)
General revenues:				
Contributions from the City of Buffalo				3,870,000
Interest income				461,098
Miscellaneous				1,359,470
Total general revenues				5,690,568
Change in net position				1,041,228
Net position—beginning				(10,487,245)
Net position—ending				$ (9,446,017)

The notes to the financial statements are an integral part of this statement.

City of Buffalo Urban Renewal Agency
Balance Sheet—Governmental Funds
June 30, 2016

	General	Community Development Block Grant	Section 8 Housing Program	HOME Program	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 334,689	$ -	$ -	$ -	$ -	$ 334,689
Restricted cash and cash equivalents	260,284	59,905	-	5,739	7,251	333,179
Receivables (net of allowance for uncollectibles)	1,127,064	-	-	-	-	1,127,064
Due from other funds	109,284	-	-	-	8,198	117,482
Intergovernmental receivables	48,927	698,772	-	1,528,775	40,495	2,316,969
Prepaid items	35,591	-	-	-	-	35,591
Real estate acquired for resale	3,278,509	584,373	-	-	-	3,862,882
Total assets	$ 5,194,348	$ 1,343,050	$ -	$ 1,534,514	$ 55,944	$ 8,127,856
LIABILITIES						
Accounts payable and accrued expenses	$ 547,248	$ 495,698	$ 282	$ 1,519,620	$ 19,361	$ 2,582,209
Intergovernmental payable	73,587	187,259	-	-	-	260,846
Due to other funds	-	75,720	1,061	14,894	25,807	117,482
Total liabilities	620,835	758,677	1,343	1,534,514	45,168	2,960,537
FUND BALANCES (DEFICITS)						
Nonspendable	3,314,100	584,373	-	-	-	3,898,473
Restricted	227,280	-	-	-	13,476	240,756
Unassigned	1,032,133	-	(1,343)	-	(2,700)	1,028,090
Total fund balances (deficits)	4,573,513	584,373	(1,343)	-	10,776	5,167,319
Total liabilities and fund balances (deficits)	$ 5,194,348	$ 1,343,050	$ -	$ 1,534,514	$ 55,944	$ 8,127,856

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO URBAN RENEWAL AGENCY

Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2016

Amounts reported for governmental activities in the statement of net position (page 12) are different because:

Total fund balances (deficits)—governmental funds (page 14)		$ 5,167,319
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is $804,289 and the accumulated depreciation is $303,769.		500,520
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows related to employer contributions	$ 94,470	
Deferred outflows related to experience and investment earnings	1,052,414	
Deferred inflows of resources related to pension plans	(204,899)	941,985
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Compensated absences	$ (221,960)	
Other post-employment benefits ("OPEB")	(13,992,011)	
Long-term retirement liability	(143,079)	
Net pension liability	(1,196,017)	
Long-term due to other governments	(502,774)	(16,055,841)
Net position of governmental activities		$ (9,446,017)

The notes to the financial statements are an integral part of this statement.

City of Buffalo Urban Renewal Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—
Governmental Funds
Year Ended June 30, 2016

	General	Community Development Block Grant	Section 8 Housing Program	HOME Program	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Federal grants	$ -	$ 7,291,503	$ 30,266,359	$ 7,296,810	$ 185,841	$ 45,040,513
State grants	351,393	-	-	-	-	351,393
Repayment of program loans	-	4,273,619	-	97,171	7,313	4,378,103
Rental income	369,189	-	-	-	-	369,189
Interest income	10,263	214,849	-	40,157	195,829	461,098
Miscellaneous	439,163	757,028	-	160,672	2,607	1,359,470
Total revenues	1,170,008	12,536,999	30,266,359	7,594,810	391,590	51,959,766
EXPENDITURES						
Public services and human service programs	-	924,479	30,266,314	-	18,111	31,208,904
Rehabilitation and preservation activities, including grants and loans	10,200	8,146,888	-	7,177,252	-	15,334,340
Economic development activities, including grants and loans	-	105,433	-	-	-	105,433
Interest on loans	-	-	-	-	313,321	313,321
Planning, management, and administration	1,173,231	3,360,199	45	1,337,055	58,296	5,928,826
Total expenditures	1,183,431	12,536,999	30,266,359	8,514,307	389,728	52,890,824
Excess (deficiency) of revenues over expenditures	(13,423)	-	-	(919,497)	1,862	(931,058)
OTHER FINANCING SOURCES (USES)						
Contributions from the City of Buffalo	-	-	-	-	3,870,000	3,870,000
Section 108 debt principal reduction	-	-	-	-	(3,870,000)	(3,870,000)
Transfers in	202,108	-	-	919,154	-	1,121,262
Transfers out	(919,154)	(155,002)	-	-	(47,106)	(1,121,262)
Total other financing sources (uses)	(717,046)	(155,002)	-	919,154	(47,106)	-
Net change in fund balances (deficit)	(730,469)	(155,002)	-	(343)	(45,244)	(931,058)
Fund balances (deficit)—beginning	5,303,982	739,375	(1,343)	343	56,020	6,098,377
Fund balances (deficit)—ending	$ 4,573,513	$ 584,373	$ (1,343)	$ -	$ 10,776	$ 5,167,319

The notes to the financial statements are an integral part of this statement.

CITY OF BUFFALO URBAN RENEWAL AGENCY
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances (deficit)—total governmental funds (page 16)		$ (931,058)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The effect of these items are as follows:		
Depreciation expense	$ (28,995)	
Loss on disposition of assets	(255,055)	(284,050)
Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:		
Direct pension contributions	$ 94,470	
Cost of benefits earned net of employee contributions	(257,887)	(163,417)
In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.		75,494
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Additionally, in the statement of activities, certain operating expenses 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). The net effect of these differences in the treatment of long-term debt and the related items is as follows:		
Repayment of Section 108 debt	$ 3,870,000	
Change in compensated absences	7,640	
Change in OPEB obligation	(1,052,500)	
Change in long-term retirement liability	21,893	
Change in long-term due to other governments	(502,774)	2,344,259
Change in net position of governmental activities		$ 1,041,228

The notes to the financial statements are an integral part of this statement.

** THIS PAGE INTENTIONALLY LEFT BLANK **

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Buffalo Urban Renewal Agency (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all activities of the Agency. *Governmental activities*, which are normally supported by various economic and neighborhood development projects, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The Agency reports no business-type activities or component units.

