

**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER**  
**FINANCE AUTHORITY**  
**A COMPONENT UNIT OF THE**  
**CITY OF BUFFALO, NEW YORK**  
*Basic Financial Statements for the*  
*Years Ended June 30, 2012 and 2011,*  
*Required Supplementary Information 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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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of net assets of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City"), as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's and the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above are intended to present the financial position, and the changes in financial position of the City that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, and the changes in its financial position and budgetary comparison for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and the 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.

Handwritten signature of Duesch & Malach LLP in black ink.

December 10, 2012

**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, 2012 and 2011**

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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, 2012 and 2011. Certain data from the fiscal year June 30, 2011 has been reclassified to conform with the current year presentation.

**Financial Highlights**

- The Authority's total assets and liabilities increased \$10,366,614 from June 30, 2011 to June 30, 2012 primarily from the proceeds resulting from issuance of debt for capital projects.
- The Authority's restricted cash increased \$5,124,798 from June 30, 2011 to June 30, 2012.

**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 Assets 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 Assets. 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities. These two statements report the net assets of the Authority and changes in them. Net assets, the difference between assets and liabilities, are 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 assets.

**Table 1 - Condensed Statements of Net Assets**

	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	7,198,821	7,204,373	(5,552)	(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	158,132,218	147,760,052	10,372,166	7.0
Total assets	165,331,039	154,964,425	10,366,614	6.7
Liabilities:				
Current liabilities	9,843,096	9,693,477	149,619	1.5
Noncurrent liabilities	155,487,943	145,270,948	10,216,995	7.0
Total liabilities	165,331,039	154,964,425	10,366,614	6.7
Total net assets	\$ -	\$ -	\$ -	
	June 30,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Current assets:				
Cash	\$ 454,847	\$ 213,425	\$ 241,422	113.1
Other current assets	6,749,526	6,079,527	669,999	11.0
Total current assets	7,204,373	6,292,952	911,421	14.5
Noncurrent assets:				
Restricted cash	40,201,260	43,147,582	(2,946,322)	(6.8)
Due from Water Board	107,558,792	110,561,296	(3,002,504)	(2.7)
Total noncurrent assets	147,760,052	153,708,878	(5,948,826)	(3.9)
Total assets	154,964,425	160,001,830	(5,037,405)	(3.1)
Liabilities:				
Current liabilities	9,693,477	8,430,649	1,262,828	15.0
Noncurrent liabilities	145,270,948	151,571,181	(6,300,233)	(4.2)
Total liabilities	154,964,425	160,001,830	(5,037,405)	(3.1)
Total net assets	\$ -	\$ -	\$ -	

As can be seen from the table on the previous page, total assets and total liabilities increased \$10,366,614 from June 30, 2011 to June 30, 2012, while total assets and total liabilities decreased \$5,037,405 from June 30, 2010 to June 30, 2011.

There was no change in net assets for the years ended June 30, 2012 and 2011. Transfers in from the Buffalo Water Board covered all operating expenses.

Significant changes from 2011 to 2012 in the Statement of Net Assets 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.

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 \$10,216,995, resulting from the issuance of bonds greater than the amount of bonds paid in the current year.

Significant changes from 2010 to 2011 in the Statement of Net Assets and the reasons for the changes are:

Current assets increased \$911,421, which was primarily due to an increase of \$241,422 in cash as a result of the interest subsidy rebate on the Build America bonds received by the Authority during the year and an increase of \$670,000 in the amount due from entities comprising the water system resulting from an increase in the current portion of bonds payable.

Restricted cash decreased \$2,946,322 because bond proceeds were utilized for capital projects.

The primary cause for the decrease of \$3,002,504 in Due from Water Board is the result of bond principal payments made in excess of capital expenditures during the year.

Current liabilities increased by \$1,262,828 resulting primarily from an increase in accrued interest of \$582,472 and an increase in the current portion of bonds payable by \$670,000.

Long-term liabilities decreased by \$6,300,233 resulting from principal payments made in the current year.

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

	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 assets	-	-	-	-
Net assets—beginning	-	-	-	-
Net assets—ending	\$ -	\$ -	\$ -	-

  

	Year Ended June 30,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Expenses:				
Services and supplies	\$ 626,755	\$ 643,019	\$ (16,264)	(2.5)
Transfers in	626,755	643,019	(16,264)	(2.5)
Change in net assets	-	-	-	-
Net assets—beginning	-	-	-	-
Net assets—ending	\$ -	\$ -	\$ -	-

While the Statement of Net Assets would show any change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table 2, there was no change in net assets for the years ended June 30, 2012 and 2011.

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. The decrease in services and supplies for the year ended June 30, 2011 by \$16,264 from the year ended June 30, 2010 is due primarily to a reduction in the costs associated with the letter of credit.

### **Budgetary Highlights**

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.

For the fiscal year ended June 30, 2011 the original budget was not increased during the year. Actual expenditures were lower than budget by \$407. Similar to the current year, this was primarily due to lower than anticipated fiscal agent expenses related to banking fees.

