NIAGARA FALLS WATER BOARD

Financial Statements and
Management's Discussion and Analysis

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

NIAGARA FALLS WATER BOARD

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Niagara Falls Water Board:

Report on the Financial Statements

We have audited the basic financial statements of the Niagara Falls Water Board (the Board) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Niagara Falls Water Board as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 1 to the financial statements, the Board adopted the provisions of GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities."

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, and the schedule of funding progress for other postemployment benefits on page 35 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.

Reports on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2013, on our consideration of the Niagara Falls Water Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Niagara Falls Water Board's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
April 4, 2013

NIAGARA FALLS WATER BOARD

Management's Discussion and Analysis

December 31, 2012 and 2011

As management of the Niagara Falls Water Board (the Board), we offer readers of the Board's financial statements this narrative and analysis of the financial activities of the Board for the years ended December 31, 2012 and 2011.

Following this Management's Discussion and Analysis (MD&A) are the financial statements of the Board together with the notes thereto. Please read the MD&A in conjunction with the Board's financial statements and the accompanying notes in order to obtain a full understanding of the Board's financial position and results of operations.

The Board was created by an Act of the State of New York, as more fully described in note 1 to the financial statements, and commenced operations on September 25, 2003. In accordance with an agreement with the City of Niagara Falls, New York (the City) the Board received all assets, liabilities and operating activities (including all personnel) of the City's former Water and Sewer Funds. In return, the Board issued debt, which was used to defease outstanding City bonded debt relating to its Water and Sewer Funds.

Financial Highlights

- The assets of the Board exceeded its liabilities by $55,711,333 and $58,818,003 (net position) at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, $8,742,845 and $12,277,176 (unrestricted net position), respectively, may be used to meet the Board's ongoing obligations.
- The Board's operating income for the years ended December 31, 2012 and 2011 was $703,020 and $554,153, respectively.
- The Board's total bond indebtedness increased by $3,610,184 during the current fiscal year, as a result of principal payments made of $2,930,000 and new bonds issued of $6,607,122.
- The Board reflected a liability for postemployment benefits of $11,664,964 and $8,917,841 at December 31, 2012 and 2011, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements which include the financial activities of the Board, and its blended component unit, the Niagara Falls Public Water Authority (the Authority). The reasons for blending the financial activities are explained in note 1 to the financial statements. An overview of the responsibilities of the Board and the Authority is presented below.

Board

* Owns the System
* Operates and maintains the System
* Responsible for System improvements
* Sets rates and collects revenues
* Pays debt service on bonds

Authority

* Issues debt
* Provides proceeds of debt for construction and improvements
* Provides oversight regarding adequacy of revenues and System conditions

The financial statements are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private-sector business, and are organized as follows:

- The statement of net position presents information on all of the Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.
- The statement of revenue, expenses and changes in net position presents information on how the Board's net position changed during the reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods (e.g., uncollected water and sewer rents, earned but unused vacation and postemployment benefits).
- The statement of cash flows presents information depicting the Board's cash flow activities for the reporting period and the effect that these activities had on the Board's cash and equivalent balances.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 34 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Board's financial position. Assets exceeded liabilities by $55,711,333 at December 31, 2012, as compared to $58,818,003 at December 31, 2011, as presented below:

	Niagara Falls Water Board's Net Position			
	December 31,		Increase/(Decrease)	
	2012	*2011	Dollars	Percent
Current assets	$ 25,705,491	26,687,826	(982,335)	(3.68%)
Noncurrent assets	153,454,198	155,516,185	(2,061,987)	(1.33%)
Total assets	179,159,689	182,204,011	(3,044,322)	(1.67%)
Current liabilities	9,500,802	15,755,869	(6,255,067)	(39.70%)
Noncurrent liabilities	113,947,554	107,630,139	6,317,415	5.87%
Total liabilities	123,448,356	123,386,008	62,348	.05%
Invested in capital assets, net of related debt	15,784,991	14,963,786	821,205	5.49%
Restricted	31,183,497	31,577,041	(393,544)	(1.25%)
Unrestricted	8,742,845	12,277,176	(3,534,331)	(28.79%)
Total net position	$ 55,711,333	58,818,003	(3,106,670)	(5.28%)

* As restated for change in accounting principle.

The Board's investment in capital assets, net of related debt, is in a surplus net position of $15,784,991 and $14,963,786 at December 31, 2012 and 2011, respectively. This results from the timing of the amortization of the Board's capital debt, as outstanding principal for most of the Board's serial bonds is not paid until late into the life of the debt, while depreciation occurs annually.

The Board's unrestricted net position was $8,742,845 and $12,277,176 at December 31, 2012 and 2011, respectively. These assets are not limited as to how and for what they may be used. The restricted debt service portion of the Board's net position ($15,909,573 and $13,236,377 at December 31, 2012 and 2011, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position ($15,273,924 and $18,340,664 at December 31, 2012 and 2011, respectively) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2012 and 2011 follows:

	2012	2011
Current assets	$ 25,705,491	26,687,826
Current liabilities	9,500,802	15,755,869
Ratio of current assets to current liabilities	2.71	1.69

The Board's total net position decreased by $3,106,670 during the year ended December 31, 2012, as compared to a decrease of $3,110,954 for the year ended December 31, 2011. Key elements of the current year's increase in net position are as follows:

Niagara Falls Water Board's Changes in Net Position

	2012	*2011	Increase/ (decrease)
Total operating revenue	$ 25,048,794	23,496,202	1,552,592
Total operating expenses	(24,345,774)	(22,942,049)	(1,403,725)
Operating income	703,020	554,153	148,867
Total non-operating revenue (expenses)	(3,809,690)	(3,665,107)	(144,583)
Change in net position	$ (3,106,670)	(3,110,954)	4,284

* As restated for change in accounting principle.

