

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD

A COMPONENT UNIT OF THE
CITY OF BUFFALO, NEW YORK

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

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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

To the Board of Directors of
Buffalo Water Board
City of Buffalo, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Buffalo Water Board (the "Water Board"), 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 Water Board's basic financial statements as listed in the table of contents.

Management's Responsibility

The Water Board'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Board 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 11 and the other Required Supplementary Information on pages 27 and 31 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 Water Board's basic financial statements. The Additional Information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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



November 26, 2013

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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 Water Board (the "Water Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Water Board for the fiscal year ended June 30, 2013 and 2012.

Financial Highlights

- The assets and deferred outflows of resources of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2013 by \$39,218,061 (*net position*). Net investment in capital assets totaled \$12,504,369, and the balance of \$26,713,692 was unrestricted and available to meet future obligations of the Water Board. The assets and deferred outflows of resources of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2012 by \$32,211,361 (*net position—as restated*). Net investment in capital assets totaled \$11,188,916 and the balance of \$21,022,445 was unrestricted and available to meet future obligations of the Water Board.
- The Water Board's net position increased by \$7,006,700 and \$4,428,648 for the years ended June 30, 2013 and 2012, respectively.
- For the year ended June 30, 2013, total operating and nonoperating revenues increased by \$3,880,032 from the year ended June 30, 2012, or 9.4%, while total expenses increased \$1,055,353, or 3.3%, over the same period. For the year ended June 30, 2012, total operating and nonoperating revenues increased by \$3,649,742 from the year ended June 30, 2011, or 9.7%, while total expenses decreased \$613,321, or 1.9%, over the same period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Board's basic financial statements. The basic financial statements include financial statements and notes to the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information relating to the Water Board's budgetary comparisons and other post-employment benefits obligations.

The City uses one fund to account for the activities of the Water Board, an enterprise fund, which reports information about the general operations of the Water Board.

The basic financial statements of the Water Board 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 Water Board's assets, deferred outflows of resources and liabilities, and provides information about the nature and amounts of investments in resources (assets and deferred outflows of resources) and the obligations to Water Board 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 Water Board. 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 success of the Water Board's operations over the past year and can be used to determine whether the Water Board has successfully

recovered all its costs through its charges for water service, as well as its profitability. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Water Board'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, noncapital financing and investing activities. The Statement of Cash Flows provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Water Board and changes in them. Net position represents the difference between assets and deferred outflows of resources, and liabilities and is one way to measure financial health or financial position. Over time, increases or decreases in the Water Board's net position is one indicator of whether its financial health is improving or deteriorating.

Table 1 - Condensed Statements of Net Position

	June 30,		Increase/(decrease)	
	2013	2012 (as restated)	Dollars	Percent (%)
Assets:				
Current assets	\$ 44,949,583	\$ 36,677,629	\$ 8,271,954	22.6
Capital assets	<u>130,042,712</u>	<u>129,279,849</u>	<u>762,863</u>	0.6
Total assets	<u>174,992,295</u>	<u>165,957,478</u>	<u>9,034,817</u>	5.4
Deferred outflows of resources	<u>3,228,952</u>	<u>5,137,442</u>	<u>(1,908,490)</u>	(37.1)
Liabilities:				
Current liabilities	11,918,823	10,684,395	1,234,428	11.6
Noncurrent liabilities	<u>127,084,363</u>	<u>128,199,164</u>	<u>(1,114,801)</u>	(0.9)
Total liabilities	<u>139,003,186</u>	<u>138,883,559</u>	<u>119,627</u>	0.1
Net position:				
Net investment in capital assets	12,504,369	11,188,916	1,315,453	11.8
Unrestricted	<u>26,713,692</u>	<u>21,022,445</u>	<u>5,691,247</u>	27.1
Total net position	<u>\$ 39,218,061</u>	<u>\$ 32,211,361</u>	<u>\$ 7,006,700</u>	21.8
	June 30,		Increase/(decrease)	
	2012 (as restated)	2011	Dollars	Percent (%)
Assets:				
Current assets	\$ 36,677,629	\$ 33,752,660	\$ 2,924,969	8.7
Capital assets	<u>129,279,849</u>	<u>121,937,741</u>	<u>7,342,108</u>	6.0
Total assets	<u>165,957,478</u>	<u>155,690,401</u>	<u>10,267,077</u>	6.6
Deferred outflows of resources	<u>5,137,442</u>	<u>6,433,941</u>	<u>(1,296,499)</u>	(20.2)
Liabilities:				
Current liabilities	10,684,395	11,696,415	(1,012,020)	(8.7)
Noncurrent liabilities	<u>128,199,164</u>	<u>119,940,775</u>	<u>8,258,389</u>	6.9
Total liabilities	<u>138,883,559</u>	<u>131,637,190</u>	<u>7,246,369</u>	5.5
Net position:				
Net investment in capital assets	11,188,916	12,062,469	(873,553)	(7.2)
Unrestricted	<u>21,022,445</u>	<u>18,424,683</u>	<u>2,597,762</u>	14.1
Total net position	<u>\$ 32,211,361</u>	<u>\$ 30,487,152</u>	<u>\$ 1,724,209</u>	5.7

The Condensed Statements of Net Position show an increase of \$7,006,700 in net position from \$32,211,361 at June 30, 2012 to \$39,218,061 at June 30, 2013. Significant changes from 2012 to 2013 in the Condensed Statements of Net Position and the reasons for the changes are:

- Current assets increased \$8,271,954. The majority of the increase was in cash, which increased \$6,919,972 primarily due to increased cash received from customers and a decrease in net cash used for capital financing activities.
- Total deferred outflows of resources decreased by \$1,908,490 as a result of the change in derivative liability for the interest rate SWAP agreement.
- Unrestricted net position increased \$5,691,247. The increase is the direct result of current year operations as addressed below.

The Condensed Statements of Net Position show an increase of \$1,724,209 in net position from \$30,487,152 at June 30, 2011 to \$32,211,361 at June 30, 2012. The restatement to beginning net position accounts for a \$2,704,439 decrease in net position; whereas, operations during the year accounted for an overall increase of \$4,428,648. Significant changes from 2011 to 2012 in the Condensed Statements of Net Position and the reasons for the changes are:

- Current assets increased \$2,924,969. The majority of the increase was in cash, which increased \$2,819,841 due to increases in cash received from customers and advances from other funds.
- Capital assets increased \$7,342,108. Capital assets additions of \$11,714,868 exceeded depreciation expense of \$4,372,760. Additions during the year included the installation of high service pumps at the Colonel Ward Pumping Station and the rehab of low lift pumping equipment at the Colonel Ward Filtration Plant.
- Total liabilities increased \$7,246,369; of this, current liabilities decreased \$1,012,020 and long-term liabilities increased \$8,258,389. The increase in long-term liabilities is primarily attributed to the issuance of \$17,150,000 of bonds in the current year. As bond proceeds are expended, the balance due to the Water Authority increases and decreases as principal payments are made.
- Net investment in capital assets decreased by \$873,553. This is the difference between the additions to capital assets less current year depreciation expense and the net change in outstanding long-term debt used for purposes of acquiring such capital assets. Outstanding debt increased more than net capital assets increased during the year.
- Unrestricted net position increased \$2,597,762. The increase is the direct result of current year operations.