**Long-Term Debt**

The Authority had \$166,210,000 and \$155,565,000 of outstanding revenue bonds at June 30, 2012 and June 30, 2011, respectively, before adjusting for unamortized premiums, discounts and refunding costs. These bonds are scheduled to be paid in full by 2040. The Authority issued \$22,445,000 in revenue bonds for capital projects during the year ended June 30, 2012. There were no debt issuances throughout the year ended June 30, 2011.

**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.

**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK  
**Statements of Net Assets**

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	June 30,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 224,827	\$ 454,847
Due from entities comprising the water system	6,730,000	6,505,000
Due from other funds	-	532
Due from other governments	243,994	243,994
Total current assets	7,198,821	7,204,373
Noncurrent assets:		
Restricted cash and cash equivalents	45,326,058	40,201,260
Due from entities comprising the water system	112,806,160	107,558,792
Total noncurrent assets	158,132,218	147,760,052
Total assets	165,331,039	154,964,425
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	35,578	25,708
Accrued interest	3,077,518	3,162,769
Current portion of bonds payable	6,730,000	6,505,000
Total current liabilities	9,843,096	9,693,477
Noncurrent liabilities:		
Revenue bonds payable	155,487,943	145,270,948
Total noncurrent liabilities	155,487,943	145,270,948
Total liabilities	165,331,039	154,964,425
<b>NET ASSETS</b>		
Restricted	-	-
Unrestricted	-	-
Total net assets	\$ -	\$ -

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

**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 Fund Net Assets**

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	Year Ended June 30,	
	2012	2011
Operating expenses:		
Services and supplies	\$ 611,236	\$ 626,755
Total operating expenses	611,236	626,755
Operating loss	(611,236)	(626,755)
Transfer in	611,236	626,755
Change in net assets	-	-
Total net assets—beginning	-	-
Total net assets—ending	\$ -	\$ -

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

**CITY OF BUFFALO**  
**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK  
**Statements of Cash Flows**

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	Year Ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Transfers in from entities comprising the water system	\$ 611,236	\$ 626,755
Payments for services and supplies	(601,366)	(616,398)
Net cash provided by operating activities	9,870	10,357
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers (to) from other funds	(5,557,087)	2,914,976
Net cash (used) provided by capital and related financing activities	(5,557,087)	2,914,976
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Bond proceeds	22,445,000	-
Net payment on long-term debt	(12,003,005)	(5,630,233)
Net cash provided (used) by capital and related financing activities	10,441,995	(5,630,233)
Net increase (decrease) in cash and cash equivalents	4,894,778	(2,704,900)
Cash and cash equivalents - beginning	40,656,107	43,361,007
Cash and cash equivalents - ending	\$ 45,550,885	\$ 40,656,107
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (611,236)	\$ (626,755)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating transfers	611,236	626,755
Changes in assets and liabilities:		
Accounts payable	9,870	10,357
Net cash provided by operating activities	\$ 9,870	\$ 10,357

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

**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, 2012 and 2011**

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**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** — This fund is reported using the economic resources measurement focus.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority’s financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standard Board (“GASB”). Governments also have the option of following subsequent private-sector guidance for business-type and enterprise funds subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

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.

**Cash and Cash Equivalents** — 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.

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, 2012, was \$224,845 and the book balance was \$224,827. The carrying amount of cash in banks, including certificates of deposit, as of June 30, 2011, was \$454,929 and the book balance was \$454,847. All deposits of the Authority were fully collateralized as of June 30, 2012 and 2011.

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

	June 30, 2012		June 30, 2011	
	Bank	Book	Bank	Book
U.S. Treasury	\$ 725,264	\$ 725,264	\$ 720,958	\$ 720,958
Money market fund	44,597,390	44,600,794	39,467,402	39,480,302
Total	<u>\$ 45,322,654</u>	<u>\$ 45,326,058</u>	<u>\$ 40,188,360</u>	<u>\$ 40,201,260</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, 2012 and 2011, the Authority’s deposits were FDIC insured or collateralized.

**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 Pronouncement** — During the year ended June 30, 2012, the Authority implemented GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which did not have material impact on the Authority’s financial position or results of operation.

***Future Impacts of Accounting Pronouncements*** — The Authority has not 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*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for the year ending June 30, 2013; GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 67, *Financial Reporting for Pension Plans* effective for the year ending June 30, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* effective for the year ending June 30, 2015. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 60, 61, 62, 63, 65, 66, 67 and 68 will have on its financial position and results of operations.

## **2. 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, 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.

As of June 30, 2011, the Board owed the Authority \$121,975,163 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 \$7,911,371 as of June 30, 2011, 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 \$114,063,792, of which \$6,505,000 is recorded as a current asset and \$107,558,792 as a noncurrent asset.