The Board's major sources of operating revenue are charges for water and sewer services which comprise approximately 99% of total operating revenue. These revenues combined comprise an approximate $1.7 million increase in operating revenue over 2011. These revenues are dependent upon rates charged for these services, with such rates being determined by the Board. Please see the section entitled "Economic Factors and Next Year's Rates" within this MD&A for a listing of the rates charged during 2012 and approved rates for 2013.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 50% of all operating expenses. In 2012, these costs totaled approximately $12.1 million as compared to $11.2 million in 2011, representing an approximate 8% increase in this area. This increase is due to the rising costs of providing health care and other employee benefits.

Within the non-operating revenue (expenses) category, interest expense is by far the largest expense item and represents the cost of carrying serial bonds totaling $104,692,122 and $101,015,000 at December 31, 2012 and 2011, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2012 and 2011:

	2012	2011
Cash flows provided by (used in):		
Operating activities	$ 8,830,656	9,094,293
Capital and related financing activities	(10,646,430)	(12,853,652)
Investing activities	914,985	3,967,381
Net increase in cash and equivalents	(900,789)	208,022
Cash and equivalents at beginning of year	16,039,166	15,831,144
Cash and equivalents at end of year	$ 15,138,377	16,039,166

The Board's available cash and equivalents decreased by $900,789 during the year ended December 31, 2012, as compared to an increase of $208,022 during the year ended December 31, 2011. Cash provided by operating activities reflected a positive balance of $8,830,656 for the year ended December 31, 2012.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets (net of accumulated depreciation) as of December 31, 2012, amounted to $121,512,902, as compared to $122,497,560 at December 31, 2011. This includes land, plant and transmission (infrastructure type assets), machinery and equipment, and construction in progress. The Board's greatest investment in capital assets comes in the form of infrastructure. Significant factors affecting capital assets during the reporting period include:

- The Board recorded total additions to capital assets of $7,121,508.
- Construction in progress increased by $3,819,073, and decreased by $7,141,651 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of $4,783,588 and $4,729,006 for the years ended December 31, 2012 and 2011, respectively.

A summary of capital assets, net of depreciation where applicable, is as follows:

	2012	2011
Nondepreciable assets:		
Land	$ 463,713	463,713
Construction in progress	4,206,382	7,528,960
Depreciable assets:		
Plant and transmission assets (water system)	60,247,975	62,930,385
Plant and transmission assets (wastewater system)	55,141,536	50,338,942
Machinery and equipment	1,453,296	1,235,560
Total	$ 121,512,902	122,497,560

Construction in progress represents ongoing capital construction which will be transferred to the appropriate asset category (and begin to be depreciated) upon completion.

More detailed information about the Board's capital assets is presented in the notes to financial statements.

Serial Bonds - At December 31, 2012, the Board had outstanding serial bonds totaling $104,692,122, as compared to $101,015,000 at December 31, 2011. During the year ended December 31, 2012, the Board made principal payments of $2,930,000 on these bonds and issued bonds of $6,607,122.

The Board used bond debt to finance the original purchase of the assets (net of liabilities and including the water, sewer and storm water systems) from the City. In the future, the Board may utilize bond debt issuances as a primary source of funds for construction, renovations and system improvements.

Environmental Facilities Corporation (EFC) Revenue Note - During December 31, 2012, the Board repaid the EFC Revenue Note in the amount of $5,416,047 from the New York State Environmental Facilities Corporation used for the North Gorge Project.

Postemployment Benefits - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2012 and 2011, the liability recorded for these benefits amounted to $11,664,964 and $8,917,841, respectively. The underfunded actuarial accrued liability is $51,591,740 and $49,882,610 at December 31, 2012 and 2011, respectively.

Compensated Absences - Upon separation, Board employees are entitled to payment of unused sick and vacation time. The total liability relating to these payments at December 31, 2012 is $1,124,544, compared to $941,654 at December 31, 2011. The timing of the payments relating to compensated absences is dependent upon many factors, including the retirement or separation from service, and is therefore difficult to predict; however, the Board estimates that $56,227 of such liability is current at December 31, 2012.

Economic Factors and Next Year's Rates

As noted earlier, the Board's largest sources of operating revenues are water and sewer rents from customers. These revenues result from rates charged based on water usage by the individual customer. Rates can be adjusted accordingly in order to help meet the expenses of the Board. When considering rate changes, the Board utilizes the services of a rate consultant to help forecast the magnitude and effects of potential changes. As required by law, the general public's opinions are also taken into consideration, through public hearings, when contemplating a change in rates charged for services. Water rates charged for 2012 and approved rates to be charged for 2013 are as follows:

	2012 Amount to be charged (per 100 cubic feet)		2013 Amount to be charged (per 100 cubic feet)	
Amount Consumed	Inside city	Outside city	Inside city	Outside city
First 20,000 cubic feet per quarter	2.88	7.70	3.05	8.16
Next 60,000 cubic feet per quarter	2.49	6.72	2.64	7.12
Next 120,000 cubic feet per quarter	2.11	5.60	2.24	5.94
Over 200,000 cubic feet per quarter	1.75	4.71	1.86	4.99
Minimum charge for water consumption per quarter	37.44	100.10	39.65	106.08

In addition to the above schedule of rates for water consumed, a demand charge is assessed for each user's meter, as set forth below:

Size and Type	2012 Rate (per quarter)	2013 Rate (per quarter)
Under 1" Disc	$ 3.70	3.70
1" Disc	25.00	25.00
2" Disc	40.00	40.00
2" Compound	40.00	40.00
3" Compound	50.00	50.00
4" Compound	100.00	100.00
6" Compound	220.00	220.00
8" Compound	250.00	250.00
10" Compound	275.00	275.00
12" Compound	400.00	400.00

In addition to charging for water consumption and services, the Board also charges users with respect to sewer and wastewater services provided. All users have been divided into two "user classes" - Commercial/Small Industrial/Residential Users (CSIRU) and Significant Industrial Users (SIU).

