

**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 Statistical Section as of  
and for the Years Ended June 30, 2012 and 2011  
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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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of net assets of the Buffalo Water Board (the "Water Board"), 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 Water Board'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 Water Board'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 and, where applicable, cash flows of the City that are attributable to the transactions of the Water Board. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows 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 Water Board as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof 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 11 and the required supplementary information on pages 27 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Board's basic financial statements. The statistical section on pages 31 through 33 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Handwritten signature of Duesch & Malhotra LLP in cursive script.

December 10, 2012

**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, 2012 and 2011**

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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 years ended June 30, 2012 and 2011. During the year ended June 30, 2012, the Water Board has determined its hedging derivative met the criterion for an effective hedge under Governmental Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The information presented for the years ended June 30, 2010 and 2011 has been reclassified for comparative purposes to reflect the current accounting treatment related to the hedging derivative.

**Financial Highlights**

- The assets of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2012 by \$34,915,800 (*net assets*). Invested in capital assets (net of related debt) totaled \$13,893,355, and the balance of \$21,022,445 was unrestricted and available to meet future obligations of the Board. The assets of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2011 by \$30,487,152 (*net assets*). Invested in capital assets (net of related debt) totaled \$12,062,469, and the balance of \$18,424,683 was unrestricted and available to meet future obligations of the Board.
- The Water Board's net assets increased by \$4,428,648 and \$397,857 for the years ended June 30, 2012 and 2011, respectively.
- 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. For the year ended June 30, 2011 total operating and nonoperating revenues increased by \$1,511,546 from the year ended June 30, 2010, or 4.2%, while total expenses increased \$492,601, or 1.5%, 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.

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 Assets includes all of the Water Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) 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 Assets. 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 Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Water Board and changes in them. Net assets represents the difference between assets and liabilities and is one way to measure financial health or financial position. Over time, increases or decreases in the Water Board's net assets is one indicator of whether its financial health is improving or deteriorating.

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

	June 30,		Increase/(decrease)	
	2012	2011 (as restated)	Dollars	Percent
<b>Assets</b>				
Current assets	\$ 36,677,629	\$ 33,752,660	\$ 2,924,969	8.7 %
Capital assets	129,279,849	121,937,741	7,342,108	6.0
Other noncurrent assets	7,841,880	6,433,941	1,407,939	21.9
<b>Total assets</b>	<b>173,799,358</b>	<b>162,124,342</b>	<b>11,675,016</b>	<b>7.2</b>
<b>Liabilities:</b>				
Current liabilities	10,684,395	11,696,415	(1,012,020)	(8.7)
Noncurrent liabilities	128,199,163	119,940,775	8,258,388	6.9
<b>Total liabilities</b>	<b>138,883,558</b>	<b>131,637,190</b>	<b>7,246,368</b>	<b>5.5</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	13,893,355	12,062,469	1,830,886	15.2
Unrestricted	21,022,445	18,424,683	2,597,762	14.1
<b>Total net assets</b>	<b>\$ 34,915,800</b>	<b>\$ 30,487,152</b>	<b>\$ 4,428,648</b>	<b>14.5</b>

	June 30,		Increase/(decrease)	
	2011 (as restated)	2010 (as restated)	Dollars	Percent
<b>Assets</b>				
Current assets	\$ 33,752,660	\$ 34,738,980	\$ (986,320)	(2.8) %
Capital assets	121,937,741	120,979,631	958,110	0.8
Other noncurrent assets	6,433,941	7,451,157	(1,017,216)	(13.7)
<b>Total assets</b>	<b>162,124,342</b>	<b>163,169,768</b>	<b>(1,045,426)</b>	<b>(0.6)</b>
<b>Liabilities:</b>				
Current liabilities	11,696,415	10,585,274	1,111,141	10.5
Noncurrent liabilities	119,940,775	122,495,199	(2,554,424)	(2.1)
<b>Total liabilities</b>	<b>131,637,190</b>	<b>133,080,473</b>	<b>(1,443,283)</b>	<b>(1.1)</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	12,062,469	10,519,148	1,543,321	14.7
Unrestricted	18,424,683	19,570,147	(1,145,464)	(5.9)
<b>Total net assets</b>	<b>\$ 30,487,152</b>	<b>\$ 30,089,295</b>	<b>\$ 397,857</b>	<b>1.3</b>

The Condensed Statements of Net Assets show an increase of \$4,428,648 in net assets from \$30,487,152 at June 30, 2011 to \$34,915,800 at June 30, 2012. Significant changes from 2011 to 2012 in the Condensed Statements of Net Assets 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 cash received from customers exceeding payments for goods and services coupled with increased 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 \$7,246,368; of this, current liabilities decreased \$1,012,020 and long-term liabilities increased \$8,258,388. The increase in long-term liabilities is primarily attributed to the issuance of \$17,150,000 of new general obligation 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 assets invested in capital assets, net of related debt, increased by \$1,830,886. 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 assets increased \$2,597,762. The increase is the direct result of current year operations as addressed on the following page, and the change in the net assets invested in capital assets, net of related debt.

