

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER
FINANCE AUTHORITY
A COMPONENT UNIT OF THE
CITY OF BUFFALO, NEW YORK

*Basic Financial Statements, Required Supplementary
Information and Supplemental Information for the
Years Ended June 30, 2013 and 2012
and Independent Auditors' Report*

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
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Years Ended June 30, 2013 and 2012

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Buffalo Municipal Water Finance Authority
Buffalo, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority'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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years 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 on pages 3 through 7 and other Required Supplementary Information on pages 17 and 18 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Authority Investments, as required by Public Authorities Law of the State of New York, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule of Authority Investments has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



November 26, 2013

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012

As management of the City of Buffalo, New York's (the "City") Buffalo Municipal Water Finance Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2013 and 2012.

Financial Highlights

- The Authority's total assets and deferred outflows of resources, and total liabilities each decreased \$6,781,606 from June 30, 2012 to June 30, 2013 primarily from payments made on long-term debt.
- The Authority's restricted cash decreased \$6,649,691 from June 30, 2012 to June 30, 2013.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements.

The basic financial statements consist of two components: the financial statements and the notes which provide additional information that is essential to a full understanding of the data provided in the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

The City uses an enterprise fund to account for the activities of the Authority, which reports information about the general operations of the Authority. The Authority was established to issue debt for the Buffalo Water Board.

The basic financial statements of the Authority reports information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the Authority's operations over the past year.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities. The Statement of Cash Flows provides information related to the sources of cash, the uses of cash, and the change in the cash balance during the reporting period.

Financial Analysis

Our analysis of the financial statements of the Authority begins below. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the

Authority's activities. These two statements report the net position of the Authority and changes in them. Net position, the difference between assets and deferred outflows of resources, and liabilities, is one way to measure financial health or financial position. In accordance with a financing agreement, the Buffalo Water Board is required to transfer funds to the Authority to cover the expenses of the Authority, and any fund transfers to the Authority that are not needed for current year operations are returned to the Water Board. Therefore, the Authority does not accumulate any net position.

Table 1 - Condensed Statements of Net Position

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Current assets:				
Cash	\$ 223,575	\$ 224,827	\$ (1,252)	(0.6)
Other current assets	7,608,995	6,973,994	635,001	9.1
Total current assets	<u>7,832,570</u>	<u>7,198,821</u>	<u>633,749</u>	8.8
Noncurrent assets:				
Restricted cash	38,676,367	45,326,058	(6,649,691)	(14.7)
Due from Water Board	112,495,171	112,806,160	(310,989)	(0.3)
Total noncurrent assets	<u>151,171,538</u>	<u>158,132,218</u>	<u>(6,960,680)</u>	(4.4)
Total assets	<u>159,004,108</u>	<u>165,331,039</u>	<u>(6,326,931)</u>	(3.8)
Deferred outflows of resources	<u>4,418,803</u>	<u>4,873,478</u>	<u>(454,675)</u>	(9.3)
Liabilities:				
Current liabilities	10,630,985	9,843,096	787,889	8.0
Noncurrent liabilities	152,791,926	160,361,421	(7,569,495)	(4.7)
Total liabilities	<u>163,422,911</u>	<u>170,204,517</u>	<u>(6,781,606)</u>	(4.0)
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

	June 30,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Current assets:				
Cash	\$ 224,827	\$ 454,847	\$ (230,020)	(50.6)
Other current assets	6,973,994	6,749,526	224,468	3.3
Total current assets	<u>7,198,821</u>	<u>7,204,373</u>	<u>(5,552)</u>	(0.1)
Noncurrent assets:				
Restricted cash	45,326,058	40,201,260	5,124,798	12.7
Due from Water Board	112,806,160	107,558,792	5,247,368	4.9
Total noncurrent assets	<u>158,132,218</u>	<u>147,760,052</u>	<u>10,372,166</u>	7.0
Total assets	<u>165,331,039</u>	<u>154,964,425</u>	<u>10,366,614</u>	6.7
Deferred outflows of resources	<u>4,873,478</u>	<u>4,986,699</u>	<u>(113,221)</u>	(2.3)
Liabilities:				
Current liabilities	9,843,096	9,693,477	149,619	1.5
Noncurrent liabilities	160,361,421	150,257,647	10,103,774	6.7
Total liabilities	<u>170,204,517</u>	<u>159,951,124</u>	<u>10,253,393</u>	6.4
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