Sewer rates for the CSIRU class are determined by the total metered water consumption in each quarter. Rates charged for 2012 and rates to be charged during 2013 are as follows:

Amount Consumed	2012	2013
Minimum charge per quarter (up to 1,300 cubic feet)	$ 46.91	49.72
Additional usage in excess of 1,300 cubic feet ($/cubic feet)	3.83	4.04

Sewer rates for the SIU class are determined each quarter based on the actual measured quantities and composition of wastewater flow. Such rates are determined by the Board and are based upon five representative 24-hour composite samples taken quarterly. Rates for the SIU class for the year ended December 31, 2012 were $2,679 per million gallons for wastewater flow; $0.89 per pound for all suspended solids discharged; and $1.53 per pound for all soluble organic carbon compounds discharged. Approved rates for 2013 were $2,840 per million gallons for wastewater flow; $0.94 per pound for all suspended solids discharged; and $1.62 per pound for all soluble organic carbon compounds discharged. In addition, SIU's are charged fees, as needed, for certain other "substances of concern" which are discharged in their wastewater.

Contacting the Board's Financial Management

This financial report is designed to provide taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD
Statements of Net Position
December 31, 2012 and 2011

Assets	2012	2011 (As restated)
Current assets:		
Cash and equivalents	$ 15,138,377	16,039,166
Accounts receivable, net of allowance for uncollectible accounts	8,945,215	7,993,180
Due from other governments	352,512	216,577
Prepaid expenses	585,603	460,544
Notes receivable - current portion	683,784	1,978,359
Total current assets	25,705,491	26,687,826
Noncurrent assets:		
Restricted cash and investments - capital projects	15,273,924	18,340,664
Restricted cash and investments - debt service reserve	15,909,573	13,236,377
Notes receivable - noncurrent portion	757,799	1,441,584
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	151,964,648	145,307,815
Machinery and equipment	3,554,249	3,089,574
Construction in progress	4,206,382	7,528,960
Less accumulated depreciation	(38,676,090)	(33,892,502)
Total capital assets, net of accumulated depreciation	121,512,902	122,497,560
Total noncurrent assets	153,454,198	155,516,185
Total assets	179,159,689	182,204,011

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Net Position, Continued

Liabilities	2012	2011 (As restated)
Current liabilities:		
Accounts payable	$ 1,488,237	2,669,723
Accrued liabilities	3,370,412	3,070,970
Contract retainage payable	70,905	237,963
Overpayments	1,383	14,083
Current portion of long-term liabilities:		
Compensated absences	56,227	47,083
Postemployment benefits	1,503,638	1,370,000
Revenue note payable	-	5,416,047
Bonds payable	3,010,000	2,930,000
Total current liabilities	9,500,802	15,755,869
Noncurrent liabilities:		
Compensated absences	1,068,317	894,571
Postemployment benefits	10,161,326	7,547,841
Bonds payable	102,717,911	99,187,727
Total noncurrent liabilities	113,947,554	107,630,139
Risk management and contingent liabilities (note 13)		
Total liabilities	123,448,356	123,386,008
Net Position		
Invested in capital assets, net of related debt	15,784,991	14,963,786
Restricted for capital projects	15,273,924	18,340,664
Restricted for debt service	15,909,573	13,236,377
Unrestricted	8,742,845	12,277,176
Total net position	$ 55,711,333	58,818,003

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Revenue, Expenses and Changes in Net Position
Years ended December 31, 2012 and 2011

	2012	2011 (As restated)
Operating revenue:		
Water rents and charges	$ 10,158,445	8,599,911
Sewer rents and charges	14,519,527	14,374,294
Licenses and permits	244,000	220,089
Other services	126,822	301,908
Total operating revenue	25,048,794	23,496,202
Operating expenses:		
Personnel costs	4,771,623	4,588,511
Contractual expenses	7,485,844	6,992,507
Employee benefits	7,304,719	6,632,025
Depreciation expense	4,783,588	4,729,006
Total operating expenses	24,345,774	22,942,049
Operating income	703,020	554,153
Non-operating revenue (expenses):		
Use of money and property	568,405	679,094
Gain on sale of property	-	16,500
Interest expense	(4,331,131)	(4,360,701)
Debt issuance costs	(46,964)	-
Total non-operating revenue (expenses)	(3,809,690)	(3,665,107)
Change in net position	(3,106,670)	(3,110,954)
Net position at beginning of year, as previously stated	58,818,003	65,674,521
Restatement - note 1(e)	-	(3,745,564)
Net position at beginning of the year, as restated	58,818,003	61,928,957
Net position at end of year	$ 55,711,333	58,818,003

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows
Years ended December 31, 2012 and 2011

	2012	2011 (As restated)
Cash flows from operating activities:		
Receipts from customers and users	$ 25,926,484	25,641,222
Payments to suppliers	(8,279,330)	(7,594,903)
Payments to employees	(8,816,498)	(8,952,026)
Net cash provided by operating activities	8,830,656	9,094,293
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	6,607,122	-
Acquisition of capital assets	(4,479,047)	(8,638,229)
Proceeds from sales of capital assets	-	18,594
Proceeds from (payments on) revenue note payable	(5,416,047)	2,825,952
Principal paid on capital debt	(2,930,000)	(2,660,000)
Interest paid on capital debt	(4,428,458)	(4,399,969)
Net cash used in capital and related financing activities	(10,646,430)	(12,853,652)
Cash flows from investing activities:		
Debt issuance costs	(46,964)	-
Interest earned	568,405	679,094
Change in restricted cash and investments - capital projects	3,066,740	835,743
Change in restricted cash and investments - debt service reserve	(2,673,196)	2,452,544
Net cash provided by investing activities	914,985	3,967,381
Net change in cash and equivalents	(900,789)	208,022
Cash and equivalents at beginning of year	16,039,166	15,831,144
Cash and equivalents at end of year	$ 15,138,377	16,039,166

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows, Continued

	2012	2011 (As restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 703,020	554,153
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,783,588	4,729,006
Changes in:		
Accounts receivable	(952,035)	(15,012)
Due from other governments	(135,935)	103,438
Prepaid expenses	(125,059)	(96,258)
Notes receivable	1,978,360	2,073,094
Accounts payable	(668,427)	(506,138)
Accrued liabilities	329,831	(226,194)
Overpayments	(12,700)	(16,500)
Compensated absences	182,890	(57,987)
Postemployment benefits	2,747,123	2,552,691
Total adjustments	8,127,636	8,540,140
Net cash provided by operating activities	$ 8,830,656	9,094,293
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	$ (513,059)	(512,494)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Included in the Board's reporting entity is a blended component unit, the Niagara Falls Public Water Authority (the Authority).