The Condensed Statements of Net Assets show an increase of \$397,857 in net assets from \$30,089,295 at June 30, 2010 to \$30,487,152 at June 30, 2011. Significant changes from 2010 to 2011 in the Condensed Statements of Net Assets and the reasons for the changes are:

- Current assets decreased \$986,320. The majority of the decrease was in cash, which decreased \$469,606. The operating budget anticipated the use of \$1,837,715 of fund balance which resulted in a decrease of the cash balance. The decrease in cash was combined with a decrease in net receivables of \$399,349. The allowance for uncollectible receivables increased due to a change in payment priority of outstanding bills whereby the current bill was paid first instead of the oldest bill.
- Capital assets increased \$958,110. Capital asset additions of \$5,122,995 exceeded depreciation expense of \$4,164,885. Additions during the year included upgrades to the filter gallery at the filtration plant and system infrastructure.
- Total liabilities decreased \$1,443,283; of this, current liabilities increased \$1,111,141 and long-term liabilities decreased \$2,554,424. The decrease in long-term liabilities is attributed to bond principal payments exceeding capital expenditures during the year. In addition, no new debt was issued during the year. Net assets invested in capital assets, net of related debt, increased by \$1,543,321. Outstanding debt was reduced more than net capital assets decreased during the year.

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

	Year Ended June 30,		Increase/(decrease)	
	2012	(as restated) 2011	Dollars	Percent
<b>Revenues:</b>				
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
<b>Expenses:</b>				
Services and supplies	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	<u>-</u>	<u>803,854</u>	<u>(803,854)</u>	(100.0)
Total expenses	<u>31,864,994</u>	<u>32,478,315</u>	<u>(613,321)</u>	(1.9)
<b>Income before transfers</b>				
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)</u>	5.0
Change in net assets	4,428,648	397,857	4,030,791	n/a
Net assets - beginning	<u>30,487,152</u>	<u>30,089,295</u>	<u>397,857</u>	1.3
Net assets - ending	<u>\$ 34,915,800</u>	<u>\$ 30,487,152</u>	<u>\$ 4,428,648</u>	14.5

	Year Ended June 30,		Increase/(decrease)	
	(as restated)	(as restated)	Dollars	Percent
	2011	2010		
Revenues:				
Operating	\$ 36,943,085	\$ 35,718,517	\$ 1,224,568	3.4 %
Nonoperating	605,261	318,283	286,978	90.2
Total revenues	<u>37,548,346</u>	<u>36,036,800</u>	<u>1,511,546</u>	4.2
Expenses:				
Services and supplies	5,633,356	8,860,268	(3,226,912)	(36.4)
Depreciation	4,164,885	3,981,523	183,362	4.6
Interest	7,074,411	5,800,687	1,273,724	22.0
Operating transfers	14,801,809	12,685,471	2,116,338	16.7
Other	803,854	657,765	146,089	22.2
Total expenses	<u>32,478,315</u>	<u>31,985,714</u>	<u>492,601</u>	1.5
Unrealized loss on derivative	-	4,809,713	(4,809,713)	(100.0)
Income (loss) before transfers to the City's General Fund	<u>5,070,031</u>	<u>(758,627)</u>	<u>5,828,658</u>	n/a
Transfers to the City's General Fund	<u>(4,672,174)</u>	<u>(4,672,174)</u>	-	-
Change in net assets	397,857	(5,430,801)	5,828,658	n/a
Net assets - beginning	<u>30,089,295</u>	<u>35,520,096</u>	<u>(5,430,801)</u>	(15.3)
Net assets - ending	<u>\$ 30,487,152</u>	<u>\$ 30,089,295</u>	<u>\$ 397,857</u>	1.3

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

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 6.5% rate increase effective July 1, 2011.
- Nonoperating revenues increased \$269,061 or 44.5%. The Board recognized a full year's federal subsidy of \$477,578 in the current year 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 reason for this decrease is a combination of factors, as follows:
  - Services and supplies 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.