Reporting Entity

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

As required by the legislation which created the entity, the Agency's members consist chiefly of City governmental officials. Most of the funding for the various programs conducted by the Agency is obtained from the Federal government, through the City. In effect, the Agency acts as an agent of the City in carrying out its urban renewal activities. Because of its close administrative and financial relationship with the City, the Agency is considered to be a component unit of the City for financial reporting purposes, and the financial information presented herein for the Agency alone is to be presented within the City's basic financial statements as of June 30, 2016 and for the year then ended.

Subrecipient Agreements

During the year ended June 30, 2016, the City and the Agency entered into subrecipient agreements ("the Agreements") regarding the Community Development Block Grants ("CDBG"), Emergency Solutions Grant ("ESG"), Home Investment Partnerships Program ("HOME") and Housing Opportunities for Persons with AIDS ("HOPWA") entitlement programs ("the Programs").

The Agreements, as amended, generally require the Agency to administer and provide planning, administration and implementation services for the Programs. They also require the Agency to remit program income generated by the Programs to the City on a periodic basis. During the year ended June 30, 2016, the Agency remitted a total of $5,543,545 of program income to the City. The agreements, as amended, expire on September 30, 2016.

Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments and charges between the Agency's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Agency reports the following major governmental funds:

- *General Fund*—This fund constitutes the primary operating fund of the Agency and includes all operations not required to be recorded in other funds. Included in the Agency's General Fund are proceeds from previously closed out grant programs. The General Fund receives some state funding provided to the Agency, but is primarily comprised of non-federal dollars that are used to handle day to day operations. Some deferred loans received from the City are also set up in the General Fund.

- *Community Development Block Grant ("CDBG") Fund*—The CDBG Fund is used to account for monies received from the federal government under the Community Development Block Grant program the administration and delivery of decent housing and a suitable living environment; and, expanded economic opportunities principally for persons of low and moderate income.

- *Section 8 Housing Program Fund*—The Section 8 Housing Program Fund is used to account for monies received from the federal government under the U.S. Department of Housing and Urban Development ("HUD") Section 8 program. Such monies are passed through to the Rental Assistance Corporation of Buffalo ("RACB") and to the Buffalo Municipal Housing Authority ("BMHA"). The program's primary goal is to provide a decent home in a suitable housing environment for families that cannot afford standard private housing.

- *Home Ownership Made Easy ("HOME") Program Fund*—The HOME Program Fund is used to account for federal grant funds that flow from HUD through the City to the Agency. This funding is used primarily for projects that are larger than the projects performed under CDBG. The grant provides program income.

During the course of operations the Agency has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reporting in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from federal, state or other grants designated for specific Agency expenditures are recognized when the related expenditures are incurred. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, and pensions, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Charges for services provided and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period or within the period of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and the amount is received during the period of availability. All other revenue items are considered to be measureable and available when cash is received by the Agency.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents—The Agency's cash and cash equivalents consist of cash on hand or demand deposits. New York State law governs the Agency's investment policies. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. The Agency had no investments at June 30, 2016; however, when the Agency does have investments they are recorded at fair value based on the quoted market value.

Restricted cash and cash equivalents—Represents cash held for escrow and as grant funds held prior to disbursement of approved expenditures

Receivables—Receivables are stated net of estimated allowances for uncollectable amounts. Amounts due from state and federal governments represent amounts owed to the Agency to reimburse it for expenditures incurred pursuant to state and federally funded programs. During the year ended June 30, 2016, the Agency changed its estimate surrounding receivables within the Community Development Block Grant Fund and the HOME Program Fund. As a result, $919,496 of intergovernmental receivables within the HOME Program were considered uncollectable and were expensed during the year.

Prepaid Items—Certain payments reflect costs applicable to future periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Real Estate Acquired for Resale—In the course of conducting its urban renewal activities, the Agency acquires real property for use in future urban renewal projects. The value recorded for this property is established by its acquisition cost and additional cost of improvements made on the property until the asset is ready for sale. When the property is ready for sale, market value can be established.

Capital Assets—Capital assets, which include buildings, equipment and vehicles, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life exceeding five years. Assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair market value of the item at the date of donation. These capital assets are depreciated using the straight-line method over the following estimated useful lives:

Capital assets	Years
Buildings	50
Equipment	5-8
Vehicles	5

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. At June 30, 2016, the Agency has one item that qualifies for reporting in this category. This represents the effect of the net change in the Agency's proportion of the collective net pension liability, the difference during the measurement period between the Agency's contributions and its proportionate share of the total contribution to the pension system not included in the pension expense, and any contributions to the pension system made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2016, the Agency has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Agency's proportion of the collective net pension liability and the difference during the measurement periods between the Agency's contributions and its proportionate share of total contributions to the pension system not included in pension expense and is reported on the government-wide statements.

Net Position Flow Assumptions—Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted-net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions—Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Agency itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the Agency's highest level of decision-making authority. The Board is the highest level of decision-making authority for the Agency that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. There are no commitments at June 30, 2016.

Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes, but do not meet the criteria to be classified as committed. The Agency may authorize the Agency's Financial Control of Agencies to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program Revenues—Amounts reported as program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All internally dedicated resources are reported as general revenues rather than as program revenues.

Miscellaneous Revenues—Amounts reports as miscellaneous revenues include proceeds from the sale of properties that were received by the Agency from related parties.

Compensated Absences—The Agency's labor agreement and Agency rules and regulations provide for sick leave, vacations, and personal paid absences based upon length of service and job classification. Unused vacation leave accumulates up to a maximum number of days based upon length of service and is payable upon termination. Unused sick leave accumulates, but may be used to compensate for actual time off for medical or other defined reasons. Upon retirement, it is the Agency's policy to compensate for unused accumulated sick pay on a reduced basis. These payments are budgeted annually without accrual. Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of compensated absences when such payments become due.

Pensions—The Agency is mandated by New York State law to participate in the New York State Local Employees' Retirement System. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plan, and changes thereof, have been determined on the same basis as they are reported by the defined benefit pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

Other Postemployment Benefits—In addition to providing pension benefits, the Agency provides health insurance coverage and/or payments for fractional values of unused sick leave for certain retired employees at the time of retirement as discussed in Note 7.