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

	Year Ended June 30,		Increase/(decrease)	
	2013	(as restated) 2012	Dollars	Percent (%)
Revenues:				
Operating	\$ 44,135,124	\$ 40,323,766	\$ 3,811,358	9.5
Nonoperating	942,996	874,322	68,674	7.9
Total revenues	<u>45,078,120</u>	<u>41,198,088</u>	<u>3,880,032</u>	9.4
Expenses:				
General and administrative	8,508,815	8,121,871	386,944	4.8
Depreciation	4,851,160	4,372,760	478,400	10.9
Interest	7,093,430	6,726,016	367,414	5.5
Operating transfers	11,587,686	12,644,347	(1,056,661)	(8.4)
Other	879,256	-	879,256	-
Total expenses	<u>32,920,347</u>	<u>31,864,994</u>	<u>1,055,353</u>	3.3
Income before transfers to the City's General Fund	<u>12,157,773</u>	<u>9,333,094</u>	<u>2,824,679</u>	n/a
Transfers to the City's General Fund	<u>(5,151,073)</u>	<u>(4,904,446)</u>	<u>(246,627)</u>	5.0
Change in net position	7,006,700	4,428,648	2,578,052	n/a
Net position - beginning, as restated	<u>32,211,361</u>	<u>27,782,713</u>	<u>4,428,648</u>	15.9
Net position - ending	<u>\$ 39,218,061</u>	<u>\$ 32,211,361</u>	<u>\$ 7,006,700</u>	21.8

(continued)

(concluded)

	<u>Year Ended June 30,</u>		<u>Increase/(decrease)</u>	
	<u>(as restated)</u>		<u>Dollars</u>	<u>Percent (%)</u>
	<u>2012</u>	<u>2011</u>		
Revenues:				
Operating	\$ 40,323,766	\$ 36,943,085	\$ 3,380,681	9.2
Nonoperating	<u>874,322</u>	<u>605,261</u>	<u>269,061</u>	44.5
Total revenues	<u>41,198,088</u>	<u>37,548,346</u>	<u>3,649,742</u>	9.7
Expenses:				
General and administrative	8,121,871	5,633,356	2,488,515	44.2
Depreciation	4,372,760	4,164,885	207,875	5.0
Interest	6,726,016	7,074,411	(348,395)	(4.9)
Operating transfers	12,644,347	14,801,809	(2,157,462)	(14.6)
Other	-	803,854	(803,854)	(100.0)
Total expenses	<u>31,864,994</u>	<u>32,478,315</u>	<u>(613,321)</u>	(1.9)
Income before transfers to the City's General Fund	<u>9,333,094</u>	<u>5,070,031</u>	<u>4,263,063</u>	n/a
Transfers to the City's General Fund	<u>(4,904,446)</u>	<u>(4,672,174)</u>	<u>(232,272.00)</u>	5.0
Change in net position	4,428,648	397,857	4,030,791	n/a
Net position - beginning, as restated	<u>27,782,713</u>	<u>30,089,295</u>	<u>(2,306,582)</u>	(7.7)
Net position - ending	<u>\$ 32,211,361</u>	<u>\$ 30,487,152</u>	<u>\$ 1,724,209</u>	5.7

While the Condensed Statement of Net Position displays the change in the Water Board's financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

Significant changes from the year ended June 30, 2012 to the year ended June 30, 2013 in revenue and expenses for the Water Board include the following:

- Operating revenues increased \$3,811,358, or 9.5%, from the prior year. This change is primarily the result of a 6.0% rate increase effective July 1, 2012.
- Non-operating revenues increased \$68,674 or 7.9%. This a result an increase of \$218,015 of federal subsidy for Build America Bonds, combined with a decrease in interest income of \$149,341.

- Overall, expenses increased \$1,055,353, or 3.3%, over prior year. The reason for this increase is a combination of factors as listed below:
 - General and administrative expenses increased \$386,944, primarily caused by an increase in engineering/technical services and utilities.
 - Depreciation expense increased by \$478,400 as a result of additional assets acquired during the year.
 - Operating transfers decreased \$1,056,661 primarily as a result of the purchase of water meters being recognized by the Board in the current year. Previously, the purchase of water meters was borne by the City's Water Enterprise Fund.
 - Other expenses increased \$879,256, primarily as a result of the water meters purchase as discussed immediately above.

Significant changes from the year ended June 30, 2011 to the year ended June 30, 2012 in revenue and expenses for the Water Board include the following:

- Operating revenues increased \$3,380,681, or 9.2%, from the prior year. This change is primarily the result of a 4.4% rate increase effective July 1, 2011.
- Non-operating revenues increased \$269,061 or 44.5%. The Board recognized a full year's federal subsidy of \$477,578 in the current for the Build America bonds, compared with a partial year's federal subsidy of \$241,422 recognized in the prior year, as these bonds were issued in the prior year.
- Overall, expenses decreased \$613,321, or 1.9%, over prior year. The net decrease is a combination of factors, as follows:
 - General and administrative expenses increased by \$2,488,515, which was due to the Board recognizing utility costs in the current year. Previously utility costs were borne by the Water Enterprise Fund. Depreciation expense increased \$207,875 as a result of additional assets acquired during the year.
 - Operating transfers decreased \$2,157,462 primarily as a result of the utility costs being recognized by the Board in the current year as discussed immediately above.
 - Other expenses decreased \$803,854 from the prior year due to reduced activity related to water administration project costs.

Budgetary Highlights

For the year ended June 30, 2013, the total of expenses and transfers out in the Water Board's 2012-2013 amended budget were \$114,955 greater than the original budget which represents amounts re-appropriated for prior year encumbrances. There were no amendments to the budgeted revenues during 2013.

Comparing the final budget with actual results, total charges for services were \$2,335,413 greater than budget. Included within total charges for services is a favorable variance in meter rates of \$1,718,600. The increase in water rates of 8.2%, which went into effect July 1, 2012, was primarily accountable for the large revenues. In addition, interest on meter and flat rates was \$395,256 above budget due to slower collection of receivables, as well as the higher meter rates. Nonoperating revenues, representing interest earnings, were \$180,597 less than budget. The federal subsidy for bond interest of \$695,593 resulted in a positive variance since the revenue was not included in the budget.