As can be seen from the table on the previous page, total assets and deferred outflows of resources, and total liabilities decreased \$6,781,606 from June 30, 2012 to June 30, 2013, while total assets and deferred outflows of resources, and total liabilities increased \$10,253,393 from June 30, 2011 to June 30, 2012.

There was no change in net position for the years ended June 30, 2013 and 2012. Transfers in from the Buffalo Water Board covered all operating expenses.

Significant changes from 2012 to 2013 in the Statement of Net Position and the reasons for the changes are:

Current assets increased \$633,749, which was primarily due to an increase in the amount due from entities comprising the water system of \$635,000 resulting from an increase in the current portion of bonds payable.

Restricted cash and amounts due from entities comprising the water system decreased \$6,649,691 and \$310,989, respectively, due to cash utilized to make bond payments during the year.

Deferred outflows of resources decreased by \$454,675 for current year amortization of a deferred loss on refunding.

Current liabilities increased by \$787,889 resulting primarily from an increase in the current portion of bonds payable by \$635,000.

Long-term liabilities decreased by \$7,569,495, resulting from the payments of bonds during the year.

Significant changes from 2011 to 2012 in the Statement of Net Position and the reasons for the changes are:

Current assets decreased \$5,552, which was primarily due to a decrease of \$230,020 in cash offset by an increase of \$225,000 in the amount due from entities comprising the water system resulting from an increase in the current portion of bonds payable.

Restricted cash and amounts due from entities comprising the water system increased \$5,124,798 and \$5,247,368, respectively, due to the cash from issuance of bonds for capital projects less cash utilized to date.

Deferred outflows of resources decreased by \$113,221 for current year amortization of deferred losses on refunding, partially offset by an increase for debt issued during the year.

Current liabilities increased by \$149,619 resulting primarily from an increase in the current portion of bonds payable by \$225,000.

Long-term liabilities increased by \$10,103,774, resulting from the issuance of bonds greater than the amount of bonds paid in the current year.

Table 2 - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Expenses:				
Services and supplies	\$ 589,759	\$ 611,236	\$ (21,477)	(3.5)
Transfers in	589,759	611,236	(21,477)	(3.5)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

	Year Ended June 30,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Expenses:				
Services and supplies	\$ 611,236	\$ 626,755	\$ (15,519)	(2.5)
Transfers in	611,236	626,755	(15,519)	(2.5)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

While the Statement of Net Position would show any change in financial position of net position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table 2, there was no change in net position for the years ended June 30, 2013 and 2012.

The decrease in services and supplies for the year ended June 30, 2013 by \$21,477 from the year ended June 30, 2012 is due primarily to the decrease in legal and fiscal agent fees in the current year. The decrease in services and supplies for the year ended June 30, 2012 by \$15,519 from the year ended June 30, 2011 is due primarily to lower fiscal agent fees.

Budgetary Highlights

For the fiscal year ended June 30, 2013 the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$23,472. This was primarily due to lower than anticipated fiscal agent expenses and legal fees.

For the fiscal year ended June 30, 2012 the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$29,089. This was primarily due to lower than anticipated fiscal agent expenses related to banking fees.