Other

Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets, liabilities, deferred outflows/inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements during the reported period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2016, the Agency implemented GASB Statements No. 72, *Fair Value Measurement and Application*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and No. 79, *Certain External Investment Pools and Pool Participants.* GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes as well as, guidance on applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

Future Impacts of Accounting Pronouncements—The Agency has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68;* No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans;* and No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*, effective for the fiscal year ending June 30, 2017, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending June 30, 2018. The Agency is, therefore, unable to disclose the impact that adopting GASB Statements No. 73, 74, 75, 77, 78, 80, 81 and 82 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Deficit Fund Balance and Net Position—At June 30, 2016, the Section 8 Housing Program Fund and Lead Abatement Fund reported fund balances in deficit positions of $1,343 and $2,700, respectively. The Agency intends to remedy the deficits through allocation funds from the General Fund.

In addition, the Agency's governmental activities reported a total net position deficit of $9,446,017 at June 30, 2016, which is caused primarily by the recognition of long-term liabilities including other post-employment benefits.

Budgetary Information

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

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

- An allocation plan is developed annually by the Office of Strategic Planning ("OSP") of the City, taking into consideration citizens' comments received at a public hearing.

- An annual allocation plan is presented by the Mayor of the City to the City of Buffalo Common Council (the "Common Council") approximately sixty days prior to the commencement of the program year.

- The Common Council holds additional public hearings and considers the proposed allocation plan, and provides advisory comments to the Mayor.

- Upon approval of the annual allocation plan by the Mayor, the plan is approved by the Agency Board. An application based on the plan is submitted to HUD approximately forty-five days prior to the commencement of the program year. HUD then forwards entitlement grant contracts to the City for execution by the City.

- The detailed budget for the various projects and for the administrative costs of the program is prepared by OSP in conjunction with other City departments affected.

- The administrative budget is submitted annually to the members of the Agency for approval.

- Contracts for work on individual HOME projects are approved separately by the members of the Agency at regular and special meetings held throughout the year.

- Budgeted amounts and contract encumbrances are recorded and integrated with the program expenditure records as a management control device.

- Budgets for the entitlement programs do not expire at the end of the fiscal year but continue in force until all grant funds are expended, or the grant regulatory period expires, whichever comes first.

- Budgets for projects funded by sources other than HUD entitlement grants are generally an integral part of the respective grant contracts and are processed internally by management.

Because the Agency's HUD budgets are programmatic and are designed to cover several fiscal years, a fiscal period budgetary comparison has not been included in the general-purpose financial statements at June 30, 2016.

The General Fund budget is compiled during the months of April and May including the input of the Commissioner of Administration, Finance, Policy and Urban Affairs. Once the budget is compiled it is then presented to the Buffalo Fiscal Stability Board along with the Agency's four year plan for their review. The budget must be finalized by July 1. The General Fund budget acts as a management tool and formal approval of the budget is not required.

2. CASH AND CASH EQUIVALENTS

The Agency's investment policies are governed by State statutes. Agency monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Agency's Fiscal Control of Agencies is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits, time deposits and certificates of deposit at 100 percent of all deposits not covered by Federal deposit insurance. The Agency has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York. Cash and cash equivalents reported by the Agency at June 30, 2016, are shown below:

	Governmental Activities
Total deposits	$ 667,868

***Deposits*—**All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2016 as shown below.

	Bank Balance	Carrying Amount
FDIC insured	$ 532,009	$ 532,009
Uninsured:		
Collateral held by pledging bank's agent in the Agency's name	500,638	135,859
Total	$ 1,032,647	$ 667,868

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2016, the Agency's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the Agency's name.

***Restricted Cash and Cash Equivalents*—**The Agency reports cash in the Agency's General Fund for funds held in escrow and also in its special revenue funds as grant funds held prior to disbursement of approved expenditures. At June 30, 2016, the Agency reported $333,179 of restricted cash within its governmental funds.

3. RECEIVABLES

Major revenues accrued by the Agency at June 30, 2016 consisted of the following:

	General	Community Development Block Grant	HOME Program	Nonmajor Governmental Funds	Total
Program loans receivable	$ -	$ 24,988,027	$ 57,709,975	$ 530,878	$ 83,228,880
Notes receivable	2,712,949	-	-	-	2,712,949
Allowance for uncollectibles	(1,585,885)	(24,988,027)	(57,709,975)	(530,878)	(84,814,765)
Total receivables	$ 1,127,064	$ -	$ -	$ -	$ 1,127,064

Program Loans Receivable—Represents program loans and interest due to the Agency of $83,228,880, which are entirely allowed for.

Notes Receivable—Represents amounts due from various sources for projects designed to stimulate economic development and housing improvements in the City, provided net of allowances for uncollectible accounts. The Agency reports amounts of $2,712,949 which are allowed for in the amount of $1,585,885.

Intergovernmental Receivables—Represent amounts due from other units of government, such as federal or City government. Intergovernmental receivables at June 30, 2016 consisted of the following:

	General	Community Development Block Grant	HOME Program	Nonmajor Governmental Funds	Total
Due from federal government	$ -	$ 618,413	$ 1,508,321	$ 40,495	$ 2,167,229
Due from City of Buffalo	48,927	80,359	20,454	-	149,740
Total intergovermental receivables	$ 48,927	$ 698,772	$ 1,528,775	$ 40,495	$ 2,316,969

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2016 was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, being depreciated:				
Buildings	$ 2,392,330	$ -	$ (1,620,276)	$ 772,054
Equipment	623,896	-	(591,661)	32,235
Vehicles	105,558	-	(105,558)	-
Total capital assets, being depreciated	3,121,784	-	(2,317,495)	804,289
Less accumulated depreciation for:				
Buildings	1,613,980	27,830	(1,370,276)	271,534
Equipment	617,676	1,165	(586,606)	32,235
Vehicles	105,558	-	(105,558)	-
Total accumulated depreciation	2,337,214	28,995	(2,062,440)	303,769
Governmental activities capital assets, net	$ 784,570	$ (28,995)	$ (255,055)	$ 500,520

During the year ended June 30, 2016, the Agency performed an inventory which resulted in the adjustment of transferred and obsolete items.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses reported by governmental funds at June 30, 2016 were as follows:

	General	Community Development Block Grant	Section 8 Housing Program	HOME Program	Nonmajor Governmental Funds	Total
Salary and employee benefits	$ 284,030	$ -	$ -	$ -	$ -	$ 284,030
Other liabilities	263,218	495,698	282	1,519,620	19,361	2,298,179
Total	$ 547,248	$ 495,698	$ 282	$ 1,519,620	$ 19,361	$ 2,582,209

6. PENSION OBLIGATIONS

Plan Description and Benefits Provided

Employees' Retirement System ("ERS")—The Agency participates in the New York State and Local Employees' Retirement System ("ERS"). This is a cost-sharing multiple-employer retirement system. ERS provides retirement benefits as well as death and disability benefits. The net position of ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in plan net position allocated to ERS. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of ERS. ERS benefits are established under the provision of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

ERS is noncontributory, except for employees who joined after July 27, 1976, who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—The net pension liability was measured as of March 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to the measurement date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to ERS relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS in reports provided to the Agency.

	ERS
Measurement date	March 31, 2016
Net pension liability	$ 1,196,017
Agency's portion of the Plan's total net pension liability	0.0074517%

For the year ended June 30, 2016, the Agency recognized a pension expense of $411,776 for the ERS. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	$ 6,044	$ 141,768
Changes of assumptions	318,942	-
Net difference between projected and actual earnings on pension plan investments	709,543	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	17,885	63,131
Agency contributions subsequent to the measurement date	94,470	-
Total	$ 1,146,884	$ 204,899

The Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	ERS
2017	$ 210,929
2018	210,929
2019	210,929
2020	214,728

Actuarial Assumptions—The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	ERS
Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.00%
Salary scale	3.80%
Decrement tables	April 1, 2010- March 31, 2015
Inflation rate	2.5%

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	Target Allocation	Long-Term Expected Real Rate of Return
	ERS	
Measurement date		March 31, 2016
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Alternative investments	0.0	0.0
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	100.0 %	

Discount Rate—The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, ERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability (asset)	$ 2,696,932	$ 1,196,017	$ (72,192)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liability of the employers as of the valuation dates, were as follows:

	(Dollars in Thousands)
	ERS
Valuation date	April 1, 2015
Employers' total pension liability	$ 172,303,544
Plan fiduciary net position	156,253,265
Employers' net pension liability	$ 16,050,279
System fiduciary net position as a percentage of total pension liabilitiy	90.68%

Payables to the Pension Plan—Employer contributions are paid annually based on ERS' fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2016 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to $94,470.

7. OTHER POST-EMPLOYMENT BENEFITS ("OPEB") OBLIGATION

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

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

The Agency's annual other post-employment benefits ("OPEB") cost is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB. The Agency elected to determine its OPEB liability under the Alternative Measurement Method permitted by GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The table below shows the components of the Agency's annual OPEB cost for the past two years, the amount contributed to the plan, and changes in the Agency's net OPEB obligation.

	Year Ended June 30, 2016	Year Ended June 30, 2015
Annual required contribution ("ARC")	$ 1,374,043	$ 1,374,043
Interest on net OPEB obligation	323,488	-
Annual OPEB cost (expense)	1,697,531	1,374,043
Contributions made	(645,031)	(448,872)
Increase in net OPEB obligation	1,052,500	925,171
Net OPEB obligation—beginning of year	12,939,511	12,014,340
Net OPEB obligation—end of year	$ 13,992,011	$ 12,939,511

Funding Status and Funding Progress—As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was $16,499,280.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Agency's schedule of contributions for the most recent three years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed
2016	$ 1,697,531	$ 645,031	38.0%
2015	1,374,043	448,872	32.7%
2014	990,014	793,940	80.2%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employer and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the June 30, 2014 actuarial valuation, the Age Adjusted Contribution Actuarial Cost Method was used, using an age adjustment factor of 1.03. The actuarial assumptions included a valuation date of June 30, 2014 and measurement date of June 30, 2015. The discount rate and payroll growth rate used were 2.5% and 2.0%, respectively. The unfunded actuarial accrued liability is being amortized over 30 years on a level percent of pay, open group basis, therefore the remaining amortization period at June 30, 2016 was twenty-three years.

8. RISK MANAGEMENT

The Agency is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, vehicle liability, injuries to employees, health insurance, unemployment insurance, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have not been any settlements which have exceeded commercial insurance coverage in the past three fiscal years. The Agency purchases insurance for: commercial property coverage, commercial general liability coverage, commercial automotive coverage and commercial crime coverage. Property insurance is limited based on scheduled locations. The general liability insurance is limited to $1 million per occurrence, with at $2 million annual aggregate limit. Business automobile insurance is limited to $1 million per accident. Crime coverage is limited to $1 million per occurrence. Umbrella insurance is $4 million per occurrence and in the aggregate.

9. LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the statement of net position.

The Agency's outstanding long-term liabilities include Section 108 debt, compensated absences, other post-employment benefits ("OPEB") obligation, long-term retirement liability, net pension liability, and long-term due to other governments.

A summary of changes in the Agency's long-term liabilities at June 30, 2016 follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Section 108 debt	$ 3,870,000	$ -	$ (3,870,000)	$ -	$ -
Compensated absences*	229,600	-	(7,640)	221,960	11,098
OPEB obligation	12,939,511	1,697,531	(645,031)	13,992,011	-
Long-term retirement liability	164,972	-	(21,893)	143,079	21,247
Net pension liability*	272,042	923,975	-	1,196,017	-
Long-term due to other governments	-	502,774	-	502,774	-
Total	$ 17,476,125	$ 3,124,280	$ (4,544,564)	$ 16,055,841	$ 32,345

(*compensated absences and net pension activity is shown as net)

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

The Agency has loaned the advances from the FFB to BERC which, in turn, has loaned these funds to various business for economic development purposes. The Agency's future obligations for interest and principal payments to the FFB on such loans are to be provided by BERC, through interest and principal repayments from the individual borrowers. The Agency has an agreement with City of Buffalo that the City will make payments on the amounts due to FFB in the event of default by the individual borrowers on such loans. The Agency records contributions from the City in the amount paid on their behalf. During the year ended June 30, 2016, BERC sold property for which the Section 108 debt was issued. A portion of the proceeds of this sale, $2,260,000, was given by BERC to the City to repay the Section 108 debt. In addition to this, the City contributed the remaining $1,610,000 of the total outstanding principal balance of $3,870,000 to the Agency for principal reduction of the debt which is recorded in the Section 108 Loan Program Fund. As such, the Section 108 debt has been paid off as of June 30, 2016.