Comparing the final 2012-2013 budget with actual results, total operating expenses, excluding operating transfers out, were \$3,319,709 more than budgeted. Significant deficit operating expenses budget variances for 2013 included depreciation of \$4,851,160. These expenses are not budgeted for annually, as water rates are not intended to cover the cost of non-cash related expenditures, which resulted in such negative variances. A positive budgetary variance of \$463,861 in transfers to the Division of Water resulted from fringe benefit costs being less than anticipated in the budget. Total non-operating expenses exceeded budget by \$6,820,430; of this total, bond interest represents \$6,456,681 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$16,610,109. This positive variance also includes amounts for principal and depreciation which are budgeted for but not actually transferred.

For the year ended June 30, 2012, the total of expenses and transfers out in the Water Board's 2011-2012 amended budget were \$2,265,472 greater than the original budget. The final 2011-2012 budget includes \$1,561,262 of funds appropriated for prior year encumbrances. Additionally, a \$704,210 increase in appropriations was necessary for capital outlays for ongoing projects. There were no amendments to the budgeted revenues during 2012. Comparing the final budget with actual results, total charges for services were \$371,864 greater than budget. Included within total charges for services is a favorable variance in flat rates of \$337,056. The consumption of water by flat rate customers increased more than anticipated in the budget. In addition, interest on meter and flat rates was \$180,894 above budget due to slower collection of receivables. Nonoperating revenues, representing interest earnings, were \$56,403 less than budget. The federal subsidy for bond interest of \$477,578 resulted in a positive variance since the revenue was not included in the budget.

Comparing the final 2011-2012 budget with actual results, total operating expenses, excluding operating transfers out, were \$2,365,145 more than budgeted. Significant deficit operating expenses budget variances for 2012 included depreciation of \$4,372,760. These expenses are not budgeted for annually, as water rates are not intended to cover the cost of non-cash related expenditures, which resulted in such negative variances. In addition, there was a negative budget variance of \$464,010 in transfers to the Division of Water, which resulted from unbudgeted fringe benefit costs for other post employment benefits. Total non-operating expenses exceeded budget by \$6,726,017; of this total, bond interest represents \$6,102,132 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$16,428,993. This positive variance also includes amounts for principal and depreciation which are budgeted for but not actually transferred.

Capital Assets and Debt Financing

Capital Assets. At June 30, 2013 and 2012, the Board had \$130,042,712 and \$129,279,849, respectively, invested in capital assets, as reflected in Table 3 on the following page. At June 30, 2013, the change represents a net increase of \$762,863, or 0.6%, from June 30, 2012, resulting from building improvements at the Massachusetts pumping station and water filtration plant, as well as improvements at the Colonel Ward pumping station. While at June 30, 2012, the change represents a net increase of \$7,342,108, or 6.0%, from June 30, 2011, which was primarily the result of building improvements at the Colonel Ward pumping station, rehabilitation of pumps at the filtration plant and infrastructure.

Table 3 – Capital Assets

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Land	\$ 145,116	\$ 145,116	\$ -	-
Construction in progress	986,048	866,150	119,898	13.8
Buildings and improvements	95,036,222	91,517,664	3,518,558	3.8
Equipment	528,268	554,249	(25,981)	(4.7)
Infrastructure	98,121,746	96,146,180	1,975,566	2.1
Total capital assets	194,817,400	189,229,359	5,588,041	3.0
Accumulated depreciation	(64,774,688)	(59,949,510)	(4,825,178)	8.0
Net capital assets	\$ 130,042,712	\$ 129,279,849	\$ 762,863	0.6

	June 30,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Land	\$ 145,116	\$ 145,116	\$ -	-
Construction in progress	866,150	941,374	(75,224)	(8.0)
Buildings and improvements	91,517,664	82,137,356	9,380,308	11.4
Equipment	554,249	1,275,718	(721,469)	(56.6)
Infrastructure	96,146,180	93,736,395	2,409,785	2.6
Total capital assets	189,229,359	178,235,959	10,993,400	6.2
Accumulated depreciation	(59,949,510)	(56,298,218)	(3,651,292)	6.5
Net capital assets	\$ 129,279,849	\$ 121,937,741	\$ 7,342,108	6.0

Debt Financing. All debt issued to finance the acquisition of capital assets for the Water Board was issued by the Water Authority or the City. The City had \$1,268,405 and \$1,540,158 of outstanding General Obligation Bonds at June 30, 2013 and 2012, respectively, which were issued to finance water projects. This debt will be fully paid in 2018. The Water Authority has \$159,470,000 and \$166,210,000 of Revenue Bonds outstanding at June 30, 2013 and 2012, respectively, which will be fully paid in 2040. The Water Board reports the liability for these bonds as Due to the Buffalo Municipal Water Finance Authority and Due To City of Buffalo Division of Water. The Water Board only reports the amount actually used (i.e., spent) for projects and the acquisition of capital assets since unspent proceeds are maintained by the Water Authority. Amounts to pay the annual debt service costs are transferred from the Water Board to the appropriate entity. As the debt is paid, the outstanding liabilities to the other funds are reduced. Additional information on the Water Board's long-term liabilities can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget

The Water Board's management considered many factors when setting the fiscal year 2014 budget for the Water Board. These factors include the expected growth in revenues and related costs as the result of both the contract with the private operator and personnel needs, as well as the long-term improvements to the water system.

Request for Information

This financial report is designed to provide a general overview of the Water Board's finances for all those with an interest in the Water Board'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.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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	\$ 38,965,727	\$ 32,045,755
Accounts receivable—water (less allowance for doubtful accounts of \$14,170,173 and \$13,927,033 at June 30, 2013 and 2012, respectively)	4,796,657	3,218,765
Other receivables	841,759	808,106
Due from other agencies	127,425	127,425
Due from other governments	218,015	477,578
Total current assets	44,949,583	36,677,629
Noncurrent assets:		
Capital assets not being depreciated:		
Land	145,116	145,116
Construction in progress	986,048	866,148
Capital assets being depreciated:		
Buildings and improvements	95,036,222	91,517,665
Machinery and equipment	528,268	554,249
Infrastructure	98,121,746	96,146,180
Accumulated depreciation	(64,774,688)	(59,949,509)
Total capital assets being depreciated	128,911,548	128,268,585
Total noncurrent assets	130,042,712	129,279,849
Total assets	174,992,295	165,957,478
DEFERRED OUTFLOWS OF RESOURCES		
Change in value of derivative - interest rate swap	3,228,952	5,137,442
Total deferred outflows of resources	3,228,952	5,137,442
LIABILITIES		
Current liabilities:		
Accounts and retainage payable	2,234,623	1,445,181
Due to Buffalo Municipal Water Finance Authority	7,365,000	6,730,000
Due to City of Buffalo Division of Water	2,125,432	2,315,869
Due to City of Buffalo	193,768	193,345
Total current liabilities	11,918,823	10,684,395
Noncurrent liabilities:		
Accrued derivative liability	3,228,952	5,137,442
Due to Buffalo Municipal Water Finance Authority	112,495,171	112,806,160
Due to City of Buffalo Division of Water	11,360,240	10,255,562
Total noncurrent liabilities	127,084,363	128,199,164
Total liabilities	139,003,186	138,883,559
NET POSITION		
Net investment in capital assets	12,504,369	11,188,916
Unrestricted	26,713,692	21,022,445
Total net position	\$ 39,218,061	\$ 32,211,361