Long-Term Debt

The Authority had \$159,470,000 and \$166,210,000 of outstanding revenue bonds at June 30, 2013 and June 30, 2012, respectively. These bonds are scheduled to be paid in full by 2040. No new debt was issued by the Authority during the year ended June 30, 2013. The Authority issued \$22,445,000 in revenue bonds for capital projects during the year ended June 30, 2012.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York, 14202.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Net Position
June 30, 2013 and 2012

	June 30,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 223,575	\$ 224,827
Due from entities comprising the water system	7,365,000	6,730,000
Due from other governments	243,995	243,994
Total current assets	7,832,570	7,198,821
Noncurrent assets:		
Restricted cash and cash equivalents	38,676,367	45,326,058
Due from entities comprising the water system	112,495,171	112,806,160
Total noncurrent assets	151,171,538	158,132,218
Total assets	159,004,108	165,331,039
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	4,418,803	4,873,478
Total deferred outflows of resources	4,418,803	4,873,478
 LIABILITIES		
Current liabilities:		
Accounts payable	12,294	35,578
Accrued interest	3,253,691	3,077,518
Current portion of bonds payable	7,365,000	6,730,000
Total current liabilities	10,630,985	9,843,096
Noncurrent liabilities:		
Revenue bonds payable	152,791,926	160,361,421
Total noncurrent liabilities	152,791,926	160,361,421
Total liabilities	163,422,911	170,204,517
 NET POSITION		
Restricted	-	-
Unrestricted	-	-
Total net position	\$ -	\$ -

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

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	Year Ended June 30,	
	2013	2012
Operating expenses:		
Services and supplies	\$ 589,759	\$ 611,236
Total operating expenses	589,759	611,236
Operating loss	(589,759)	(611,236)
Transfer in	589,759	611,236
Change in net position	-	-
Net position—beginning	-	-
Net position—ending	\$ -	\$ -

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

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Transfers in from entities comprising the water system	\$ 589,759	\$ 611,236
Payments for services and supplies	(613,043)	(601,366)
Net cash (used for) provided by operating activities	(23,284)	9,870
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from (to) other funds	(147,838)	(5,557,087)
Net cash used for noncapital financing activities	(147,838)	(5,557,087)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond proceeds	-	22,445,000
Net payment on long-term debt	(6,479,821)	(12,003,005)
Net cash (used for) provided by capital and related financing activities	(6,479,821)	10,441,995
Net (decrease) increase in cash and cash equivalents	(6,650,943)	4,894,778
Cash and cash equivalents—beginning	45,550,885	40,656,107
Cash and cash equivalents—ending	\$ 38,899,942	\$ 45,550,885
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	\$ (589,759)	\$ (611,236)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Operating transfers	589,759	611,236
Changes in assets and liabilities:		
(Decrease) increase in accounts payable	(23,284)	9,870
Net cash (used for) provided by operating activities	\$ (23,284)	\$ 9,870

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

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Buffalo Municipal Water Finance Authority (the “Authority”) is a public benefit corporation created pursuant to Section 1048A-BB of Title 2B of Article V of the New York State Public Authorities Law (the “Act”). According to the Act, the Authority may borrow money and issue negotiable or nonnegotiable notes, bonds, or other obligations. The Authority is the entity created to finance the capital needs of the Buffalo Water System (the “System”), which is owned by the Buffalo Water Board (the “Board”), a public benefit corporation created by the Act. The Authority is a blended component unit of the City of Buffalo, New York (the “City”) and, as such, is included in the City’s basic financial statements.

The Authority, Board, and City have entered into a financing agreement originally dated September 24, 1992, to ensure sufficient water rates are collected to fund the costs of operating, managing, and maintaining the System. The Board is responsible for establishing rates and charges for water services; collection of user charges and fees; and operations, repairs, and maintenance of the System. By an amendment dated August 1, 1997, the Authority amended its previous financing agreement with the Board and the City to allow the Board to engage a private contractor to manage the operation and maintenance of the System, which was previously performed by the City.