Compensated Absences—As explained in Note 1, the Agency records the value of compensated absences in the government-wide financial statements. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2016, for governmental activities is $221,960. Management estimates that $11,098 is due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

OPEB Obligation—As explained in Note 7, the Agency provides health insurance coverage for certain retirees. The Agency's annual other post-employment benefits ("OPEB") cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The Agency's estimated long-term OPEB obligation is $13,992,011 as of June 30, 2016.

Long-Term Retirement Liability—As explained in Note 6, the Agency participates in the New York State and Local Employees' Retirement System ("ERS"). The Agency elected to amortize certain payments relating to ERS during 2011 and 2013 over ten years in accordance with Chapter 260 of the Laws of 2004 of the State of New York. Accordingly, at June 30, 2016, the Agency has recorded a liability in the amount of $143,079, of which $21,247 is considered due within one year.

Net Pension Liability—The Agency reports a liability, $1,196,017, for its proportionate share of the net pension liability for the Employee Retirement System. Refer to Note 6 for additional information related to the Agency's net pension liability.

Long-Term Due to Other Governments—The Agency reports a liability, $576,361, which is owed to the City to be used to pay HUD for claims related to prior years' activity, of which $73,587 is considered a fund liability and is recorded within the General Fund. The remaining $502,774 is due beyond one year and is considered a long-term due to other governments. Repayment is based on the future sale of property and availability of funds.

10. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- ***Net Investment in Capital Assets***—This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. The investment is equal to the Agency's book value of capital assets, $500,520, as there is no debt outstanding related to these assets.

- ***Restricted Net Position***—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2016 consist of $227,280 restricted within the General Fund, $4,349 restricted for the Home Ownership Loan Program, $210 restricted for the Shelter Plus Care Program, $3,184 restricted for the Section 312 Loan Program and $5,733 restricted for the Rental Rehabilitation Program.

- ***Unrestricted Net Position***—This category represents net position of the Agency not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the Agency at June 30, 2016 includes:

- ***Prepaid Items***—Represents the portion of fund balance composed of prepaid assets. This balance is nonspendable as the asset does not represent an available resource. The Agency reported $35,591 of nonspendable fund balance for prepaid items in the General Fund at June 30, 2016.

- ***Real Estate Acquired for Resale***—Representing the portion of fund balance, $3,862,882, comprised of properties. This balance is nonspendable as the real estate does not represent an available resource.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as creditors, grantors, contributors, or laws and regulations of other governments) through constitutional provisions or enabling legislation. At June 30, 2016, restricted fund balance includes:

- ***Restricted to Specific Use***—Representing fund balance within the special revenue funds that is restricted for that fund's specific purpose. The restrictions' purpose relates to each fund's operations and represent remaining amounts within funds that are not assigned or committed.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the Agency's highest level of decision-making authority. As of June 30, 2016, the Agency had no committed funds.

In the fund financial statements, assignments are not legally required segregations, but are segregated for a specific purpose. As of June 30, 2016, the Agency had no assigned funds.

If the Agency must use funds for emergency expenditures the Agency shall authorize the Agency's Financial Control of Agencies to expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available, the Agency will use unassigned fund balance.

11. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2016 is presented below:

Fund	Interfund Receivable	Interfund Payable
General	$ 109,284	$ -
CDBG	-	75,720
Section 8 Housing Program	-	1,061
HOME Program	-	14,894
Nonmajor governmental funds	8,198	25,807
Total	$ 117,482	$ 117,482

These outstanding interfund balances result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The Agency made the following transfers during the year ended June 30, 2016:

Fund	Transfers Out: General Fund	Transfers Out: CDBG Fund	Transfers Out: Nonmajor Governmental Funds	Total
Transfers in:				
General Fund	$ -	$ 155,002	$ 47,106	$ 202,108
HOME Program Fund	919,154	-	-	919,154
Total	$ 919,154	$ 155,002	$ 47,106	$ 1,121,262

The General Fund transferred $919,154 to reimburse the HOME Program Fund for uncollectible debt recognized as a result of the Agency's change in accounting estimates. Additionally, $155,002 of property held for resale within the CDBG Fund was transferred to the General Fund. The remaining transfers are used primarily to fund program specific expenditures and to allocate certain costs.

12. LABOR RELATIONS

Agency employees are represented by one bargaining unit, the Civil Service Employee Association, Inc. The Agency has settled this contract through June 30, 2017.

13. RELATED PARTY TRANSACTIONS

The Agency is a component unit of the City of Buffalo, New York. The City is the primary sponsor of the programs conducted by the Agency and is a nominal recipient of most of the Agency's federal and state funding. The Agency is a related entity to the City, Buffalo Economic Renaissance Corporation ("BERC") and the Buffalo Neighborhood Revitalization Corporation ("BNRC").

In the past, BNRC received loans or grants from BURA under the CDBG program, the Section 108 Loan program, as well as various New York State grant programs. In turn, loan or grants were utilized to qualifying individuals and businesses for purposes of property rehabilitation, home acquisitions for low income individuals, or business development and expansion.

For the year ended June 30, 2016, no loans or grants were provided by BURA to BERC or BNRC. Under subrecipient agreements with BERC and BNRC, certain program income (such as loan repayments and interest) earned through the CDBG program may generally be retained as supplemental BURA funding, subject to applicable Federal regulations. The subrecipient agreements with these entities also provide that, upon termination of the subrecipient agreements, all unused program income, and any CDBG assets held by BERC and BNRC will revert to BURA.

In 2010, the City notified BERC that effective May 1, 2010 the subrecipient agreements between BERC and BURA had expired. Additionally, BURA demanded the return of any unexpended program income. In order to ensure that any such program income is returned to BURA, BERC established an escrow account in the initial amount of $800,000 and an agreement was reached whereby BERC would transfer to BURA such program income, if any, from real estate operations.