(a) Reporting Entity

The Board was created by Chapter 325 of the Laws of 2002 of the State of New York (the State), codified as Sections 1231-a of Title 10-C of Article 5 of the Public Authorities Law of the State, as amended (the Board Act). The Authority was created by Chapter 275 of the Laws of 2002 of the State, constituting the Niagara Falls Public Water Authority Act, codified as Sections 1230-a through 1230-aa of Title 10-B of Article 5 of the Public Authorities Law of the State, as amended (the Authority Act).

The Board is a corporate municipal instrument of the State consisting of five members primarily responsible for the jurisdiction, control, possession, supervision and use of water, wastewater and storm water systems within the City of Niagara Falls, New York (the City).

The Authority is a public benefit corporation consisting of three members and is primarily responsible for obtaining financing for water, wastewater and storm water systems within the City.

Board members for both the Board and Authority are appointed pursuant to the enabling legislation.

Pursuant to the Board Act and the Authority Act, the Board, the Authority and the City executed an acquisition agreement effective September 25, 2003 whereby the Authority issued bonds enabling the Board to purchase all of the assets, net of liabilities, of the City's public water, wastewater and storm water systems. The Board began operations of these systems on that date.

Currently there are approximately 19,500 residential, 250 commercial and 26 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 18.4 million gallons per day. The Board's wastewater system generally covers the same service area and customer base as the water system. The wastewater treatment plant processes approximately 34.17 million gallons of wastewater per day.

Blended Presentation of Component Unit - Although they are legally separate entities, blended component units are, in substance, part of the government's operations. The following is a brief description of the blended component unit included in the primary government.

(1) Summary of Significant Accounting Policies, Continued

(a) Reporting Entity, Continued

Niagara Falls Public Water Authority - Among the powers given to the Authority is the ability to borrow money and issue negotiable or non-negotiable notes, bonds or other obligations for the acquisition, renovation and improvement to the regional water system.

The Authority may also apply for licenses, permits and approval of plans associated with the acquisition, renovation and improvement of the regional water system. In the process of borrowing funds to improve facilities, professional consultants may be retained to offer technical services and advice for the purpose and benefit of acquiring or improving the systems.

The Authority has entered into an agreement with the Board to make payments for the debt service required by these bonds. The Board is also required to make payments for Authority expenses. The obligation to make debt service is a general obligation to which its full faith and credit are pledged.

In consideration for operating the systems and the financing of capital projects from time to time, the Board leases all of its rights, title and interest in the systems and capital projects to the Authority under terms and conditions of the original financing agreement. In turn, the Authority appoints the Board as the exclusive operator of the systems.

The Authority is considered a component unit since the Board is obligated to pay debt service and fund other accounts of the Authority. Thus, the Authority is "fiscally dependent" upon the Board to establish rates and collect fees necessary to pay these debts. Further, the Authority is "blended" with the Board in the financial statements because the Authority exists solely to provide services that predominantly benefit the Board.

(b) Measurement of Focus and Basis of Accounting

The financial statements of the Board have been prepared in conformity with GAAP as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. Beginning in 2012, the Authority adopted the provisions of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature. Also, during 2012, the Authority adopted Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," and Statement No. 65, "Items Previously Reported as Assets and Liabilities." These Statements provide guidance on presenting deferred outflows, deferred inflows and net position.

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement of Focus and Basis of Accounting, Continued

The activities of the Board are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from providing water and sanitary sewer services are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating systems are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

(c) Budgets

The annual budget is the financial plan for the effective operation of the Board and the Authority. The Board uses the budget as a management tool for internal control purposes and to assist in setting of appropriate user charges.

(d) Assets, Liabilities and Net Position

- Cash and Equivalents - The Board's cash and equivalents represent cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

- Restricted Cash and Investments - Capital Projects - In 2007, the Board received $19,000,000 from the New York State Power Authority (the Power Authority) which is restricted for capital improvement projects including, but not limited to, the Falls Street Tunnel. At December 31, 2012 and 2011, the total amount restricted for capital projects amounted to $15,273,924 and $18,340,664, respectively.

- Restricted Cash and Investments - Debt Service Reserve - As a result of the purchase of the water and sewer systems from the City, certain bond covenants, as disclosed in note 7, were established requiring resources (consisting of cash and investments) to be maintained for specific purposes necessary to operate the water and sewer systems.

  Cash has been deposited into various trust funds with a fiscal agent to satisfy certain covenants. Further, the amounts have been invested into various short-term investments in compliance with the Board's investment policy. Certain funds were used for their intended purposes and are no longer available for investment.

  The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

- Accounts Receivable - All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Board has adopted a policy of recognizing water and sewer revenues in the period in which the services are provided. Billings to customers generally consist of revenues earned from the prior three months for quarterly billed customers, and revenues earned from the prior month for monthly billed customers.

  The collection of current water and sewer charges is performed by the Board. The City, acting as collecting agent for the Board, collects delinquent water and sewer charges.

- Prepaid Expenses - Prepaid expenses reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

- Capital Assets - Capital assets acquired by the Board as part of the September 25, 2003 acquisition agreement with the City were reported at fair value on the acquisition date. Capital assets acquired by the Board subsequent to the initial acquisition are stated at cost including interest capitalized during construction, where applicable. Costs include material, direct labor and other items such as supervision, payroll taxes, employee benefits, transportation, and certain preliminary legal, engineering and survey costs. The costs of repairs and maintenance are expensed as incurred. Contributed fixed assets are recorded at fair market value at the date received.