### 3. LONG-TERM BONDED DEBT

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, 2012, is as follows:

Year Issued	Original Amount	Interest Rates (%)	Last Payment	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
1998	\$ 16,325,000	4.0-4.75	2013	\$ 565,000	\$ -	\$ 275,000	\$ 290,000	\$ 290,000
1998	49,715,000	4.0-5.0	2013	6,180,000	-	2,850,000	3,330,000	3,330,000
2002	11,785,000	2.5-4.75	2018	2,120,000	-	265,000	1,855,000	275,000
2002	4,379,279	1.53-5.12	2022	2,720,000	-	2,720,000	-	-
2003	3,901,741	5.6-6.31	2031	3,140,000	-	2,680,000	460,000	110,000
2006	19,917,236	3.6-4.84	2028	16,265,000	-	750,000	15,515,000	770,000
2007	13,010,000	3.6-4.375	2038	12,300,000	-	255,000	12,045,000	265,000
2007	29,220,000	5.0	2027	28,900,000	-	-	28,900,000	-
2008	62,020,000	3.7-5.07	2036	59,400,000	-	1,335,000	58,065,000	1,000,000
2010	23,975,000	2.0-6.89	2040	23,975,000	-	460,000	23,515,000	470,000
2011	2,720,000	1.53-5.12	2022	-	2,720,000	210,000	2,510,000	220,000
2012	17,150,000	1.75-4.0	2037	-	17,150,000	-	17,150,000	-
2012	2,575,000	5.6-6.31	2031	-	2,575,000	-	2,575,000	-
				<u>155,565,000</u>	<u>22,445,000</u>	<u>11,800,000</u>	<u>166,210,000</u>	<u>6,730,000</u>
Unamortized bond premium				1,360,553	-	216,091	1,144,462	-
Unamortized bond discount				(162,906)	(106,401)	(6,266)	(263,041)	-
Unamortized refunding costs				(4,986,699)	(342,929)	(456,150)	(4,873,478)	-
Net bonded debt				<u>\$ 151,775,948</u>	<u>\$ 21,995,670</u>	<u>\$ 11,553,675</u>	<u>\$ 162,217,943</u>	<u>\$ 6,730,000</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, 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.

The amount of proceeds expended net of principal payments made as of June 30, 2011, was \$121,975,163 (which represents the outstanding proceeds of \$155,565,000, net of the unexpended funds of \$33,589,837). Additionally, the Water Authority owes the Water Board \$7,911,371 as of June 30, 2011, 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 \$114,063,792 of which, \$6,505,000 is recorded as a current asset and \$107,558,792 as a noncurrent asset.

Future payments on long-term debt at June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 6,730,000	\$ 7,056,592
2014	7,365,000	6,957,132
2015	7,635,000	6,631,582
2016	7,990,000	6,306,015
2017	8,355,000	5,951,053
2018-2022	39,920,000	24,090,495
2023-2027	34,820,000	16,508,480
2028-2032	28,170,000	9,077,330
2033-2037	14,245,000	4,757,015
2038-2042	10,050,000	1,360,872
2043	<u>930,000</u>	<u>18,600</u>
Total	<u>\$ 166,210,000</u>	<u>\$ 88,715,166</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, 2012, the notional amount of the bonds is \$57,575,000. 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. At June 30, 2011, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$106,906, was exceeded by the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$127,816, by \$20,910.

The fair value of the derivative at June 30, 2012 based on quoted market prices is negative \$5,137,442 and is recorded as a derivative liability within the noncurrent liabilities on the Board's financial statements. The Board recorded a restatement as a result of a change in application of accounting principles related to derivative instruments. In prior years, the Board recorded a deferred revenue liability associated with the negative fair value of the derivative instrument and the changes from year to year recorded as nonoperating revenue/expense on the statement of activities. The Board reviewed its evaluation of the hedging instrument under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and determined the fair value of the SWAP will be recorded as the appropriate asset or liability, and an offsetting deferred inflow/outflow on the statement of net assets.

#### **4. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 10, 2012, 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

**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 Fund Net Assets—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2012**

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget
Operating expenses:				
Services and supplies	\$ 48,700	\$ 65,109	\$ 67,659	\$ (2,550)
Fiscal agent expenses	<u>590,000</u>	<u>575,216</u>	<u>543,577</u>	<u>31,639</u>
Total operating expenses	638,700	640,325	611,236	29,089
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 assets	-	-	-	-
Total net assets—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets—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 Fund Net Assets—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2011**

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget
Operating expenses:				
Services and supplies	\$ 40,200	\$ 53,002	\$ 53,002	\$ -
Fiscal agent expenses	586,962	574,160	573,753	407
Total operating expenses	627,162	627,162	626,755	407
Deficiency of revenues over expenses	(627,162)	(627,162)	(626,755)	407
Other financing sources:				
Operating transfers in—transfer from Water Board	627,162	627,162	626,755	(407)
Total other financing sources	627,162	627,162	626,755	(407)
Change in net assets	-	-	-	-
Total net assets—beginning	-	-	-	-
Total net assets—ending	\$ -	\$ -	\$ -	\$ -

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