Furthermore, BERC was required to transfer control of all of its CDBG loans to BURA during the year ended June 30, 2012. On June 1, 2016, loans amounting to $1,339,950 were transferred from BERC to BURA. The outstanding balance of these loans, reported in the CDBG Fund, on June 30, 2016 is $6,262,583. BURA maintains an allowance equal to this amount.

At June 30, 2016, net amounts due from related parties consisted of:

Due from the City of Buffalo, net of payables	$	1,061,247
Due from BNRC, net of payables		10,629
Total	$	1,071,876

The City is presently engaged in a complex transaction to dissolve BERC. Outside counsel and auditors analyzed BERC's finances and planned the legal steps to require to dissolve BERC. On October 20, 2010, the Board of BERC approved a plan to dissolve BERC. Under the plan, the majority of BERC's assets and liabilities ultimately will be transferred to BURA. It is anticipated that the dissolution of BERC and the transfer of BERC's assets and liabilities to BURA will be completed by January 2017.

14. CONTINGENCIES

Grants—In the normal course of operations, the Agency receives grant funds from various federal and state agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the Agency. While the amount of expenditures, if any, which may be disallowed cannot be determined at this time, management expects any such amounts to be immaterial.

Litigation—Various legal actions are pending against the Agency. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the Agency.

15. COMMITMENTS

Encumbrances—Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. During the year ended June 30, 2016, The Agency did not report any encumbrances.

16. SUBSEQUENT EVENTS

Subsequent to year end, BERC transferred cash to BURA in the amount of $527,091.

Management has evaluated subsequent events through September 28, 2016, which is the date the financial statements are available for issuance, and have determined, except as disclosed above, there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

** THIS PAGE INTENTIONALLY LEFT BLANK **

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO URBAN RENEWAL AGENCY
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
As of June 30, 2014	$ -	$ 16,499,280	$ 16,499,280	-	$ 2,026,820	814.0%
As of June 30, 2011	-	11,818,266	11,818,266	-	2,290,246	516.0%

City of Buffalo Urban Renewal Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability— Employees' Retirement System
Last Three Fiscal Years*

	Year Ended June 30,		
	2016	**2015**	**2014**
Measurement date	March 31, 2016	March 31, 2015	March 31, 2014
Agency's proportion of the net pension liability	0.0074517%	0.0080528%	0.0080528%
Agency's proportionate share of the net pension liability	$ 1,196,017	$ 272,042	$ 363,893
Agency's covered-employee payroll	$ 2,320,379	$ 2,083,059	$ 2,336,983
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.5%	13.1%	15.6%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%	97.2%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO URBAN RENEWAL AGENCY
Schedule of the Agency's Contributions—
Employees' Retirement System
Last Three Fiscal Years*

	Year Ended June 30,		
	2016	**2015**	**2014**
Contractually required contribution	$ 346,327	$ 393,546	$ 466,649
Contributions in relation to the contractually required contribution	(346,327)	(393,546)	(466,649)
Contribution deficiency (excess)	$ -	$ -	$ -
Agency's covered-employee payroll	$ 2,320,379	$ 2,083,059	$ 2,336,983
Contributions as a percentage of covered-employee payroll	14.9%	18.9%	20.0%

*Information prior to the year ended June 30, 2014 is not available.

** THIS PAGE INTENTIONALLY LEFT BLANK **

SUPPLEMENTARY INFORMATION

** THIS PAGE INTENTIONALLY LEFT BLANK **

CITY OF BUFFALO URBAN RENEWAL AGENCY
Combining Balance Sheet—Nonmajor Governmental Funds
June 30, 2016

	Section 108 Loan Program	Home Ownership Zone Program	Emergency Solutions Grant Program	Shelter Plus Care Program	HOPWA Program	Lead Abatement Program	Section 312 Loan Program	Lead Demo Program	Rental Rehabilitation Program	HOPE III Program	Total Nonmajor Funds
ASSETS											
Restricted cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,251	$ -	$ 7,251
Due from other funds	-	4,613	-	210	191	-	3,184	-	-	-	8,198
Intergovernmental receivables	-	-	19,765	-	101	10,629	-	10,000	-	-	40,495
Total assets	$ -	$ 4,613	$ 19,765	$ 210	$ 292	$ 10,629	$ 3,184	$ 10,000	$ 7,251	$ -	$ 55,944
LIABILITIES											
Accounts payable and accrued expenses	$ -	$ 264	$ 18,805	$ -	$ 292	$ -	$ -	$ -	$ -	$ -	$ 19,361
Due to other funds	-	-	960	-	-	13,329	-	10,000	1,518	-	25,807
Total liabilities	-	264	19,765	-	292	13,329	-	10,000	1,518	-	45,168
FUND BALANCES (DEFICIT)											
Restricted	-	4,349	-	210	-	-	3,184	-	5,733	-	13,476
Unassigned	-	-	-	-	-	(2,700)	-	-	-	-	(2,700)
Total fund balances (deficit)	-	4,349	-	210	-	(2,700)	3,184	-	5,733	-	10,776
Total liabilities and fund balances (deficit)	$ -	$ 4,613	$ 19,765	$ 210	$ 292	$ 10,629	$ 3,184	$ 10,000	$ 7,251	$ -	$ 55,944

CITY OF BUFFALO URBAN RENEWAL AGENCY
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)—Nonmajor Governmental Funds
Year Ended June 30, 2016