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

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Operating revenues:		
Charges for services	\$ 44,045,399	\$ 40,212,867
Other operating revenues	89,725	110,899
Total operating revenues	<u>44,135,124</u>	<u>40,323,766</u>
Operating expenses:		
Services and supplies	8,508,815	8,121,871
Depreciation	4,851,160	4,372,760
Other	879,256	-
Net operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	<u>11,587,686</u>	<u>12,644,347</u>
Total operating expenses	<u>25,826,917</u>	<u>25,138,978</u>
Operating income	18,308,207	15,184,788
Nonoperating revenues (expenses):		
Interest income	247,403	396,744
Interest expense	(7,093,430)	(6,726,016)
Other	<u>695,593</u>	<u>477,578</u>
Total nonoperating revenues (expenses)	<u>(6,150,434)</u>	<u>(5,851,694)</u>
Income before transfers to the City's General Fund	12,157,773	9,333,094
Transfers to the City's General Fund	<u>(5,151,073)</u>	<u>(4,904,446)</u>
Change in net position	7,006,700	4,428,648
Net position—beginning, as restated (see Note 2)	<u>32,211,361</u>	<u>27,782,713</u>
Net position—ending	<u>\$ 39,218,061</u>	<u>\$ 32,211,361</u>

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

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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		
Cash received from customers	\$ 42,518,491	\$ 40,488,075
Operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	(11,587,686)	(12,644,347)
Cash payments for goods and services	(7,716,201)	(9,056,235)
Net cash provided by operating activities	23,214,604	18,787,493
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to the City's General Fund	(5,151,073)	(4,904,446)
Advances from other funds	1,238,676	7,148,929
Net cash (used for) provided by noncapital financing activities	(3,912,397)	2,244,483
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(6,490,937)	(11,714,866)
Interest payments	(6,138,275)	(6,894,028)
Net cash used for capital and related financing activities	(12,629,212)	(18,608,894)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on short-term investments	246,977	396,759
Net cash provided by investing activities	246,977	396,759
Net increase in cash and cash equivalents	6,919,972	2,819,841
Cash and cash equivalents—beginning	32,045,755	29,225,914
Cash and cash equivalents—ending	\$ 38,965,727	\$ 32,045,755
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 18,308,207	\$ 15,184,788
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,851,160	4,372,760
Changes in assets and liabilities:		
Decrease in accounts receivable	4,199,240	84,745
Decrease in other receivables	-	58,526
Decrease in due from other agencies	-	7,101
(Decrease) in accounts and retentions payable	(4,144,003)	(920,427)
Net cash provided by operating activities	\$ 23,214,604	\$ 18,787,493

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

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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 Water Board (the “Water Board”) is a public benefit corporation created pursuant to Section 1049 of Title 2-B of Article V of the New York State Public Authorities Law (the “Act”). According to the Act, the Water Board may establish rates and charges for water and related services to fund the costs of the operation, management, maintenance and repairs for the Buffalo Water System (the “Water System”). The Water Board 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 Water Board acquired title to the Water System from the City for \$26,536,880 plus assumed liabilities of approximately \$31,000,000 in 1992. The transfer was recorded as its net book value. The Water Board also entered into an Operation Agreement with the City, contracting with the City of Buffalo Division of Water (the “Division of Water”) to operate, manage and maintain the Water System. By an amendment dated August 1, 1997, the management of the operation and maintenance of the Water System is performed by a private contractor under contract to the Water Board (the “Private Operator”). The Water Board is responsible for generating sufficient revenues to meet the debt service requirements of the City related to the Water System.

The City and the Water Board entered into a Financing Agreement with the Buffalo Municipal Water Finance Authority (the “Water Authority”) to ensure sufficient water rates are collected to fund the costs of operating and financing the Water System. The Water Authority issues bonds for the Water System and disburses funds to the Water Board as capital project expenditures are incurred. The Water Board transfers funds to the Water Authority to meet Water Authority debt service obligations. The operations of the Water Authority are solely of an administrative nature, facilitating the financing of the Water System’s acquisition and construction improvements. As a result of the financing agreement between the City, the Water Authority and the Water Board, the bond issuance and interest costs are, from an economic standpoint, borne by the Water Board and, therefore, accounted for by the Water Board. Transfers from the Water Board fund the operating and administrative costs of the Water Authority. By an amendment dated August 1, 1997, the Water Authority amended the Financing Agreement with the Water Board and the City to allow the Water Board to engage a private contractor to manage the operation and maintenance of the Water System.

Amounts transferred to the Division of Water for Water System operations and to the Water Authority for its administrative costs are shown as direct operating expenses in the statement of revenues, expenses and changes in net position.

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. The Water Board reports 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. Operating expenses include the cost of services and supplies, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

Budgets and Budgetary Accounting

Each year, the Water Board adopts its annual budget within 15 days after the passage of the City's budget. Subsequently, but no later than June 30, or other date as the Water Authority, the Water Board, and the City may agree, the Water Board establishes the rates, fees, and charges for the use of the Water System for the ensuing fiscal year. If, as of the first day of any fiscal year, the budget has not been adopted, the budget for the immediately preceding fiscal year shall be deemed to be the budget until a new budget is adopted. The Water Board may amend the budget, but only in accordance with, and after the receipt of, amended budget documents.

For the year ended June 30, 2013, expenses exceeded appropriations within certain operating and nonoperating expense lines. Significant budget variance explanations are as follows:

The negative variances related to depreciation expense, amortization expense, interest expense in the amounts of \$4,851,160, \$636,749, and \$6,456,681, respectively, are due to the fact that these amounts are not budgeted for annually in the Water Board's adopted budget. The adopted budget includes an amount in transfers out to the Buffalo Municipal Water Finance Authority to cover principal and interest payments on the outstanding debt. This account had a positive budget variance of \$16,610,109 because of certain items, such as debt principal payments, that are included in the adopted budget but are not treated as expenses on the financial statements.

For the year ended June 30, 2012, expenses exceeded appropriations within certain operating and nonoperating expense lines. Significant budget variance explanations are as follows:

The negative variances related to depreciation expense, amortization expense, interest expense in the amounts of \$4,372,760, \$623,885, and \$6,102,132, respectively, are due to the fact that these amounts are not budgeted for annually in the Water Board's adopted budget. The adopted budget includes an amount in transfers out to the Buffalo Municipal Water Finance Authority to cover principal and interest payments on the outstanding debt. This account had a positive budget variance of \$16,428,993 because of certain items, such as debt principal payments, that are included in the adopted budget but are not treated as expenses on the financial statements. In addition, there was a negative budget variance of \$464,010 in transfers to the City of Buffalo Division of Water which resulted from expenses for other post-employment benefits for employees which were not included in the budget.