  Construction projects are conducted on a continuing basis in order to maintain or enhance the systems. Preliminary legal, engineering and survey costs include studies conducted prior to the actual construction period that directly result in specific construction projects. While capital projects are in process, all associated costs are recorded as construction in progress. Once completed, all costs, including legal, engineering, survey and construction costs, are reclassified to their respective asset categories and depreciated according to their useful lives.

  Depreciation has been recorded using the straight-line method of depreciation. The estimated useful lives of the Board's major classes of depreciable assets are based on the utility of the respective assets. The estimated useful lives of depreciable fixed assets are as follows:

Assets	Years
Land	N/A
Plant and transmission assets	25 - 50
Machinery and equipment	5 - 20

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

- Compensated Absences - Board employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, all union employees are entitled to payment for accumulated vacation and compensatory time limited to amounts defined under their respective collectively bargained agreements. All non-union employees are entitled to similar benefits as defined by their respective contracts with the Board.

  Payments of vacation and sick leave and compensatory time are dependent upon many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payments of vacation leave and compensatory time when such payments become due.

- Postemployment Benefits - In accordance with GASB Statement No. 45, the Board recognizes in its financial statements, the financial impact of postemployment benefits, principally employer funded health care costs. The impact on the Board's financial position and results of its operations is more fully disclosed under note 9.

- Bond and Note Discounts/Premiums - Are presented as components of bonds payable. The discounts/premiums are amortized over the life of the bonds and notes on a method that approximates the effective interest method.

- Long-term Obligations - Long-term debt is reported as a liability in the accompanying statements of net position. Bond premiums are deferred and amortized over the life of the respective bonds.

- Retirement Plan - The Board provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State Employees' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.

(e) Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position - Restatement

For the year ended December 31, 2012, the Board implemented GASB Statements No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and Statement No. 65 - "Items Previously Reported as Assets and Liabilities." Statement No. 63 amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Managements' Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(1) Summary of Significant Accounting Policies, Continued

(e) Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position - Restatement, Continued

The implementation of these standards reduced previously reported net position as of the beginning of the year ended December 31, 2011 by $3,745,564 to eliminate unamortized bond and note issuance costs. In addition, 2011 amortization expense was reduced by $275,985. This resulted in a reduction of the net position previously reported at year end December 31, 2011 by $3,469,579. This restatement has been recorded in the statements of net position, revenue, expenses and changes in net position and cash flows for the year ended December 31, 2011.

(f) Use of Estimates

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

(g) Income Taxes

The Board is a public benefit corporation of the State of New York. As such, income earned in the exercise of its essential government functions is exempt from State and Federal income taxes.

(h) Reclassifications

Reclassifications have been made to certain 2011 balances in order to conform them to the 2012 presentation.

(i) Subsequent Events

The Board has evaluated events after December 31, 2012, and through April 4, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(2) Cash and Equivalents and Investments

The Board's investment policies are governed by State statute. Board monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The Board is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by FDIC insurance coverage. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State.

(2) Cash and Equivalents and Investments, Continued

The Board's cash and equivalents at December 31, 2012 and 2011 include the following captions on the statements of net position:

	2012	2011
Cash and equivalents	$ 15,138,377	16,039,166
Restricted cash and investments:		
Capital projects	15,273,924	18,340,664
Debt service reserve	15,909,573	13,236,377
Total	$ 46,321,874	47,616,207

Cash and equivalents are comprised of the following:

	2012	2011
Petty cash (uncollateralized)	$ 100	100
Deposits	35,515,453	36,772,197
Investments	10,806,321	10,843,910
Total	$ 46,321,874	47,616,207

All deposits and investments are carried at fair value. Investments at December 31, 2012 and 2011 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that, in the event of a bank failure, the 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 December 31, 2011, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name however, as of December 31, 2012, all uninsured bank deposits were not fully collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. The Board's bank deposits were under collateralized by $4,675.

Custodial Credit Risk - Investments - For investments, this is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. At December 31, 2012 and 2011, all of the Board's restricted cash in the form of investments was registered in the Board's name and was invested in U.S. Government backed securities.

(3) Receivables

Major revenues accrued by the Board at December 31, 2012 and 2011 include the following:

(a) Accounts Receivable

Accounts receivable primarily represents amounts due from customers for current and delinquent water and wastewater services provided, including penalties, unpaid bill charges, collection fees and shut-off charges.

(3) Receivables, Continued

(a) Accounts Receivable, Continued

Customers are billed either on a monthly or quarterly basis depending on the type of user (industrial or residential), and the level of water and sewer usage. Customers may make payments without penalty on current charges up until 20 days after receiving their bill. Any unpaid balances remaining after these 20 days are subject to a penalty of 6%, and those customers receive an unpaid bill notice. If balances still remain unpaid after 30 additional days, final unpaid notices are mailed. The customers are then given 10 days to remit payment, after which the property is tagged, and shut-off procedures begin.

During the first week of December of every year, unpaid balances are transferred to the City tax roll for collections through the subsequent year's tax levy or in-rem property sales. Any amounts relating to unpaid water and wastewater balances collected by the City through these means are delivered to the Board.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2012 and 2011 consist of:

	2012	2011
City of Niagara Falls:		
Tax transfer	$ 142,993	216,577
Cascades note receivable	209,519	-
Total	$ 352,512	216,577

The tax transfer represents uncollected water and sewer charges that have been turned over to the City for collection in conjunction with the City's property tax levy. The City remits these charges to the Board each January and July for collections it receives for the previous six-month period. This amount includes collected but not yet remitted charges at year-end. Charges from all previous years' water and sewer operations transferred to the City that are not collected totaled $3,469,961 and $3,752,982 at December 31, 2012 and 2011, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2012 and 2011.

Cascades note receivable represents the Board's share of the Cascades Company note receivable (note 4(a)) received by the City but not yet remitted to the Board as of December 31, 2012.