	Section 108 Loan Program	Home Ownership Zone Program	Emergency Solutions Grant Program	Shelter Plus Care Program	HOPWA Program	Lead Abatement Program	Section 312 Loan Program	Lead Demo Program	Rental Rehabilitation Program	HOPE III Program	Total Nonmajor Funds
REVENUES											
Federal grants	$ 117,832	$ -	$ 66,821	$ -	$ 1,188	$ -	$ -	$ -	$ -	$ -	$ 185,841
Repayment of program loans	-	-	-	-	-	-	402	-	6,911	-	7,313
Interest income	195,489	-	-	-	-	-	-	-	340	-	195,829
Miscellaneous	-	-	2,607	-	-	-	-	-	-	-	2,607
Total revenues	313,321	-	69,428	-	1,188	-	402	-	7,251	-	391,590
EXPENDITURES											
Public services and human service programs	-	-	18,111	-	-	-	-	-	-	-	18,111
Interest on loans	313,321	-	-	-	-	-	-	-	-	-	313,321
Planning, management, and administration	-	-	48,712	-	9,430	-	154	-	-	-	58,296
Total expenditures	313,321	-	66,823	-	9,430	-	154	-	-	-	389,728
Excess (deficiency) of revenues over expenditures	-	-	2,605	-	(8,242)	-	248	-	7,251	-	1,862
OTHER FINANCING SOURCES (USES)											
Contributions from the City of Buffalo	3,870,000	-	-	-	-	-	-	-	-	-	3,870,000
Section 108 debt principal reduction	(3,870,000)	-	-	-	-	-	-	-	-	-	(3,870,000)
Transfers out	-	-	-	-	-	-	-	-	-	(47,106)	(47,106)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	(47,106)	(47,106)
Net change in fund balances (deficits)	-	-	2,605	-	(8,242)	-	248	-	7,251	(47,106)	(45,244)
Fund balances (deficits)—beginning	-	4,349	(2,605)	210	8,242	(2,700)	2,936	-	(1,518)	47,106	56,020
Fund balances (deficits)—ending	$ -	$ 4,349	$ -	$ 210	$ -	$ (2,700)	$ 3,184	$ -	$ 5,733	$ -	$ 10,776

** THIS PAGE INTENTIONALLY LEFT BLANK **

FEDERAL AWARDS INFORMATION

CITY OF BUFFALO URBAN RENEWAL AGENCY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title (1)	Federal CFDA Number (2)	Pass-Through Entity's Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures (3)
U.S. Department of Housing and Urban Development:				
Direct programs:				
Low Income Housing Assistance Program -				
Section 8 Moderate Rehabilitation Program	14.856	n/a	$ 63,850	$ 63,850
Section 8 Housing Choice Voucher Program	14.871	n/a	30,202,509	30,202,509
Passed through the City of Buffalo:				
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-36-0001	-	63,664
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-36-0001	-	132,116
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-36-0001	-	84,629
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-36-0001	-	139,531
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-36-0001	-	245,138
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-36-0001	-	879,584
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-36-0001	-	1,741,140
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-36-0001	-	2,506,326
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-36-0001	-	1,499,374
Community Development Block Grant - Loans*	14.218	various	-	19,193,501
Total Community Development Block Grant			-	26,485,003
Rental Housing Rehabilitation Grant - Loans**	14.230	various	-	553,548
Emergency Solutions Grants Program	14.231	E-13-MC-36-0003	-	672
Emergency Solutions Grants Program	14.231	E-14-MC-36-0003	-	58,428
Emergency Solutions Grants Program	14.231	E-15-MC-36-0003	-	7,718
Total Emergency Solutions Grant Program			-	66,818
HOME Investment Partnerships Program	14.239	M-08-MC-36-0502	-	30,986
HOME Investment Partnerships Program	14.239	M-09-MC-36-0502	-	495,907
HOME Investment Partnerships Program	14.239	M-10-MC-36-0502	-	1,855,755
HOME Investment Partnerships Program	14.239	M-11-MC-36-0503	-	2,336,685
HOME Investment Partnerships Program	14.239	M-12-MC-36-0504	-	812,058
HOME Investment Partnerships Program	14.239	M-13-MC-36-0505	-	554,908
HOME Investment Partnerships Program	14.239	M-14-MC-36-0506	-	947,685
HOME Investment Partnerships Program	14.239	M-15-MC-36-0507	-	262,777
HOME Investment Partnerships Program - Loans***	14.239	various	-	56,469,054
Total HOME Investment Partnerships Program			-	63,765,815
Housing Opportunities for Persons with AIDS	14.241	NYH14-F004	-	1,117
Housing Opportunities for Persons with AIDS	14.241	NYH15-F004	-	72
Total Housing Opportunities for Persons with AIDS			-	1,189
Lead Hazard Reduction Demonstration Grant Program - Loans****	14.905	various	-	660,850
Total Expenditures of Federal Awards (4)			$ 30,266,359	$ 121,799,582

*The amount of CFDA No. 14.218 loans outstanding at July 1, 2016 and June 30, 2016 were $19,193,501 and $24,988,027, respectively.
**The amount of CFDA No. 14.230 loans outstanding at July 1, 2016 and June 30, 2016 were $553,548 and $154,436, respectively.
***The amount of CFDA No. 14.239 loans outstanding at July 1, 2016 and June 30, 2016 were $56,469,054 and $57,709,975, respectively.
****The amount of CFDA No. 14.905 loans outstanding at July 1, 2016 and June 30, 2016 were $660,850 and $336,730, respectively.

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Buffalo Urban Renewal Agency (the "Agency") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a select portion of the operations of the Agency, it is not intended to and does not present the financial position or the changes in net position of the Agency. The following notes were identified on the Schedule:

(1) Includes all federal award programs of the City of Buffalo Urban Renewal Agency.

(2) Source: Catalog of Federal Domestic Assistance.

(3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.

(4) A reconciliation to the basic financial statements is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Agency has not elected to use the 10 percent de minimus indirect cost rate as allowable under the Uniform Guidance.

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

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

To the Honorable Comptroller of
the City of Buffalo, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Buffalo Urban Renewal Agency (the "Agency") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Drescher & Malecki LLP

September 28, 2016

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Honorable Comptroller of
the City of Buffalo, New York:

Report on Compliance for Each Major Federal Program

We have audited the City of Buffalo Urban Renewal Agency's (the "Agency") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2016. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance which the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Drescher & Malecki LLP

September 28, 2016

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

1. Material weakness(es) identified?	____ Yes	✓ No
2. Significant deficiency(ies) identified?	____ Yes	✓ None reported
3. Noncompliance material to the financial statements noted?	____ Yes	✓ No

Federal Awards:

Internal control over major federal programs:

4. Material weakness(es) identified?	____ Yes	✓ No
5. Significant deficiency(ies) identified?	____ Yes	✓ None reported

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

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	✓ No

7. The Agency's major federal programs were:

Name of Federal Program	CFDA Number
Community Development Block Grants/Entitlement Grants	14.218
HOME Investment Partnership Program	14.239
Section 8 Housing Choice Vouchers	14.871

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 1,347,679

9. Auditee qualified as low-risk auditee?	____ Yes	✓ No

Section II. FINANCIAL STATEMENT FINDINGS

No findings noted.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

Finding 2015-001—Financial Records and Statements

Criteria—Internal controls should be in place to ensure that accurate financial records are maintained to produce financial reports with complete and accurate disclosures, exclusive of the efforts of the independent auditor.