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 considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Capital Assets—Facilities were recorded at carrying value on the date of transfer from the City. Subsequent capital asset additions are recorded at cost and donated capital assets are recorded at their estimated fair values as of the date donated. Capital assets are defined by the City as assets with a cost of more than \$10,000 and with an estimated useful life in excess of five years, and all vehicles. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset Class	Estimated Useful Lives
Land	n/a
Land improvements	10-20
Buildings	50
Building improvements	20
Infrastructure	40
Equipment	5

The Board reviewed its capital assets for impairment in accordance with Government Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which required the Board to consider whether the magnitude of the decline in service utility is significant and unexpected. Based on such review, the Board concluded that no impairment loss need be recognized for capital assets for the year ended June 30, 2013 and 2012.

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 and 2012, the Water Board reports a deferred outflow of resources of \$3,228,952 and \$5,137,442, respectively, for the change in the fair value of a hedging derivative from an interest rate swap agreement.

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 Water Board does not have any items that qualify for reporting in this category

Other

Allocated Costs—Certain services associated with operating the Water Board are performed by the City. During the years ended June 30, 2013 and 2012, the Water Board transferred \$5,151,073 and \$4,904,446, respectively, to the City related to these services.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2013, the Board 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 Board 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. As a result of implementing GASB Statement Nos. 65, the Board’s net position as of June 30, 2012 has been restated for unamortized bond issuance costs of \$2,704,439.

Additionally, during the year ended June 30, 2013, the Board 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 Board’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Board has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 66, *Technical Corrections-2013—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*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the year ending June 30, 2015. The Board 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. RESTATEMENT AND CHANGES TO NET POSITION

As discussed in Note 1, during the year ended June 30, 2013 the Water Board implemented GASB Statement No. 65. As a result of implementation, unamortized bond issuance costs are expensed. Net position of the Water Board for the year ended June 30, 2012 has been restated to remove unamortized bond issuance costs of \$2,704,439.

The effect of this restatement is as follows:

	<u>Water Board</u>
Beginning net position, June 30, 2012,	
as originally stated	\$30,487,152
Recognition of unamortized bond	
issuance costs	<u>(2,704,439)</u>
Beginning net position, June 30, 2012,	
as restated	<u>\$27,782,713</u>

3. CASH AND CASH EQUIVALENTS

The Water Board's policy is to obtain collateral for its cash deposits based on calculated average monthly balances for each bank in which the Water Board maintains cash deposits. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by FDIC insurance. The carrying amount of cash in banks, including certificates of deposit, at June 30, 2013, was \$39,000,185 and the book balance was \$38,965,727. The carrying amount of cash in banks, including certificates of deposit, at June 30, 2012, was \$31,996,361 and the book balance was \$32,045,755.

Custodial credit risk is the risk that in the event of a bank failure, the Water Board'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 Water Board's deposits were FDIC insured or collateralized by the bank's agent in the Water Board's name.

When investing, the Water Board generally acquires investments through trust departments of commercial banks and requires that the investments be held in the Water Board's name and be collateralized. At June 30, 2013 and 2012, the Water Board does not have any investments.

4. RECEIVABLES

Receivables as of year-end for the Water Board, and related allowance for uncollectible accounts, as of June 30, 2013 and 2012, are as follows:

	June 30, 2013		
	Receivable	Allowance	Net
Accounts receivable — water	\$ 18,966,830	\$ (14,170,173)	\$ 4,796,657
Accounts receivable — other	841,759	-	841,759
Due from other agencies	127,425	-	127,425
Due from other governments	218,015	-	218,015
	<u>\$ 20,154,029</u>	<u>\$ (14,170,173)</u>	<u>\$ 5,983,856</u>
	June 30, 2012		
	Receivable	Allowance	Net
Accounts receivable — water	\$ 17,145,798	\$ (13,927,033)	\$ 3,218,765
Accounts receivable — other	808,646	-	808,646
Due from other agencies	127,425	-	127,425
Due from other governments	477,578	-	477,578
	<u>\$ 18,559,447</u>	<u>\$ (13,927,033)</u>	<u>\$ 4,632,414</u>

5. CAPITAL ASSETS

A summary of capital assets activity for the years ended June 30, 2013 and 2012 are as follows:

	Balance July 1, 2012	Increases and Reclassifications	Decreases and Reclassifications	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	866,148	6,507,437	(6,387,537)	986,048
Total capital assets not being depreciated	<u>1,011,264</u>	<u>6,507,437</u>	<u>(6,387,537)</u>	<u>1,131,164</u>
Capital assets, being depreciated:				
Buildings and improvements	91,517,665	3,518,557	-	95,036,222
Equipment	554,249	-	(25,981)	528,268
Infrastructure	96,146,180	1,975,566	-	98,121,746
Total capital assets, being depreciated	<u>188,218,094</u>	<u>5,494,123</u>	<u>(25,981)</u>	<u>193,686,236</u>
Less accumulated depreciation for:				
Buildings and improvements	18,522,244	2,222,153	-	20,744,397
Equipment	328,764	152,181	(25,981)	454,964
Infrastructure	41,098,501	2,476,826	-	43,575,327
Total accumulated depreciation	<u>59,949,509</u>	<u>4,851,160</u>	<u>(25,981)</u>	<u>64,774,688</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>128,268,585</u>	<u>10,345,283</u>	<u>(51,962)</u>	<u>128,911,548</u>
Capital assets, net of accumulated depreciation	<u>\$ 129,279,849</u>	<u>\$ 16,852,720</u>	<u>\$ (6,439,499)</u>	<u>\$ 130,042,712</u>
	Balance July 1, 2011	Increases and Reclassifications	Decreases and Reclassifications	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	941,374	13,200,091	(13,275,317)	866,148
Total capital assets not being depreciated	<u>1,086,490</u>	<u>13,200,091</u>	<u>(13,275,317)</u>	<u>1,011,264</u>
Capital assets, being depreciated:				
Buildings and improvements	82,137,356	9,380,309	-	91,517,665
Equipment	1,275,718	-	(721,469)	554,249
Infrastructure	93,736,395	2,409,785	-	96,146,180
Total capital assets, being depreciated	<u>177,149,469</u>	<u>11,790,094</u>	<u>(721,469)</u>	<u>188,218,094</u>
Less accumulated depreciation for:				
Buildings and improvements	16,742,429	1,779,815	-	18,522,244
Equipment	889,939	160,294	(721,469)	328,764
Infrastructure	38,665,850	2,432,651	-	41,098,501
Total accumulated depreciation	<u>56,298,218</u>	<u>4,372,760</u>	<u>(721,469)</u>	<u>59,949,509</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>120,851,251</u>	<u>16,162,854</u>	<u>(1,442,938)</u>	<u>128,268,585</u>
Capital assets, net of accumulated depreciation	<u>\$ 121,937,741</u>	<u>\$ 29,362,945</u>	<u>\$ (14,718,255)</u>	<u>\$ 129,279,849</u>

6. OTHER POST-EMPLOYMENT BENEFIT (“OPEB”) OBLIGATIONS

The liability for other post-employment benefits of the current and retired employees of the Division of Water is included in the amount Due to the City of Buffalo Division of Water.