(4) Notes Receivable

(a) Cascades Company

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes, water and sewer charges due to the City, the County of Niagara (the County), and the Niagara Falls Board of Education (the Board of Education). The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling $5,400,000. Upon closing, $100,000 was paid to the City with the remaining $5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997, monthly payments of interest only at 3%; beginning on November 1, 1997 through October 1, 2017, monthly payments of interest and principal of $29,394. The Board receives 59.4% of these monthly payments, with the remaining 40.6% split between the City (16.2%), the County (6.8%), and the Board of Education (17.6%).

(b) Occidental Chemical Corporation

On September 10, 1990, the City entered into an agreement with the Occidental Chemical Corporation (the Corporation) in which the Corporation agreed to make certain specified payments to the City to help with the payment and implementation of a new City drinking water treatment plant. The agreement stipulates a total of $64,900,000 to be paid over 19 years commencing on December 30, 1994, with final payment scheduled in 2013. The remaining balance due under this agreement transferred to the Board on September 25, 2003.

Notes receivable at December 31, 2012 and 2011 are detailed as follows:

	2012	2011
Cascades Company	$ 941,583	1,119,943
Occidental Chemical Corporation	500,000	2,300,000
	1,441,583	3,419,943
Less current portion	(683,784)	(1,978,359)
Notes receivable - noncurrent portion	$ 757,799	1,441,584

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2012 and 2011 is summarized as follows:

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 463,713	-	-	463,713
Construction in progress	7,528,960	3,819,073	(7,141,651)	4,206,382
Total capital assets not being depreciated	7,992,673	3,819,073	(7,141,651)	4,670,095
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,487,625	163,282	-	85,650,907
Wastewater system	59,820,190	6,493,551	-	66,313,741
Machinery and equipment	3,089,574	464,675	-	3,554,249
Total capital assets being depreciated	148,397,389	7,121,508	-	155,518,897
Less accumulated depreciation:				
Infrastructure:				
Water system	(22,557,240)	(2,845,692)	-	(25,402,932)
Wastewater system	(9,481,248)	(1,690,957)	-	(11,172,205)
Machinery and equipment	(1,854,014)	(246,939)	-	(2,100,953)
Total accumulated depreciation	(33,892,502)	(4,783,588)	-	(38,676,090)
Total being depreciated, net	114,504,887	2,337,920	-	116,842,807
Capital assets, net	$ 122,497,560	6,156,993	(7,141,651)	121,512,902

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 463,713	-	-	463,713
Construction in progress	13,345,752	7,830,611	(13,647,403)	7,528,960
Total capital assets not being depreciated	13,809,465	7,830,611	(13,647,403)	7,992,673

(5) Capital Assets, Continued

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Capital assets, being depreciated:				
Infrastructure:				
Water system	$ 85,080,670	406,955	-	85,487,625
Wastewater system	46,832,828	12,987,362	-	59,820,190
Machinery and equipment	2,819,988	269,586	-	3,089,574
Total capital assets being depreciated	134,733,486	13,663,903	-	148,397,389
Less accumulated depreciation:				
Infrastructure:				
Water system	(19,639,075)	(2,918,165)	-	(22,557,240)
Wastewater system	(7,955,479)	(1,525,769)	-	(9,481,248)
Machinery and equipment	(1,568,942)	(285,072)	-	(1,854,014)
Total accumulated depreciation	(29,163,496)	(4,729,006)	-	(33,892,502)
Total being depreciated, net	105,569,990	8,934,897	-	114,504,887
Capital assets, net	$ 119,379,455	16,765,508	(13,647,403)	122,497,560

(6) Environmental Facilities Corporation Revenue Note

During the year ended December 31, 2010, the Board commenced its North Gorge Interceptor Capacity Restoration Project (the Project), which was an $11 million initiative to repair a large wastewater tunnel originally constructed in 1937. The Project was funded by the New York State Environmental Facilities Corporation (EFC) through the Clean Water State Revolving Funds. In connection with the Project, the Board obtained an $11 million EFC Revenue Note, of which $5,470,953 was eligible for principal forgiveness under the American Recovery and Reinvestment Act of 2009 (ARRA).

As of December 31, 2011, the Board incurred total principal draws of $11,000,000 under the Revenue Note for Project expenditures, of which $5,470,953 was considered forgiven during 2010 under the ARRA portion of the funding package. The remaining balance of $5,416,047 was a non-interest bearing note and was paid in full during 2012.

(7) Bond Indebtedness

The Authority issued debt to provide for the acquisition of the water and sewer systems and for the initial funding of operating and maintenance and debt reserves. During the year ended December 31, 2011, the Authority issued no bonds. However, during the year ended December 31, 2012, the Authority issued a Series 2012B bond.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of $16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of $1,603,619 and an economic gain of $1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to $1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

The proceeds of Series 2012B amounted to $6,607,122 - Clean Water issue were used to payoff the EFC Note used to fund North Gorge Interceptor Capacity Restoration Project.

Serial bond activity for the year ended December 31, 2012 is presented on the following page:

(7) Bond Indebtedness, Continued

Serial Bond Activity:

	Year of Issue	Year of Maturity	Interest Rate %	Original Amount	Principal Outstanding 1/1/2012	Issued	Paid	Principal Outstanding 12/31/2012
Niagara Falls Public Water Authority Bonds:								
Series 2003A Bonds	2003	2034	5.50	$ 41,530,000	25,510,000	-	-	25,510,000
Series 2003B Bonds	2003	2024	1.85 - 5.50	12,155,000	9,455,000	-	580,000	8,875,000
Series 2005 Bonds	2005	2034	5.00 - 5.50	23,115,000	23,115,000	-	-	23,115,000
New York State Environmental Facilities Corporation Water Revolving Funds Revenue Bonds:								
Series 2003A - Clean Water	2003	2033	1.61 - 5.05	18,943,807	15,040,000	-	500,000	14,540,000
Series 2003B - Drinking Water	2003	2023	1.64 - 4.91	5,582,990	5,580,000	-	-	5,580,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	19,680,000	8,820,000	-	1,010,000	7,810,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	9,840,000	4,410,000	-	505,000	3,905,000
Series 2004 - Drinking Water	2003	2021	5.40	4,095,000	4,095,000	-	-	4,095,000
Series 2005A & B - Clean Water	2005	2034	1.56 - 4.57	6,017,960	4,990,000	-	150,000	4,840,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	-	6,607,122	185,000	6,422,122
Totals				$ 147,566,879	101,015,000	6,607,122	2,930,000	104,692,122