Condition and Context—As the independent auditor of the Agency, we provided assistance to the Agency in the drafting of the financial statements, but as the auditor of the Agency, we remain independent under Ethics Interpretation 101-3, Performance of Nonattest Services under Rule 101, Independence (AICPA, Professional Standards vol 2. ET §101.05). That is, we proposed client-approved adjusting journal entries to the trial balance and assisted in the drafting of the financial statements from the Agency's trial balance. The Agency remains responsible for preparing and approving adjusting journal entries. Currently, we believe the Agency has the expertise to prepare financial statement grouping schedules and the schedules documenting the calculations in the notes to the financial statements. However, the expertise in selecting and applying accounting principles generally accepted in the United States specific to governmental accounting was not present throughout the year, and contractual arrangements to assist in this area were not made until year-end. This ultimately resulted in delays in the audit process, difficulties in reconciling accounts and obtaining supporting documentation, and material adjusting journal entries, including prior period restatements. This condition is considered to be a weakness in internal controls as the potential exists that a material misstatement of the financial statements could have occurred and not been prevented or detected by the Agency.

Cause—Insufficient expertise in governmental accounting and a lack of appropriate internal control procedures throughout the year.

Effect or Potential Effect—Trial balances were not provided audit-ready, which resulted in a number of material adjusting journal entries.

Recommendations—We noted that since June 30, 2015 the Agency has made efforts to improve their technical knowledge through training and outsourcing with an external accounting firm; however, we recommend that the Agency continue attending technical training seminars to improve their proficiency and further their efforts to gain knowledge in governmental accounting. Additionally, we recommend that the Agency maintain its relationship with the contracted external accounting firm until its entire staff has the expertise necessary to compile and maintain financial records and produce a reliable and timely financial statement in accordance with generally accepted accounting principles as applied to governmental units.

View of Responsible Officials and Planned Corrective Actions—The Agency has addressed this in three different ways starting in the third quarter of its fiscal year. First, in March 2015 the Agency retained additional accounting expertise through the hiring of two accounting personnel. The Agency has set a high standard of performance in addressing this matter, and one of those individuals remains with the Agency. Since that date, numerous policies have been rewritten, nonexistent policies have been created and procedures have been modified to put a process in place where items are received, processes and tracked in a systematic manner.

Next, in June the Agency retained a contract external accounting firm to provide assistance and expertise in addressing procedural, staffing, and governmental expertise matters.

Finally, a new Executive Director was retained in September 2015. This level of leadership will provide necessary oversight and guidance to the Agency staff. This dedicated presence will minimally provide the setting of a level of expectation to improve the departmental performance and seek to continue to improve that performance.

We acknowledge the conditions as described in this finding as having existed throughout much of the year. However, changes to procedures, policies and internal controls can only be applied prospectively. Since March, significant changes to departmental policies, the internal control structure, the daily departmental procedures and activities, and month-end closing have been made. We also acknowledge that while much has been done, the job is not yet complete. This list includes: conversion to new loan monitoring software that is slated to be implemented later this year, establishing processes for routine financial reporting to the Agency's Board, revising our general ledger to streamline it and facilitate ease of use and reporting as well as increasing internal controls.

Current Status—The Agency has retained a third party accounting firm to assist with accounting services and financial reporting. Additionally, Agency staffing has attended trainings to improve technical accounting skills and knowledge. As a result of the increased staffing and training, the Agency has developed policies and procedures for significant accounting cycles and provided audit-ready trial balances. This finding has been resolved at June 30, 2016

Finding 2015-002—Equipment Inventory (CFDA #14.218, CFDA #14.239)

Criteria—Per review of OMB Circular A-133 Compliance Supplement Part 3.1, "equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records".

Condition and Context—We noted during our testing of the Community Development Block Grant Program, CFDA #14.218, and the Home Investment Partnership Program, CFDA #14.239, that the Agency has not conducted a physical inventory count for equipment that is listed for the programs.

Cause—The Agency has not implemented procedures for conducting an inventory count.

Effect or Potential Effect—There is a risk to the Agency that not all assets obtained through federal funding were identified and that dispositions were not recorded. As a result, the Agency cannot ensure that the federal government is given their entitled, proportionate amount of the current fair market value of that inventory.

Recommendation—We recommend that the Agency implement procedures to ensure that an inventory count is performed every two years consistent with federal guidelines. These procedures should outline who is responsible for performing the count and include instructions as to how the count should be performed.

View of Responsible Officials and Planned Corrective Actions—A physical inventory of equipment will be performed for the 2016 fiscal year and reconciled to the Agency's equipment records.

Current Status—A physical inventory of equipment was performed during the fiscal year ended June 30, 2016. The financial statements were updated to reflect the results of the inventory. This finding has been resolved at June 30, 2016.

Finding 2015-003—Federal Report Reconciliation (CFDA #14.218, CFDA #14.239)

Criteria—Reports generated for federal reporting purposes should be prepared based on financial information that has been recorded in the Agency's general ledger.

Condition and Context—We were unable to reconcile information relating to the Community Development Block Grant Program, CFDA #14.218, and the Home Investment Partnership Program, CFDA #14.239 between federal reports and the financial data that generates the financial statements.

Cause—Report preparers do not maintain a reconciliation between federal reports and the financial reporting system.

Effect or Potential Effect—The Agency risks reporting inaccurate information to the federal government that does not accurately reflect the program activities of the Agency.

Recommendation—We recommend that procedures be developed to reconcile federal reports to financial reports to ensure that accurate information is being reported.

View of Responsible Officials and Planned Corrective Actions—Subsequent to year-end, the Agency has implemented procedures to facilitate the reconciliation process between federal reports and the financial data that generates the reports.

Current Status—The Agency has implemented procedures to facilitate a reconciliation between federal reports and the financial data that generates the internal financial reports. This finding has been resolved at June 30, 2016.

** THIS PAGE INTENTIONALLY LEFT BLANK **