The Authority continues to hold construction funds for the Board and disburses funds as capital project expenditures are incurred. The Board pays funds to the Authority to meet authority debt service obligations. The operations of the Authority are limited to facilitating the financing of the System’s acquisition and construction improvements. As a result of the financing agreement between the Authority, Board, and City, the bond issuance and interest costs are, from an economic standpoint, borne by the Board and, therefore, accounted for by the Board. Transfers from the Board fund the operating and administrative costs of the Authority.

Measurement Focus and Basis of Accounting

These financial statements are accounted for on an accrual basis. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. This fund is reported using the economic resources measurement focus.

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

Budgets and Budgetary Accounting

Each year, the Authority adopts and files with the bond trustee, the Board, and the City a certified copy of the budget showing the expenses, the aggregate debt service, and the projected debt service for the ensuing fiscal year. The Authority is required to present its budget for the ensuing fiscal year by March 1. If for any reason the Authority has not adopted a budget before July 1, the budget for the

then-current fiscal year shall be deemed to be the budget for the ensuing fiscal year until a new budget is adopted. The Authority may at any time adopt an amended budget for the then-current or ensuing fiscal year, which is then filed with the bond trustee, the Board, and the City.

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

Cash and Cash Equivalents — Cash and cash equivalents consist of cash on hand, demand deposits, and time deposits. The statement of cash flows consider all highly liquid investments including restricted cash with maturities of three months or less when purchased, to be cash equivalents.

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, 2013, the Authority has one item that qualifies for reporting in this category. The Authority reports a deferred loss on refunding within deferred outflows of resources for \$4,418,803.

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, 2013, the Authority does not have any items that qualify for reporting in this category.

Other

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

Adoption of New Accounting Pronouncements—During the year ended June 30, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement Nos. 63 and 65 did not have a material impact on the Authority’s financial position or results from operations.

Additionally, during the year ended June 30, 2013, the Authority completed the process of evaluating the impact that will result from adopting GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,*

1989 FASB and AICPA Pronouncements. GASB Statement Nos. 60, 61, and 62 did not have a material impact on the Authority's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending June 30, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the year ending June 30, 2015. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 66, 67, 68, 69, 70 and 71 will have on its financial position and results of operations.

2. CASH AND CASH EQUIVALENTS

The Authority's policy is to obtain collateral for its cash deposits based on calculated average monthly balances for each bank in which the Authority maintains cash deposits. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by Federal Deposit Insurance Corporation insurance. The amount of cash in banks, including certificates of deposit, as of June 30, 2013, was \$441,616 and the book balance was \$223,575. The carrying amount of cash in banks, including certificates of deposit, as of June 30, 2012, was \$224,845 and the book balance was \$224,827. All deposits of the Authority were fully collateralized as of June 30, 2013 and 2012.

Restricted cash represents amounts restricted for debt service and construction purposes and consists of the following:

	June 30, 2013		June 30, 2012	
	Bank	Book	Bank	Book
U.S. Treasury	\$ 725,264	\$ 725,264	\$ 725,264	\$ 725,264
Money market fund	37,954,725	37,951,103	44,597,390	44,600,794
Total	<u>\$ 38,679,989</u>	<u>\$ 38,676,367</u>	<u>\$ 45,322,654</u>	<u>\$ 45,326,058</u>

Custodial credit risk is the risk that in the event of a bank failure, the Authority'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. As of June 30, 2013 and 2012, the Authority's deposits were FDIC insured or collateralized.

3. DUE FROM ENTITIES COMPRISING THE WATER SYSTEM

Due from entities comprising the water system represents the net receivables and payables between the Authority and the Board. The Authority issues all debt on behalf of the Board. As of June 30, 2013, the Board owed the Authority \$128,075,894 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee, unamortized refunding costs, and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171, of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

As of June 30, 2012, the Board owed the Authority \$129,027,840 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$9,491,680 as of June 30, 2012, for interest earned on funds held by the trustee, unamortized refunding costs, and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,535,160, of which \$6,730,000 is recorded as a current asset and \$112,806,160 as a noncurrent asset.