Reconciliation to statements of net position:		
Principal outstanding	$ 101,015,000	104,692,122
Unamortized premium on bonds	1,102,727	1,035,789
	$ 102,117,727	105,727,911
Current portion of bonds payable	2,930,000	3,010,000
Non-current portion of bonds payable	99,187,727	102,717,911
	$ 102,117,727	105,727,911

(7) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2012 are as follows:

Year	Premium on bonds	Serial bonds	Total
2013	$ 66,938	3,010,000	3,076,938
2014	66,938	3,107,122	3,174,060
2015	66,938	3,215,000	3,281,938
2016	66,938	3,330,000	3,396,938
2017	66,938	3,450,000	3,516,938
2018-2022	334,687	19,395,000	19,729,687
2023-2027	278,787	23,710,000	23,988,787
2028-2032	75,047	29,205,000	29,280,047
2033-2037	12,578	14,775,000	14,787,578
2038-2041	-	1,495,000	1,495,000
	$ 1,035,789	104,692,122	105,727,911

Annual interest payments due on serial bonds as of December 31, 2012 are as follows:

2013	$ 4,347,877
2014	4,255,374
2015	4,150,672
2016	4,040,240
2017	3,922,955
2018-2022	17,585,503
2023-2027	13,448,984
2028-2032	7,721,538
2033-2037	1,311,494
2038-2041	146,046
Total	$ 60,930,683

Financing Agreement Covenants

The financing agreement between the Authority and the Board relating to all current and future bonding contain various covenants pertaining to the use and maintenance of the trust funds established from the proceeds of each bonding. At December 31, 2012, management believes the Board was in compliance with the following loan covenants:

The Board is required to establish and collect rates, fees and charges sufficient in each fiscal year at least equal to the sum of:

(1) 115% of the estimated aggregate debt service and projected debt service payable in such fiscal year;

(2) 100% of Board operating expenses and Authority expenses payable in such fiscal year; and

(3) 100% of the amount necessary to pay the required deposits for such fiscal year.

(7) Bond Indebtedness, Continued

The Board shall review the adequacy of fees, rates and charges at least semi-annually.

The Board shall enforce the payment of any and all amounts owed for the use of the systems.

The Board shall (unless required by law) not furnish or supply, or cause to be furnished or supplied, any product, use or service of the systems, free of charge.

The debt service fund balance, beginning with the first day of each calendar month, shall receive all revenues until the balance in the debt service fund equals the minimum monthly balance. The minimum monthly balance is defined as an amount equal to the sum of the aggregate amounts of debt service that have accrued with respect to all series of bonds, calculating the debt service that has accrued as an amount equal to the sum of:

(1) The interest on the bonds that has accrued and is unpaid and that will have accrued by the end of the then calendar month; and

(2) The portion of the next due principal installment for the bonds that would have accrued (as deemed to accrue in the manner interest accrues) by the end of the then calendar month.

(8) Compensated Absences

As explained in note 1, the Board reports the value of compensated absences as a liability. The annual budgets of the operating funds provide funding for these benefits as they become payable. The payment of compensated absences is dependent on many factors; therefore, the timing of future payments is not readily determinable. The current portion payable is estimated at 5% of the total compensated absences liability. The current portion of the liability amounted to $56,227 and $47,083 at December 31, 2012 and 2011, respectively. The long-term portion of the liability amounted to $1,068,317 and $894,571 at December 31, 2012 and 2011, respectively.

(9) Postemployment Benefits

The Board provides postretirement benefits to eligible retirees in the form of health insurance. The obligation of the Board and its employees to contribute to the cost of providing these benefits has been established pursuant to various collective bargaining agreements and Board policy for those individuals not included in one of the bargaining units. Under such agreements, participants are not required to contribute to the health care plan. In 2008, the Board adopted the requirements of GASB Statement No. 45. In conformance with the provisions of that statement, the Board recognizes the costs of postemployment health care in the year when the employees' services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Board's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing in 2008.

(9) Postemployment Benefits, Continued

Plan Description - The Board provides continuation of medical, prescription drug, dental, vision and chiropractic coverage for employees who retire and are at least age 50 and have an age, plus years of service, of at least 70. All retirees and future retirees hired prior to June 1, 2006 have no contribution requirements for both individual and family coverage. All future retires hired after June 1, 2006 are required to pay 20% of the individual and family premiums.

The Board provides certain health care benefits for retired employees. Substantially all of the employees may become eligible for these benefits if they reach the normal retirement age and have the required minimum age plus years of service working for the Board. The Board, on an annual basis, accrues the cost that represents the present value of these benefits to be paid over the estimated lives of the retirees. The annual other postemployment benefit cost (OPEB) charged to operations for the years ended December 31, 2012 and 2011 amounted to $4,150,593 and $3,908,098, respectively. At December 31, 2012 and 2011, the current portion of the postemployment benefits liability was $1,503,638 and $1,370,000, respectively. The non-current portion of the postemployment benefits liability amounted to $10,161,326 and $7,547,841 at December 31, 2012 and 2011, respectively.