Significant changes from the year ended June 30, 2010 to the year ended June 30, 2011 in revenue and expenses for the Water Board include the following:

- Operating revenues increased \$1,224,568, or 3.4%, from the prior year. This change is the result of a 6.5% rate increase effective July 1, 2010.
- Nonoperating revenues increased \$286,978 or 90.2%. The Board received a federal subsidy of \$241,442 for the Build America Bonds issued in 2010 and interest income increased \$45,536.
- Overall, expenses increased \$492,601, or 1.5%, over prior year. The reason for this increase is a combination of factors, as follows:
  - Services and supplies expenses decreased by \$3,226,912. The Board contracted with a new operator which reduced the annual cost by \$1,281,456. In addition, payments to the contractor for collection of delinquent bills were eliminated. Depreciation expense increased \$183,362 as a result of additional assets acquired during the year.
  - Interest costs increased \$1,273,724 based on outstanding debt schedules. No debt for new projects was issued during the year.
  - Operating transfers increased \$2,116,338 as a result of an increase in expenditures in both the Water Enterprise Fund and the Water Authority. Utility costs, previously part of the operator's agreement, were paid by the Water Enterprise Fund. Additionally, there was an increase in the cost of fringe benefits.
- The change in the value of the derivative went from an unrealized loss of \$4,809,713 in 2010 to zero in 2011 due to the implementation of GASB 53.

### **Budgetary Highlights**

For the year ended June 30, 2012, the total of expenses and transfers out in the Water Board's 2011-2012 amended budget was \$146,845 greater than the original budget as a result of funds appropriated for prior year encumbrances. There were no amendments to the budgeted revenues during 2012. Comparing the final budget with actual results, total charges for services were \$371,863 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 \$56,402 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. Total nonoperating expenses exceeded budget by \$6,726,016; of this total, bond interest represents \$6,102,131 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.

For the year ended June 30, 2011, the total of expenses and transfers out in the Water Board's 2010-2011 amended budget were \$2,265,472 greater than the original budget. The final 2010-2011 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 2011. Comparing the final budget with actual results, total charges for services were \$1,299,967 less than budget. Included within total charges for services is a negative variance in meter rates of \$1,224,252. The consumption of water by metered customers declined more than anticipated in the budget. In addition, interest on meter and flat rates was \$332,452 above budget due to slower collection of receivables. Nonoperating revenues, representing interest earnings, were \$11,581 less than budget. The federal subsidy for bond interest of \$241,442 resulted in a positive variance since the revenue was not included in the budget.

Comparing the final 2010-2011 budget with actual results, total operating expenses, excluding operating transfers out, were \$2,020,283 more than budgeted. Significant deficit operating expenses budget variances for 2011 included depreciation of \$4,164,885. 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. Total nonoperating expenses exceeded budget by \$7,074,411; of this total, bond interest represents \$6,486,026 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$14,562,717. 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, 2012 and 2011, the Board had \$129,279,849 and \$121,937,741, respectively, invested in capital assets, as reflected in Table 3 below. At June 30, 2012, the change represents a net increase of \$7,342,108, or 6.0%, from June 30, 2011, mainly attributed to building improvements at the Colonel Ward pumping station, rehabilitation of pumps at the filtration plant and infrastructure. While at June 30, 2011, the change represents a net increase of \$958,110, or 0.8%, from June 30, 2010, which was primarily the result of the installation of a backup generator at the Colonel Ward pumping station, rehabilitation of pumps at the filtration plant and infrastructure.

**Table 3 – Capital Assets**

	June 30,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Land	\$ 145,116	\$ 145,116	\$ -	- %
Construction in progress	866,148	941,374	(75,226)	(8.0)
Buildings and improvements	91,517,665	82,137,356	9,380,309	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	189,229,358	178,235,959	10,993,399	6.2
Accumulated depreciation	(59,949,509)	(56,298,218)	(3,651,291)	6.5
Net capital assets	<u>\$ 129,279,849</u>	<u>\$ 121,937,741</u>	<u>\$ 7,342,108</u>	6.0

  

	June 30,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Land	\$ 145,116	\$ 145,116	\$ -	- %
Construction in progress	941,374	713,135	228,239	32.0
Buildings and improvements	82,137,356	79,406,580	2,730,776	3.4
Equipment	1,275,718	1,438,760	(163,042)	(11.3)
Infrastructure	93,736,395	91,634,165	2,102,230	2.3
Total capital assets	178,235,959	173,337,756	4,898,203	2.8
Accumulated depreciation	(56,298,218)	(52,358,125)	(3,940,093)	7.5
Net capital assets	<u>\$ 121,937,741</u>	<u>\$ 120,979,631</u>	<u>\$ 958,110</u>	0.8

**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 \$1,540,159 and \$1,934,051 of outstanding General Obligation Bonds at June 30, 2012 and 2011, respectively, which were issued to finance water projects. This debt will be fully paid in 2018. The Water Authority has \$166,210,000 and \$155,565,000 of Revenue Bonds outstanding at June 30, 2012 and 2011, 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 2013 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, 14202.