In adopting the provisions of GASB, the City has opted to implement this statement prospectively. GASB states that postemployment benefits are part of an exchange of salaries and benefits for employee services rendered, and from an accrual perspective, the cost of OPEB should be recognized when the related services are received by the employer. In conjunction with the implementation of GASB the City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City’s future cash flows. Recognition of the liability accumulated prior to July 1, 2007 will be amortized over 30 years, commencing with the 2008 liability.

Plan Description—The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least ten years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive healthcare coverage for the life of the retiree. The retiree’s share of premium costs depends on the employee group and length of service. Healthcare benefits for nonunion employees are similar to those of union employees pursuant to City Charter.

The number of participants covered by the Water Board as of July 1, 2012, the effective date of the biannual OPEB valuation, follows.

Active employees	91
Retired employees	<u>86</u>
Total	<u><u>177</u></u>

Funding Policy—Post-employment benefits are financed on a pay-as-you-go basis.

Annual OPEB Benefit Cost—For the years ended June 30, 2013 and 2012, Water’s annual OPEB cost (expense) of approximately \$2,876,000 and \$3,119,000, respectively, is not equal to the Annual Required Contribution of approximately \$2,868,000 and \$3,118,900, respectively. Considering the annual expense as well as payment for current health insurance premiums, which totaled approximately \$1,448,000 and \$1,212,000 for the years ended June 30, 2013 and 2012, respectively, for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$1,428,000 and \$1,907,000 for the years ended June 30, 2013 and 2012, respectively.

	Year Ended June 30,	
	2013	2012
Annual OPEB Cost and Net OPEB Obligation		
Actuarial accrued liability (AAL)	\$ 42,305,200	\$ 43,295,900
Unfunded actuarial accrued liability (UAAL)	\$ 42,305,200	\$ 43,295,900
Normal cost - beginning of the year	\$ 1,195,200	\$ -
Amortization factor based on 30 years	26.2	26.2
Annual covered payroll	\$ 6,339,914	\$ 6,155,256
UAAL as a percentage of covered payroll	667.28%	703.40%
Level Dollar Amortization		
Calculation of ARC Under Projected Unit Credit Method		
ARC normal cost with interest - end of year	\$ 2,868,000	\$ 3,118,900
UAAL over 30 years with interest - end of year	-	-
Interest	-	-
Annual required contribution (ARC)	2,868,000	3,118,900
Interest on net OPEB obligation	304,760	228,480
Adjustment to ARC	(296,760)	(228,380)
Annual OPEB cost (expense)	2,876,000	3,119,000
Contribution for years ended June 30, 2013 and 2012	(1,448,000)	(1,212,000)
Increase in net OPEB obligation	1,428,000	1,907,000
Net OPEB obligation - beginning	7,619,000	5,712,000
Net OPEB obligation - ending	<u>\$ 9,047,000</u>	<u>\$ 7,619,000</u>
Percent of annual OPEB cost contributed	50.35%	38.86%

Funded Status and Funding Progress—As of July 1, 2012, the most recent actuarial valuation date, the OPEB plan for the Water Enterprise Fund was unfunded, resulting in an unfunded accrued liability of \$42,305,200.

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes 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) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumption used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. Included coverage plans are “experience-rated” and annual premiums for experience-rated coverage plans were used as a proxy for claims costs with age adjustment for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized over 30 years on a level percentage of pay. Retiree contributions were assumed to increase in the future in accordance with the assumed increases in pre-65 medical costs.

In the July 1, 2012 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4.0% investment rate of return for both governmental and business-type activities. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. The payroll growth for total payroll is assumed to be 3.0%.

The valuation assumes healthcare cost trends as follows: both pre-65 and post-65 medical and prescription, 8.8%; all reduced by decrements to reach a rate of 4.5% in 2082.

Medical Reimbursements—The City’s Medicare Part D prescription drug subsidy, which reduces the cost of retiree healthcare premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liabilities.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

7. RISK MANAGEMENT

The City is self-insured for workers’ compensation and has accrued its best estimate of both asserted and unasserted workers’ compensation losses primarily based on actuarially determined amounts. The estimated liability for the Water System is recorded as a liability in the Division of Water. This liability (including incurred but not reported) is recorded at an estimated present value using a discount rate of 5% and totaled \$679,153 and \$628,278 at June 30, 2013 and 2012, respectively.

8. DUE TO THE BUFFALO MUNICIPAL WATER FINANCE AUTHORITY AND CITY OF BUFFALO DIVISION OF WATER

Shown on the following page are the amounts due to the Water Authority and the City of Buffalo Division of Water (the “City” related to the water system) as of June 30, 2013. Amounts due to the Water Authority represent the future debt service requirements of the long-term bonded debt of the Water Authority which will be funded through operating transfers by the Water Board. Amounts due to the City includes future debt service requirements, accrued retirement incentive costs, accrued compensated absences costs, accrued workers’ compensation costs, accrued other post-employment benefits and other payables. The long-term bonded debt instruments are general and revenue bonds, which are backed by the full faith and credit of the City and the Water Authority, respectively. Interest is paid semi-annually. Principal is paid annually.

Revenue Bonded Debt—The total revenue bonded debt as financed through the Water Authority at 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				<u>\$ 167,091,421</u>	<u>\$ -</u>	<u>\$ 6,934,495</u>	<u>\$ 160,156,926</u>	<u>\$ 7,365,000</u>

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.