The number of participants as of January 1, 2012 and 2011 was as follows:

	2012	2011
Active employees	90	86
Retired employees	68	68
Total	158	154

Funding Policy - The Board currently pays for postemployment health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

	2012	2011
Benefit Obligations and Normal Costs		
Actuarial accrued liability (AAL):		
Retired employees and dependents	$ 27,599,839	27,665,829
Active employees	23,991,901	22,216,781
Total	$ 51,591,740	49,882,610
Underfunded actuarial accrued liability (UAAL)	$ 51,591,740	49,882,610
Normal costs at beginning of year	908,620	873,673
Interest on normal cost	37,859	36,403
	$ 946,479	910,076

(9) Postemployment Benefits, Continued

	2012	2011
Level Dollar Amortization		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	$ 2,841,034	2,740,828
Interest on amortization payment	363,080	257,194
Normal costs with interest to end of year	946,479	910,076
Annual required contribution (ARC)	$ 4,150,593	3,908,098
Annual OPEB Cost Contribution		
Contributions made for years ended December 31, 2012 and 2011	1,403,470	1,355,407
Contributions as a percentage of required contribution	33.8%	34.7%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution (OPEB cost)	4,150,593	3,908,098
Contributions made on a pay-as-you-go basis	(1,403,470)	(1,355,407)
Increase in net OPEB obligation	2,747,123	2,552,691
Net OPEB obligation at beginning of year	8,917,841	6,365,150
Net OPEB obligation at end of year	$ 11,664,964	8,917,841

Actuarial methods and assumptions:

Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2012 trend rate (Medical)	9.00%	9.00%
2013 trend rate (Medical)	8.50%	8.50%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	9 years	10 years
The remaining amortization period at December 31, 2012 and 2011	25 years	26 years

(10) Pension Plan

Plan Description - The Board participates in the New York State Employees' Retirement System and the Public Employees' Group Life Insurance Plan (collectively, the Retirement Systems). These are cost sharing multiple employer retirement systems. The Retirement Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State (Comptroller) serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for custody and control of their funds. The Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who join on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. For employees joining after April 1, 2012, they are required to contribute between 3% and 6%, depending on their salary, or their entire working career.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The rates billed by the Comptroller for ERS during the year ended December 31, 2012 ranged from 10.1% to 25.4% and during the year ended December 31, 2011 ranged from 12.7% to 21.5%. The required contributions for the current year and two preceding years were:

Year	Contribution
2012	$ 961,791
2011	653,821
2010	508,156

The Board's contributions made to the Retirement Systems were equal to 100 percent of the contributions required for each year.

(11) Net Position

The Board's financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted.

(11) Net Position, Continued

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

The Board's investment in capital assets, net of related debt is in a surplus position of $15,784,991 and $14,963,786 at December 31, 2012 and 2011, respectively. The increasing surplus results from the amortization of the Board's capital debt, as outstanding principal for the majority of Board's serial bonds is not paid until late into the life of the debt while depreciation occurs ratably over the life of the assets.

Restricted Net Position - This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Restricted for Capital Projects:

Amounts restricted for capital projects are $15,273,924 and $18,340,664 at December 31, 2012 and 2011, respectively. In 2007, the Board received $19,000,000 from the Power Authority under a "Relicensing Settlement Agreement." The Agreement provided for the creation of a "Niagara Falls Water Board Capital Improvement Fund." These funds are restricted for future use related to capital improvements of the Board including but not limited to any specific project including the Falls Street Tunnel project. At December 31, 2012, approximately $12,000,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2012 and 2011 of $15,909,573 and $13,236,377, respectively, are for debt service.

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

(12) Labor Relations

The majority of the Board's employees are represented by four bargaining units, with the balance governed by Board policies. Contracts for all of the bargaining units covered a six-year term which expired on December 31, 2010. The Board is currently in negotiations with the bargaining units regarding new contracts.

(13) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2012 are detailed as follows:

(a) Insurance

The Board is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters, for which the Board carries commercial insurance. On March 17, 2011, the Board approved a settlement in the amount of $635,000 for an accident claim incurred in 2010. The Board is responsible for its $500,000 deductible related to this claim with insurance covering any amounts in excess of this amount. Accordingly, an accrual of $500,000 was recorded at December 31, 2010. As of December 31, 2012 and 2011, $125,000 and $250,000, respectively, remains payable.

There were no other settlements that significantly exceeded insurance coverage for the year ended December 31, 2012.

(b) Litigation

The Board is involved in litigation arising in the ordinary course of its operations. The Board believes that its ultimate liability, if any, in connection with these matters will not have a material effect on its financial condition or results of operations.

NIAGARA FALLS WATER BOARD
Required Supplementary Information
Schedule of Funding Progress
Other Postemployment Benefits
Last three fiscal years

Fiscal year ended December 31,	Actuarial Value of assets	Actuarial Accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
2012	$ -	51,591,740	51,591,740	0%	4,771,624	1,081%
2011	-	49,882,610	49,882,610	0%	4,588,511	1,087%
2010	-	36,401,220	36,401,220	0%	4,690,329	776%

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

The Board of Directors
Niagara Falls Water Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Niagara Falls Water Board (the Board), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 4, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2012-1 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Niagara Falls Water Board's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Toski & Co., CPAs, P.C.

Williamsville, New York
April 4, 2013

NIAGARA FALLS WATER BOARD

Schedule of Findings and Responses

Year ended December 31, 2012

(2012-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2012 required significant adjusting journal entries in order to properly report them in accordance with accounting principles generally accepted in the United States of America.

Criteria - Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting and for properly presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect - Several adjusting journal entries, with a gross value of approximately $7.9 million, were recorded to correct misstatements in the financial statements as of December 31, 2012.

Cause - The misstatements resulted primarily from a deficiency in internal control over financial reporting.

Recommendation - The Board should formalize its accounting procedures and ensure that all accounts are properly reconciled to subsidiary schedules.

Management's Reply - Management is taking more of an active role supervising and reviewing the accounting records of the Board.

NIAGARA FALLS WATER BOARD

Status of Prior Audit Findings

Year ended December 31, 2012

(2011-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2011 required significant adjusting journal entries in order to properly reflect them in accordance with accounting principles generally accepted in the United States of America.

Status - During the year ended December 31, 2012, there was a significant reduction in the gross value of the adjustments required of approximately $7.9 million down from approximately $29 million in 2011.