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

	June 30,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32,045,755	\$ 29,225,914
Accounts receivable—water (less allowance for doubtful accounts of \$13,927,033 and \$13,206,655 at June 30, 2012 and 2011, respectively)	3,218,765	3,303,510
Other receivables	808,106	866,646
Due from the City of Buffalo	-	222,064
Due from other agencies	127,425	134,526
Due from other governments	477,578	-
Total current assets	36,677,629	33,752,660
Noncurrent assets:		
Capital assets not being depreciated:		
Land	145,116	145,116
Construction in progress	866,148	941,374
Capital assets being depreciated:		
Buildings and improvements	91,517,665	82,137,356
Machinery and equipment	554,249	1,275,718
Infrastructure	96,146,180	93,736,395
Accumulated depreciation	(59,949,509)	(56,298,218)
Total capital assets being depreciated	128,268,585	120,851,251
Deferred outflows of resources	5,137,442	3,897,514
Deferred financing costs	2,704,438	2,536,427
Total noncurrent assets	137,121,729	128,371,682
Total assets	173,799,358	162,124,342
<b>LIABILITIES</b>		
Current liabilities:		
Accounts and retainages payable	1,445,181	2,365,608
Due to Buffalo Municipal Water Finance Authority	6,730,000	6,505,000
Due to City of Buffalo Division of Water	2,315,869	2,635,146
Due to City of Buffalo	193,345	190,661
Total current liabilities	10,684,395	11,696,415
Noncurrent liabilities:		
Accrued derivative liability	5,137,442	3,897,514
Due to Buffalo Municipal Water Finance Authority	112,806,160	107,558,792
Due to City of Buffalo Division of Water	10,255,561	8,484,469
Total noncurrent liabilities	128,199,163	119,940,775
Total liabilities	138,883,558	131,637,190
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	13,893,355	12,062,469
Unrestricted	21,022,445	18,424,683
Total net assets	\$ 34,915,800	\$ 30,487,152

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

**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 Assets**

	Year Ended June 30,	
	2012	2011
Operating revenues:		
Charges for services	\$ 40,212,867	\$ 36,685,528
Other operating revenues	110,899	257,557
Total operating revenues	40,323,766	36,943,085
Operating expenses:		
Services and supplies	8,121,871	5,633,356
Depreciation	4,372,760	4,164,885
Other	-	803,854
Net operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	12,644,347	14,801,809
Total operating expenses	25,138,978	25,403,904
Operating income	15,184,788	11,539,181
Nonoperating revenues (expenses):		
Interest income	396,744	363,819
Interest expense	(6,726,016)	(7,074,411)
Other	477,578	241,442
Total nonoperating revenues (expenses)	(5,851,694)	(6,469,150)
Income before transfers to the City's General Fund	9,333,094	5,070,031
Transfers to the City's General Fund	(4,904,446)	(4,672,174)
Change in net assets	4,428,648	397,857
Total net assets—beginning, as previously stated	30,487,152	25,329,624
Restatement	-	4,759,671
Total net assets—beginning, as restated	30,487,152	30,089,295
Total net assets—ending	\$ 34,915,800	\$ 30,487,152

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

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

	Year Ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 40,488,075	\$ 37,463,315
Operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	(12,644,347)	(14,801,809)
Cash payments for goods and services	(9,056,235)	(6,840,263)
Net cash provided by operating activities	18,787,493	15,821,243
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers to the City of Buffalo General Fund	(4,904,446)	(4,672,174)
Advances from other funds	7,148,929	(181,589)
Net cash provided (used) by noncapital financing activities	2,244,483	(4,853,763)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(11,714,866)	(5,122,995)
Interest payments	(6,894,028)	(6,677,910)
Net cash (used) by capital and related financing activities	(18,608,894)	(11,800,905)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned on short-term investments	396,759	363,819
Net cash provided by investing activities	396,759	363,819
Net increase (decrease) in cash and cash equivalents	2,819,841	(469,606)
Cash and cash equivalents—beginning	29,225,914	29,695,520
Cash and cash equivalents—ending	\$ 32,045,755	\$ 29,225,914
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,184,788	\$ 11,539,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,372,760	4,164,885
Changes in assets and liabilities:		
Decrease in accounts receivable	84,745	399,349
Decrease in other receivables	58,526	124,466
Decrease (increase) in due from other agencies	7,101	(7,101)
(Decrease) in accounts and retentions payable	(920,427)	(399,537)
Net cash provided by operating activities	\$ 18,787,493	\$ 15,821,243

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

**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, 2012 and 2011**

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**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 at 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 assets.