Remaining annual maturities on long-term obligations of the Buffalo Municipal Water Finance Authority at June 30, 2013 are as follows:

Fiscal Year	Principal	Interest
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	8,260,000	861,185
Total	<u>\$ 159,470,000</u>	<u>\$ 81,404,636</u>

General Bonded Debt—Total general bonded debt as financed through the City of Buffalo, Division of Water at June 30, 2013 is as follows:

Calendar Year Issues	Original Amount	Interest Rates (%)	Year of Last Payment	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
2005	4,064,877	5.0	2018	1,540,158	-	271,753	1,268,405	301,137
Total				<u>\$ 1,540,158</u>	<u>\$ -</u>	<u>\$ 271,753</u>	<u>\$ 1,268,405</u>	<u>\$ 301,137</u>

Due to the City of Buffalo Division of Water:

Fiscal Year	Bonds	Due to Retirement System	Compensated Absences*	Workers' Compensation*	Other Post-Employment Benefits*	Other Payables	Total
2014	\$ 301,137	\$ 239,325	\$ 57,976	\$ 384,733	\$ -	\$ 1,142,261	\$ 2,125,432
2015	315,852	-	-	-	-	54,298	370,150
2016	331,797	-	-	-	-	35,043	366,840
2017	152,152	-	-	-	-	16,800	168,952
2018	167,467	-	-	-	-	8,366	175,833
2019-beyond	-	-	691,697	294,420	9,047,000	245,348	10,278,465
Total	<u>\$ 1,268,405</u>	<u>\$ 239,325</u>	<u>\$ 749,673</u>	<u>\$ 679,153</u>	<u>\$ 9,047,000</u>	<u>\$ 1,502,116</u>	<u>\$ 13,485,672</u>

* Payment of the long-term portion of compensated absences, workers' compensation and other post-employment benefits are dependent upon many factors, therefore, timing of future payments is not readily determinable.

Annual interest payments due on bonded debt at June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Water Authority</u>	<u>Division of Water</u>
2014	\$ 6,902,332	\$ 63,420
2015	6,584,132	48,363
2016	6,265,638	32,571
2017	5,917,510	15,981
2018	5,535,457	8,373
2019-2023	22,355,572	-
2024-2028	14,997,271	-
2029-2033	7,948,657	-
2034-2038	4,036,882	-
2039-2043	861,185	-
	<u>\$ 81,404,636</u>	<u>\$ 168,708</u>

Compensated Absences—Compensated absences represent amounts relating to sick and personal leave for Division of Water employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and; therefore, payment of such is not readily determinable. Accrued compensated absences amounted to \$749,673 and \$805,974 at June 30, 2013 and 2012, respectively.

Due to Retirement Systems—Represents amounts due to the New York State and Local Employees Retirement System (“ERS”) for retirement contributions for wages paid through June 30, 2013. Due to retirement systems was \$239,325 and \$239,593 at June 30, 2013 and 2012.

Summary of Changes of Amounts Due to the Buffalo Municipal Water Finance Authority and City of Buffalo Division of Water—The following is a summary of changes in amounts due to Buffalo Municipal Water Authority and City of Buffalo Division of Water:

	<u>Balance July 1, 2012</u>	<u>Additions/ Adjustments</u>	<u>Deductions/ Adjustments</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Due to Buffalo Municipal Water Finance Authority	\$ 119,536,160	\$ 7,264,122	\$ 6,940,111	\$ 119,860,171	\$ 7,365,000
Due to City of Buffalo Division of Water	<u>12,571,431</u>	<u>3,181,806</u>	<u>2,267,565</u>	<u>13,485,672</u>	<u>2,125,432</u>
Total	<u>\$ 132,107,591</u>	<u>\$ 10,445,928</u>	<u>\$ 9,207,676</u>	<u>\$ 133,345,843</u>	<u>\$ 9,490,432</u>

9. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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

	Budgeted Amounts		Budgetary Actual Amounts	Variance with Final Budget
	Original	Final		
OPERATING REVENUES:				
Charges for services:				
Meter rates	\$ 34,409,371	\$ 34,409,371	\$ 36,127,971	\$ 1,718,600
Flat rates	4,899,815	4,899,815	4,798,676	(101,139)
Charges for collection services	100,000	100,000	74,375	(25,625)
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	63,000	63,000	93,180	30,180
General labor and supplies	200,000	200,000	184,657	(15,343)
Utility turn-on fees	200,000	200,000	174,556	(25,444)
Installation of corporation cocks	85,000	85,000	65,193	(19,807)
Installation and repair of meters	51,000	51,000	127,812	76,812
Interest on meter rates receivable	785,000	785,000	1,332,642	547,642
Interest on flat rates receivable	300,000	300,000	447,614	147,614
Miscellaneous	107,100	107,100	109,023	1,923
Total charges for services	<u>41,709,986</u>	<u>41,709,986</u>	<u>44,045,399</u>	<u>2,335,413</u>
Other revenues:				
Miscellaneous	236,000	236,000	89,725	(146,275)
Total other revenues	<u>236,000</u>	<u>236,000</u>	<u>89,725</u>	<u>(146,275)</u>
Total operating revenues	<u>41,945,986</u>	<u>41,945,986</u>	<u>44,135,124</u>	<u>2,189,138</u>
OPERATING EXPENSES:				
Service and supplies:				
Services	3,290,917	3,405,872	3,139,165	266,707
Payment to operator	5,369,650	5,369,650	5,369,650	-
Reserve for uncollected receivables	500,000	500,000	-	500,000
Operating transfers to:				
City of Buffalo Division of Water	11,461,788	11,461,788	10,997,927	463,861
Water Authority	17,199,868	17,199,868	589,759	16,610,109
Total service and supplies	<u>37,822,223</u>	<u>37,937,178</u>	<u>20,096,501</u>	<u>17,840,677</u>
Other:				
Depreciation	-	-	4,851,160	(4,851,160)
Capital outlay	1,644,000	1,644,000	879,256	764,744
Total depreciation and amortization	<u>1,644,000</u>	<u>1,644,000</u>	<u>5,730,416</u>	<u>(4,086,416)</u>
Total operating expenses	<u>39,466,223</u>	<u>39,581,178</u>	<u>25,826,917</u>	<u>13,754,261</u>
Operating income	<u>2,479,763</u>	<u>2,364,808</u>	<u>18,308,207</u>	<u>15,943,399</u>

(continued)

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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

(concluded)

	<u>Budgeted Amounts</u>		Budgetary Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
NONOPERATING REVENUES (EXPENSES):				
Interest	428,000	428,000	247,403	(180,597)
Authority bond interest expense	-	-	(6,456,681)	(6,456,681)
Amortization	-	-	(636,749)	(636,749)
Bond interest subsidy	-	-	695,593	695,593
Total nonoperating revenues (expenses)	<u>428,000</u>	<u>428,000</u>	<u>(6,150,434)</u>	<u>(6,578,434)</u>
Excess of revenues over expenses	<u>2,907,763</u>	<u>2,792,808</u>	<u>12,157,773</u>	<u>9,364,965</u>
OTHER FINANCING USES:				
Transfers out:				
City of Buffalo's General Fund	<u>(5,151,073)</u>	<u>(5,151,073)</u>	<u>(5,151,073)</u>	-
Total other financing uses	<u>(5,151,073)</u>	<u>(5,151,073)</u>	<u>(5,151,073)</u>	-
Change in net position	(2,243,310)	(2,358,265)	7,006,700	9,364,965
Net position—beginning	<u>32,211,361</u>	<u>32,211,361</u>	<u>32,211,361</u>	-
Net position—ending	<u>\$ 29,968,051</u>	<u>\$ 29,853,096</u>	<u>\$ 39,218,061</u>	<u>\$ 9,364,965</u>