4. LONG-TERM LIABILITIES

All long-term bonded debt instruments are revenue bonds, which are backed by the full faith and credit of the Authority. Interest is paid semiannually. Principal is paid annually.

Long-term bonded debt outstanding as of June 30, 2013, is as follows:

Year Issued	Original Amount	Interest Rates (%)	Last Payment	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
1998	\$ 16,325,000	4.0-4.75	2013	\$ 290,000	\$ -	\$ 290,000	\$ -	\$ -
1998	49,715,000	4.0-5.0	2013	3,330,000	-	3,330,000	-	-
2002	11,785,000	2.5-4.75	2018	1,855,000	-	275,000	1,580,000	290,000
2003	3,901,741	5.6-6.31	2031	460,000	-	110,000	350,000	110,000
2006	19,917,236	3.6-4.84	2028	15,515,000	-	770,000	14,745,000	790,000
2007	13,010,000	3.6-4.375	2038	12,045,000	-	265,000	11,780,000	275,000
2007	29,220,000	5.0	2027	28,900,000	-	-	28,900,000	3,440,000
2008	62,020,000	3.7-5.07	2036	58,065,000	-	1,010,000	57,055,000	1,410,000
2010	23,975,000	2.0-6.89	2040	23,515,000	-	470,000	23,045,000	480,000
2011	2,720,000	1.53-5.12	2022	2,510,000	-	220,000	2,290,000	225,000
2012	17,150,000	1.75-4.0	2037	17,150,000	-	-	17,150,000	345,000
2012	2,575,000	5.6-6.31	2031	2,575,000	-	-	2,575,000	-
				166,210,000	-	6,740,000	159,470,000	7,365,000
Unamortized bond premium				1,144,462	-	204,307	940,155	-
Unamortized bond discount				(263,041)	-	(9,812)	(253,229)	-
Net bonded debt				\$ 167,091,421	\$ -	\$ 6,934,495	\$ 160,156,926	\$ 7,365,000

On July 21, 2011, the Authority refinanced a \$2,720,000 New York State Environmental Facilities bond issue. The series 2011C bond issue completed a refinancing initiative on behalf of the municipalities that initially financed projects through the Clean Water and Drinking Water State Revolving Funds Series 2001 B, 2002G and 2002H. Principal payments begin on April 15, 2012 and mature in 2022. These bonds bear an interest rate ranging between 1.53 % and 5.12%.

On April 11, 2012, the Authority issued \$17,150,000 of water system revenue bonds. Principal payments begin on July 1, 2013 and mature in 2037. These bonds were issued at a discount of \$106,401 and bear an interest rate ranging between 1.75% and 4.00%.

On June 21, 2012, the Authority refinanced a \$2,575,000 New York State Environmental Facilities bond issue. Principal payments begin on July 15, 2016 and mature in 2031. These bonds bear an interest rate ranging between 5.60 % and 6.31%.

The Authority advances the proceeds of the revenue bonded debt to the Board as the related expense is incurred by the Board. Accordingly, the amount due from the Board will generally differ from the outstanding obligations at year-end. The amount of proceeds expended net of principal payments made as of June 30, 2013, was \$128,075,894 (which represents the outstanding proceeds of \$159,470,000, net of the unexpended funds of \$31,394,106). Additionally, the Water Authority owes the Water Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171, of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

The amount of proceeds expended net of principal payments made as of June 30, 2012, was \$129,027,840 (which represents the outstanding proceeds of \$166,210,000, net of the unexpended funds of \$37,182,160). Additionally, the Water Authority owes the Water Board \$9,491,680 as of June 30, 2012, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,535,160, of which \$6,730,000 is recorded as a current asset and \$112,806,160 as a noncurrent asset.