**Measurement Focus, Basis of Accounting**—The Water Board reports 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 Water Board financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (the "GASB"). Governments also have the option of following subsequent private-sector guidance for business-type and enterprise funds subject to the same limitation. The Water Board 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. 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, 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 \$6,102,131, 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 \$464,009 in transfers to the City of Buffalo Division of Water, which resulted from expenses for other postemployment benefits for employees which were not included in the budget.

For the year ended June 30, 2011, 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 \$4,164,885, \$588,385, and \$6,486,026, 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 \$14,562,717 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 \$33,430 in transfers to the City of Buffalo Division of Water, which resulted from expenses for other postemployment benefits for employees which were not included in the budget.

**Cash and Cash Equivalents**—The statement of cash flows considers all highly liquid investments with maturities of three months or less when purchased to be 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, 2012, was \$32,045,755 and the bank balances were \$31,996,361. The carrying amount of cash in banks, including certificates of deposit, at June 30, 2011, was \$29,225,914 and the bank balances were \$29,050,230.

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, 2012 and 2011, 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, 2012 and 2011, the Water Board does not have any investments.

**Capital Assets**—Facilities were recorded at carrying value on the date of transfer from the City. Subsequent fixed 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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 GASB 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 needed to be recognized for capital assets for the years ended June 30, 2012 and 2011.

**Allocated Costs**—Certain services associated with operating the Water Board are performed by the City. During the years ended June 30, 2012 and 2011, the Water Board transferred \$4,904,446 and \$4,672,174, respectively, to the City related to these services.

**Deferred Financing Costs**—Costs associated with the issuance of bonds by the Water Authority on behalf of the Water Board have been capitalized and are being amortized on the straight-line basis over the life of the bonds.

**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 Water Board 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 a material impact on the Water Board’s financial position or results of operation.

**Future Impacts of Accounting Pronouncements**—The Water Board 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 Water Board 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. RESTATEMENT AND CHANGES TO NET ASSETS**

During the year ended June 30, 2012, the City determined its hedging derivative met the criterion for an effective hedge under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The effect of the change to net assets at July 1, 2010 is summarized below:

Beginning net assets, as previously stated	\$ 25,329,624
Change in accrued derivative liability	<u>4,759,671</u>
Beginning net assets, as restated	<u>\$ 30,089,295</u>

### 3. RECEIVABLES

Receivables as of year-end for the Water Board and related allowance for uncollectible accounts as of June 30, 2012 and 2011, are as follows:

	June 30, 2012		
	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Accounts receivable — water	\$ 17,145,798	\$ (13,927,033)	\$ 3,218,765
Accounts receivable — other	808,106	-	808,106
Due from other agencies	127,425	-	127,425
Due from other governments	477,578	-	477,578
	<u>\$ 18,558,907</u>	<u>\$ (13,927,033)</u>	<u>\$ 4,631,874</u>

  

	June 30, 2011		
	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Accounts receivable — water	\$ 16,510,165	\$ (13,206,655)	\$ 3,303,510
Accounts receivable — other	866,646	-	866,646
Due from the City of Buffalo	222,064	-	222,064
Due from other agencies	134,526	-	134,526
	<u>\$ 17,733,401</u>	<u>\$ (13,206,655)</u>	<u>\$ 4,526,746</u>

#### 4. CAPITAL ASSETS

A summary of capital assets activity for the years ended June 30, 2012 and 2011 are as follows:

	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>
	Balance July 1, 2010	Increases and Reclassifications	Decreases and Reclassifications	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	713,135	5,553,105	(5,324,866)	941,374
Total capital assets not being depreciated	<u>858,251</u>	<u>5,553,105</u>	<u>(5,324,866)</u>	<u>1,086,490</u>
Capital assets, being depreciated:				
Buildings and improvements	79,406,580	2,730,776	-	82,137,356
Equipment	1,438,760	61,750	(224,792)	1,275,718
Infrastructure	91,634,165	2,102,230	-	93,736,395
Total capital assets, being depreciated	<u>172,479,505</u>	<u>4,894,756</u>	<u>(224,792)</u>	<u>177,149,469</u>
Less accumulated depreciation for:				
Buildings and improvements	15,122,656	1,619,773	-	16,742,429
Equipment	950,237	164,494	(224,792)	889,939
Infrastructure	36,285,232	2,380,618	-	38,665,850
Total accumulated depreciation	<u>52,358,125</u>	<u>4,164,885</u>	<u>(224,792)</u>	<u>56,298,218</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>120,121,380</u>	<u>729,871</u>	<u>-</u>	<u>120,851,251</u>
Capital assets, net of accumulated depreciation	<u>\$ 120,979,631</u>	<u>\$ 6,282,976</u>	<u>\$ (5,324,866)</u>	<u>\$ 121,937,741</u>

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

Shown below 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, 2012. 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 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, 2012, is as follows:

Year Issued	Original Amount	Interest Rates (%)	Last Payment	Balance July 1, 2011	Additions & Reclassifications	Reductions & Reclassifications	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	-
				155,565,000	22,445,000	11,800,000	166,210,000	6,730,000
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 June 1, 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 2001B, 2002G and 2002H. Principal payments began 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 \$119,536,160, of which \$6,730,000 is recorded as a current liability and \$112,806,160 as a noncurrent liability.

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 liability and \$107,558,792 as a noncurrent liability.

Remaining annual maturities on long-term obligations of the Buffalo Municipal Water Finance Authority at June 30, 2012 are as follows:

Fiscal Year	Principal	Interest
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	930,000	18,600
Total	<u>\$ 166,210,000</u>	<u>\$ 88,715,166</u>

**General Bonded Debt**—Total general bonded debt as financed through the City of Buffalo, Division of Water at June 30, 2012 is as follows:

Calendar Year Issues	Original Amount	Interest Rates (%)	Year of Last Payment	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
1998	\$ 1,585,000	4.0-5.0	2011	\$ 135,000	\$ -	\$ 135,000	\$ -	\$ -
2005	4,064,877	5.0	2018	1,799,051	-	258,892	1,540,159	271,753
Total				<u>\$ 1,934,051</u>	<u>\$ -</u>	<u>\$ 393,892</u>	<u>\$ 1,540,159</u>	<u>\$ 271,753</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
2013	\$ 271,753	\$ 239,593	\$ 44,561	\$ 210,768	\$ -	\$ 1,549,194	\$ 2,315,869
2014	301,137	-	-	-	-	74,725	375,862
2015	315,852	-	-	-	-	54,298	370,150
2016	331,797	-	-	-	-	35,043	366,840
2017	152,152	-	-	-	-	16,800	168,952
2018-2022	167,468	-	-	-	-	8,366	175,834
Beyond	-	-	761,413	417,510	7,619,000	-	8,797,923
Total	<u>\$ 1,540,159</u>	<u>\$ 239,593</u>	<u>\$ 805,974</u>	<u>\$ 628,278</u>	<u>\$ 7,619,000</u>	<u>\$ 1,738,426</u>	<u>\$ 12,571,430</u>

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

Annual interest payments due on bonded debt at June 30, 2012, are as follows:

Fiscal Year	Water Authority	Division of Water
2013	\$ 7,056,592	\$ 77,008
2014	6,957,132	63,420
2015	6,631,582	48,363
2016	6,306,015	32,571
2017	5,951,053	15,981
2018-2022	24,090,495	8,373
2023-2027	16,508,480	-
2028-2032	9,077,330	-
2033-2037	4,757,015	-
2038-2042	1,360,872	-
2043	18,600	-
	<u>\$ 88,715,166</u>	<u>\$ 245,716</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 \$805,974 and \$829,417 at June 30, 2012 and 2011, 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, 2012. Due to retirement systems was \$239,593 and \$259,180 at June 30, 2012 and 2011, respectively.

**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:

	Balance July 1, 2011	Additions/ Adjustments	Reductions/ Adjustments	Balance June 30, 2012	Due Within One Year
Due to Buffalo Municipal Water Finance Authority	\$ 114,063,792	\$ 14,428,575	\$ 8,956,207	\$ 119,536,160	\$ 6,730,000
Due to City of Buffalo Division of Water	11,119,615	3,963,266	2,511,451	12,571,430	2,315,869
<b>Total</b>	<u>\$ 125,183,407</u>	<u>\$ 18,391,841</u>	<u>\$ 11,467,658</u>	<u>\$ 132,107,590</u>	<u>\$ 9,045,869</u>

**6. 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 \$628,278 and \$398,370 at June 30, 2012 and 2011, respectively.