CITY OF BUFFALO, NEW YORK

BUFFALO WATER BOARD

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

	Budgeted Amounts		Budgetary Actual Amounts	Variance with Final Budget
	Original	Final		
OPERATING REVENUES:				
Charges for services:				
Meter rates	\$ 33,295,623	\$ 33,295,623	\$ 33,323,267	\$ 27,644
Flat rates	4,260,213	4,260,213	4,597,269	337,056
Charges for collection services	135,000	135,000	119,217	(15,783)
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	95,000	95,000	108,029	13,029
General labor and supplies	265,000	265,000	141,226	(123,774)
Utility turn-on fees	266,250	266,250	157,145	(109,105)
Installation of corporation cocks	85,000	85,000	76,557	(8,443)
Installation and repair of meters	47,925	47,925	58,715	10,790
Interest on meter rates receivable	742,000	742,000	674,121	(67,879)
Interest on flat rates receivable	110,000	110,000	358,773	248,773
Miscellaneous	29,293	29,293	88,848	59,555
Total charges for services	<u>39,841,004</u>	<u>39,841,004</u>	<u>40,212,867</u>	<u>371,863</u>
Other revenues:				
Miscellaneous	241,004	241,004	110,899	(130,105)
Total other revenues	<u>241,004</u>	<u>241,004</u>	<u>110,899</u>	<u>(130,105)</u>
Total operating revenues	<u>40,082,008</u>	<u>40,082,008</u>	<u>40,323,766</u>	<u>241,758</u>
OPERATING EXPENSES:				
Service and supplies:				
Services	4,136,027	4,241,418	2,825,257	1,416,161
Payment to operator	5,296,614	5,296,614	5,296,614	-
Reserve for uncollected receivables	500,000	500,000	-	500,000
Operating transfers to:				
City of Buffalo Division of Water	11,569,102	11,569,102	12,033,111	(464,009)
Water Authority	17,040,229	17,040,229	611,236	16,428,993
Total service and supplies	<u>38,541,972</u>	<u>38,647,363</u>	<u>20,766,218</u>	<u>17,881,145</u>
Other:				
Depreciation	-	-	4,372,760	(4,372,760)
Capital outlay	50,000	91,454	-	91,454
Total depreciation and amortization	<u>50,000</u>	<u>91,454</u>	<u>4,372,760</u>	<u>(4,281,306)</u>
Total operating expenses	<u>38,591,972</u>	<u>38,738,817</u>	<u>25,138,978</u>	<u>13,599,839</u>
Operating income	<u>1,490,036</u>	<u>1,343,191</u>	<u>15,184,788</u>	<u>13,841,597</u>

(continued)

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
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>		Budgetary	(concluded)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
NONOPERATING REVENUES (EXPENSES):				
Interest	453,146	453,146	396,744	(56,402)
Authority bond interest expense	-	-	(6,102,131)	(6,102,131)
Amortization	-	-	(623,885)	(623,885)
Bond interest subsidy	-	-	477,578	477,578
Total nonoperating revenues (expenses)	<u>453,146</u>	<u>453,146</u>	<u>(5,851,694)</u>	<u>(6,304,840)</u>
Excess of revenues over expenses	<u>1,943,182</u>	<u>1,796,337</u>	<u>9,333,094</u>	<u>7,536,757</u>
OTHER FINANCING USES:				
Transfers out:				
City of Buffalo's General Fund	<u>(4,905,784)</u>	<u>(4,905,784)</u>	<u>(4,904,446)</u>	<u>1,338</u>
Total other financing uses	<u>(4,905,784)</u>	<u>(4,905,784)</u>	<u>(4,904,446)</u>	<u>1,338</u>
Change in net position	(2,962,602)	(3,109,447)	4,428,648	7,538,095
Net position—beginning, as restated	<u>27,782,713</u>	<u>27,782,713</u>	<u>27,782,713</u>	<u>-</u>
Net position—ending	<u>\$ 24,820,111</u>	<u>\$ 24,673,266</u>	<u>\$ 32,211,361</u>	<u>\$ 7,538,095</u>

CITY OF BUFFALO, NEW YORK

BUFFALO WATER BOARD

A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK

Schedule of Funding Progress—Other Post-Employment Benefits Obligations

Year Ended June 30, 2013

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
7/1/2012	\$ -	\$ 42,305,200	\$ 42,305,200	0.0%	\$ 6,339,914	667.3%
7/1/2010	-	43,295,900	43,295,900	0.0%	5,975,977	724.5%
7/1/2008	-	32,153,800	32,153,800	0.0%	6,089,858	528.0%

ADDITIONAL INFORMATION

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Summary of Water Rate Changes
Last Five Fiscal Years

Effective Date	Metered Rate Bills	
	Regular	Percent Change
July 1, 2008	18.99 per 1,000 cubic feet	- %
July 1, 2009	18.99 per 1,000 cubic feet	-
July 1, 2010	20.22 per 1,000 cubic feet	6.5
July 1, 2011	21.54 per 1,000 cubic feet	6.5
July 1, 2012	22.83 per 1,000 cubic feet	6.0

Source: Division of Water

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Summary of Water Billings and Collections
Last Five Fiscal Years

FLAT RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2009	\$ 3,695,307	\$ 4,338,954	117.4 %
2010	4,005,810	4,317,502	107.8
2011	4,283,447	4,378,073	102.2
2012	4,645,749	4,238,228	91.2
2013	4,823,640	4,906,826	101.7

METER RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2009	\$ 28,469,308	\$ 27,979,605	98.3 %
2010	28,270,688	27,852,336	98.5
2011	30,997,452	26,005,348	83.9
2012	34,016,944	33,959,144	99.8
2013	36,143,865	34,995,683	96.8

ALL ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2009	\$ 32,164,615	\$ 32,328,559	100.5 %
2010	32,276,498	32,169,838	99.7
2011	35,280,899	30,383,421	86.1
2012	38,662,693	38,197,372	98.8
2013	40,967,505	39,902,509	97.4

Source: Division of Water

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Top Ten Accounts By Usage
Current Fiscal Year

	Usage (per Cubic Foot)	Charges
Aurubis Buffalo Inc.	50,487,400	\$ 858,743
Buffalo Municipal Housing Authority	27,554,091	580,188
Sorrento Lactalis, Inc	21,872,000	370,359
Buffalo Sewer Authority	20,594,070	359,715
Roswell	20,182,450	419,285
Tyson Foods	18,919,900	315,071
Erie County Medical Center	18,363,980	325,648
VA Financial Services Center	13,205,730	229,291
SUNYAB	12,720,350	245,628
Buffalo State College	10,353,500	201,540

Source: Veolia Water Service

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