Future payments on long-term debt at June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,365,000	\$ 6,902,332
2015	7,635,000	6,584,132
2016	7,990,000	6,265,638
2017	8,355,000	5,917,510
2018	8,645,000	5,535,457
2019-2023	37,700,000	22,355,572
2024-2028	36,315,000	14,997,271
2029-2033	23,295,000	7,948,657
2034-2038	13,910,000	4,036,882
2039-2043	<u>8,260,000</u>	<u>861,185</u>
Total	<u>\$ 159,470,000</u>	<u>\$ 81,404,636</u>

On May 9, 2008, the Authority issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously existing debt. The Authority refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the Water System and Citibank, N.A, NY (“Swap Provider”) that converts the Authority’s variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008-A Bonds. Under the terms of the Swap Agreement, the Authority will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the Authority a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the Authority under the Swap Agreement does not affect the Authority’s obligation to pay, when due, the principal and interest on the Series 2008-A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005-B Bonds on July 1, 2035. The Water System entered into this swap agreement to hedge its interest rate exposure over the life of the bonds.

Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the Authority or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The Authority shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2013, the notional amount of the bonds is \$56,575,000. The amount that the Authority received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$85,063, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$75,273, by \$9,790. At June 30, 2012, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$104,509, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$79,625, by \$24,884. The fair value of the derivative at June 30, 2013 based on quoted market prices is negative \$3,228,952 and is recorded as a derivative liability within the noncurrent liabilities on the Board's financial statements.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 26, 2013, which is the date the financial statements are available for issuance, and has determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Budgetary</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Final Budget</u>
Operating expenses:				
Services and supplies	\$ 60,300	\$ 61,925	\$ 49,550	\$ 12,375
Fiscal agent expenses	551,306	551,306	540,209	11,097
Total operating expenses	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>23,472</u>
Deficiency of revenues over expenses	<u>(611,606)</u>	<u>(613,231)</u>	<u>(589,759)</u>	<u>23,472</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
Total other financing sources	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
Change in net position	-	-	-	-
Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Budgetary</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Final Budget</u>
Operating expenses:				
Services and supplies	\$ 48,700	\$ 65,109	\$ 67,659	\$ (2,550)
Fiscal agent expenses	590,000	575,216	543,577	31,639
Total operating expenses	<u>638,700</u>	<u>640,325</u>	<u>611,236</u>	<u>29,089</u>
Deficiency of revenues over expenses	<u>(638,700)</u>	<u>(640,325)</u>	<u>(611,236)</u>	<u>29,089</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>638,700</u>	<u>640,325</u>	<u>611,236</u>	<u>(29,089)</u>
Total other financing sources	<u>638,700</u>	<u>640,325</u>	<u>611,236</u>	<u>(29,089)</u>
Change in net position	-	-	-	-
Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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SUPPLEMENTAL INFORMATION

Presented as supplemental information is certain information as required to be reported under New York State Public Authority Law.

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Authority Investments
Year Ended June 30, 2013

Annual Investment Report - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the Water Authority, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report.

- a. Investment guidelines – the Water Authority’s investment policy was adopted by the Board of Directors.
- b. Amendments to guidelines – none.
- c. Explanation of guidelines and investments – the Water Authority has not made any amendments to its investment policy. These guidelines restrict investment of Water Authority funds to:
 - Certificates of Deposit (“CD”) issued by a bank or trust company authorized to do business in New York State;
 - Time Deposit (“TD”) accounts and Negotiable Order of Withdrawal (“NOW”) accounts in a bank or trust company authorized to do business in New York State;
 - Obligations of New York State;
 - Repurchase agreements involving the purchase and sale of direct obligations of the United States;
 - Obligations of agencies of the federal government, if principal and interest is guaranteed by the United States; and
 - With the approval of the New York State Comptroller, in Revenue Anticipation Notes or Tax Anticipation Notes of other local governments.
- d. Results of the annual independent audit – the independent auditors have issued an unmodified opinion on the Water Authority’s financial statements for the year ended June 30, 2013.
- e. Investment income record – The Water Authority had no investment income for the year ended June 30, 2013.
- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report – no such fees or commissions were paid during the year ended June 30, 2013.

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