**7. OTHER POSTEMPLOYMENT BENEFITS**

The liability for other postemployment 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 Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 45"), the City has opted to implement this statement prospectively. GASB 45 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 45, the City recognizes the cost of postemployment 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, 2010, the effective date of the biannual OPEB valuation, follows.

Active employees	113
Retired employees	70
Spouses of retirees	<u>48</u>
Total	<u>231</u>

*Funding Policy* — Postemployment benefits are financed on a pay-as-you-go basis.

*Annual OPEB Benefit Cost* — For the years ended June 30, 2012 and 2011, Water’s annual OPEB cost (expense) of approximately \$3,119,000 and \$2,990,543, respectively, is not equal to the Annual Required Contribution of approximately \$3,118,900 and \$2,989,300, respectively. Considering the annual expense as well as payment for current health insurance premiums, which totaled approximately \$1,212,000 and \$1,053,000 for the years ended June 30, 2012 and 2011, respectively, for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$1,907,000 and \$1,937,543 for the years ended June 30, 2012 and 2011, respectively.

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
<b>Annual OPEB Cost and Net OPEB Obligation</b>		
Actuarial accrued liability (AAL)	\$ 43,295,900	\$ 43,295,900
Unfunded actuarial accrued liability (UAAL)	\$ 43,295,900	\$ 43,295,900
Normal cost - beginning of the year	\$ -	\$ 1,654,400
Amortization factor based on 30 years	26.2	26.2
Annual covered payroll	\$ 6,155,256	\$ 5,975,977
UAAL as a percentage of covered payroll	703.40%	724.50%
<b>Level Dollar Amortization</b>		
<b>Calculation of ARC Under Projected Unit Credit Method</b>		
ARC normal cost with interest - end of year	\$ 3,118,900	\$ 1,276,300
UAAL over 30 years with interest - end of year	-	1,654,400
Interest	-	<u>58,600</u>
Annual required contribution (ARC)	3,118,900	2,989,300
Interest on net OPEB obligation	228,480	151,000
Adjustment to ARC	<u>(228,380)</u>	<u>(149,757)</u>
Annual OPEB cost (expense)	3,119,000	2,990,543
Contribution for years ended June 30, 2012 and 2011	<u>(1,212,000)</u>	<u>(1,053,000)</u>
Increase in net OPEB obligation	1,907,000	1,937,543
Net OPEB obligation - beginning	<u>5,712,000</u>	<u>3,774,457</u>
Net OPEB obligation - ending	<u>\$ 7,619,000</u>	<u>\$ 5,712,000</u>
Percent of annual OPEB cost contributed	38.86%	35.21%

*Funded Status and Funding Progress* — As of July 1, 2010, the most recent actuarial valuation date, the OPEB plan for the Water Enterprise Fund was unfunded, resulting in an unfunded accrued liability of \$43,295,900.

*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, 2011 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, 8.0%; all reduced by decrements to reach a rate of 4.7% 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.

## **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 10, 2012, 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.

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

	Original Budget	Final Budget	Actual	Variance
<b>OPERATING REVENUES:</b>				
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>
<b>OPERATING EXPENSES:</b>				
Services 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 services 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 Assets—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2012**

(concluded)

	Original Budget	Final Budget	Actual	Variance
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	(4,905,784)	(4,905,784)	(4,904,446)	1,338
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 assets	(2,962,602)	(3,109,447)	4,428,648	7,538,095
Net assets—beginning	<u>30,487,152</u>	<u>30,487,152</u>	<u>30,487,152</u>	-
Net assets—ending	<u>\$ 27,524,550</u>	<u>\$ 27,377,705</u>	<u>\$ 34,915,800</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 Revenues, Expenses, and Changes in Net Assets—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual	Variance
<b>OPERATING REVENUES:</b>				
Charges for services:				
Meter rates	\$ 31,263,495	\$ 31,263,495	\$ 30,039,243	\$ (1,224,252)
Flat rates	4,000,200	4,000,200	4,277,518	277,318
Charges for collection services	700,000	700,000	139,812	(560,188)
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	95,000	95,000	59,696	(35,304)
General labor and supplies	265,000	265,000	191,248	(73,752)
Utility turn-on fees	250,000	250,000	182,294	(67,706)
Installation of corporation cocks	85,000	85,000	74,611	(10,389)
Installation and repair of meters	45,000	45,000	41,508	(3,492)
Interest on meter rates receivable	700,000	700,000	743,676	43,676
Interest on flat rates receivable	50,000	50,000	338,776	288,776
Miscellaneous	22,100	22,100	87,446	65,346
Total charges for services	<u>37,985,495</u>	<u>37,985,495</u>	<u>36,685,528</u>	<u>(1,299,967)</u>
Other revenues:				
Miscellaneous	121,000	121,000	257,557	136,557
Total other revenues	<u>121,000</u>	<u>121,000</u>	<u>257,557</u>	<u>136,557</u>
Total operating revenues	<u>38,106,495</u>	<u>38,106,495</u>	<u>36,943,085</u>	<u>(1,163,410)</u>
<b>OPERATING EXPENSES:</b>				
Services and supplies:				
Services	591,340	818,865	408,356	410,509
Payment to operator	5,225,000	6,309,409	5,225,000	1,084,409
Reserve for uncollected receivables	500,000	500,000	-	500,000
Operating transfers to:				
City of Buffalo Division of Water	14,141,624	14,141,624	14,175,054	(33,430)
Water Authority	15,189,472	15,189,472	626,755	14,562,717
Total services and supplies	<u>35,647,436</u>	<u>36,959,370</u>	<u>20,435,165</u>	<u>16,524,205</u>
Other:				
Depreciation	-	-	4,164,885	(4,164,885)
Capital outlay	-	953,538	803,854	149,684
Total depreciation and amortization	<u>-</u>	<u>953,538</u>	<u>4,968,739</u>	<u>(4,015,201)</u>
Total operating expenses	<u>35,647,436</u>	<u>37,912,908</u>	<u>25,403,904</u>	<u>12,509,004</u>
Operating income	<u>2,459,059</u>	<u>193,587</u>	<u>11,539,181</u>	<u>(11,345,594)</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 Assets—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2011**

(concluded)

	Original Budget	Final Budget	Actual	Variance
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest	375,400	375,400	363,819	(11,581)
Authority bond interest expense	-	-	(6,486,026)	(6,486,026)
Amortization	-	-	(588,385)	(588,385)
Bond interest subsidy	-	-	241,442	241,442
Total nonoperating revenues (expenses)	<u>375,400</u>	<u>375,400</u>	<u>(6,469,150)</u>	<u>(6,844,550)</u>
Excess of revenues over expenses	<u>2,834,459</u>	<u>568,987</u>	<u>5,070,031</u>	<u>4,501,044</u>
<b>OTHER FINANCING USES:</b>				
Transfers out:				
City of Buffalo's General Fund	<u>(4,672,174)</u>	<u>(4,672,174)</u>	<u>(4,672,174)</u>	<u>-</u>
Total other financing uses	<u>(4,672,174)</u>	<u>(4,672,174)</u>	<u>(4,672,174)</u>	<u>-</u>
Change in net assets	(1,837,715)	(4,103,187)	397,857	4,501,044
Net assets—beginning	25,329,624	25,329,624	25,329,624	-
Restatement	<u>-</u>	<u>-</u>	<u>4,759,671</u>	<u>4,759,671</u>
Net assets—beginning, as restated	<u>25,329,624</u>	<u>25,329,624</u>	<u>30,089,295</u>	<u>4,759,671</u>
Net assets—ending	<u>\$ 23,491,909</u>	<u>\$ 21,226,437</u>	<u>\$ 30,487,152</u>	<u>\$ 9,260,715</u>

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## STATISTICAL SECTION



**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**

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Effective Date	Metered Rate Bills	
	Regular	Percent Change
July 1, 2007	\$18.99 per 1,000 cubic feet	- %
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	21.10 per 1,000 cubic feet	4.4

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
2008	\$ 4,075,708	\$ 4,546,990	111.6 %
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

METER RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2008	\$ 29,300,012	\$ 29,597,179	101.0 %
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

ALL ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2008	\$ 33,375,720	\$ 34,144,169	102.3 %
2009	32,164,615	32,318,559	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

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**  
**Year Ended June 30, 2012**

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	Usage (per cubic foot)	Charges
Aurubis Buffalo Inc.	50,974,750	\$ 813,359
Buffalo Municipal Housing Authority (including Marine Drive)	28,044,558	574,903
Sorrento Lactalis, Inc	20,770,000	333,232
Roswell Park Cancer Institute	18,777,715	375,481
Tyson Foods	18,457,872	290,482
Buffalo Sewer Authority	17,278,202	286,134
State University of New York at Buffalo	15,888,613	278,126
Erie County Medical Center	15,270,305	256,866
Buffalo State College	14,391,301	259,924
Kaleida Health	11,226,780	197,418

Source: Veolia Water Service

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