

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE
CITY OF BUFFALO, NEW YORK
Basic Financial Statement, Required
Information and Additional Information as of
and for the Years Ended June 30, 2011 and 2010
and Independent Auditors' Report

CITY OF BUFFALO
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
City of Buffalo, New York

We have audited the accompanying statement 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, 2011 and 2010 and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Water Board and the City of Buffalo, New York's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the respective 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above are intended to present the financial position, and the changes in financial position of the City that is 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, 2011 and 2010, 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, 2011 and 2010, the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 and the required supplementary information listed in the foregoing table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Water Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the Water Board's financial statements. The additional information on pages 30 through 32 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Water Board. This additional information is the responsibility of the management of the Water Board. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Drescher & Mahesh LLP

December 13, 2011

CITY OF BUFFALO
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

As management of the City of Buffalo, New York's (the "City") Buffalo Water Board (the "Water Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Water Board for the fiscal year ended June 30, 2011 and 2010.

Financial Highlights

- The assets of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2011 by \$26,589,638 (*net assets*). Investment in capital assets (net of related debt) totaled \$12,062,469 and the balance of \$14,527,169 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, 2010 by \$25,329,624 (*net assets*). Investment in capital assets (net of related debt) totaled \$10,519,148 and the balance of \$14,810,476 was unrestricted and available to meet future obligations of the Board.
- The Water Board's net assets increased by \$1,260,014 and decreased by \$5,430,801 for the years ended June 30, 2011 and 2010, respectively.
- 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 decreased \$5,179,269 or 14.1% over the same period. Total operating and nonoperating revenues for the year ended June 30, 2010 decreased from the prior year by \$425,874 or 1.2% and total expenses increased \$4,752,104 or 14.8%.

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 reports 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) | |
|--|-----------------------|-----------------------|-----------------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Assets | | | | |
| 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 | <u>2,536,427</u> | <u>2,691,486</u> | <u>(155,059)</u> | (5.8) |
| Total assets | <u>\$ 158,226,828</u> | <u>\$ 158,410,097</u> | <u>\$ (183,269)</u> | (0.1) |
| Liabilities: | | | | |
| Current liabilities | \$ 11,696,415 | \$ 10,585,274 | \$ 1,111,141 | 10.5 |
| Noncurrent liabilities | <u>119,940,775</u> | <u>122,495,199</u> | <u>(2,554,424)</u> | (2.1) |
| Total liabilities | <u>131,637,190</u> | <u>133,080,473</u> | <u>(1,443,283)</u> | (1.1) |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 12,062,469 | 10,519,148 | 1,543,321 | 14.7 |
| Unrestricted | <u>14,527,169</u> | <u>14,810,476</u> | <u>(283,307)</u> | (1.9) |
| Total net assets | <u>\$ 26,589,638</u> | <u>\$ 25,329,624</u> | <u>\$ 1,260,014</u> | 5.0 |
| | June 30, | | Increase/(decrease) | |
| | 2010 | 2009 | Dollars | Percent |
| Assets | | | | |
| Current assets | \$ 34,738,980 | \$ 35,947,397 | \$ (1,208,417) | (3.4) |
| Capital assets | 120,979,631 | 116,126,904 | 4,852,727 | 4.2 |
| Other noncurrent assets | <u>2,691,486</u> | <u>2,192,066</u> | <u>499,420</u> | 22.8 |
| Total assets | <u>\$ 158,410,097</u> | <u>\$ 154,266,367</u> | <u>\$ 4,143,730</u> | 2.7 |
| Liabilities: | | | | |
| Current liabilities | \$ 10,585,274 | \$ 9,940,762 | \$ 644,512 | 6.5 |
| Noncurrent liabilities | <u>122,495,199</u> | <u>113,565,180</u> | <u>8,930,019</u> | 7.9 |
| Total liabilities | <u>133,080,473</u> | <u>123,505,942</u> | <u>9,574,531</u> | 7.8 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 10,519,148 | 8,941,210 | 1,577,938 | 17.6 |
| Unrestricted | <u>14,810,476</u> | <u>21,819,215</u> | <u>(7,008,739)</u> | (32.1) |
| Total net assets | <u>\$ 25,329,624</u> | <u>\$ 30,760,425</u> | <u>\$ (5,430,801)</u> | (17.7) |

The Condensed Statements of Net Assets show an increase of \$1,260,014 in net assets from \$25,329,624 at June 30, 2010 to \$26,589,638 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 assets 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. As bond proceeds are expended, the balance due to the Water Authority increases and decreases as principal payments are made. 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. 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 was reduced more than net capital assets decreased during the year.
- Unrestricted net assets decreased \$283,307. The decrease is the direct result of current year operations as addressed below and the change in the net assets invested in capital assets, net of related debt.

The Condensed Statements of Net Assets show a decrease of \$5,430,801 in net assets from \$30,760,425 at June 30, 2009 to \$25,329,624 at June 30, 2010. Significant changes from 2009 to 2010 in the Condensed Statements of Net Assets and the reasons for the changes are:

- Current assets decreased \$1,208,417. The majority of the decrease was in other receivables which decreased \$844,768. The agreement with the private operator expired on June 30, 2010 at which time all open items between the operator and the City were included in a closeout agreement with the Water Board. The receivable decrease was offset by an increase in due from the City of \$222,064 for reimbursement of expenditures related to the closeout. In addition, cash decreased \$662,549. The decrease in cash was offset by an increase in accounts receivable of \$76,837. The 2009-10 operating budget for the Water Board anticipated using \$3,791,885 of reserves to cover both operations and the debt covenants.
- Capital assets increased \$4,852,727. Capital assets additions of \$8,834,249 exceeded depreciation expense of \$3,981,522. Additions during the year included upgrades to the pumping stations, filtration plant and system infrastructure.
- Other noncurrent assets increased \$499,420, which is attributable to the deferred financing costs of the bond sale by the Buffalo Municipal Water Finance Authority (“Water Authority”) net of current year amortization expense.
- Total liabilities increased \$9,574,531; of this, current liabilities increased \$644,512 and long-term liabilities increased \$8,930,019. The increase in long-term liabilities is attributed to issuance of \$23,975,000 in debt by the Water Authority in the current year. As principal payments are made the balance decreases.

- Net assets invested in capital assets, net of related debt, increased by \$1,577,938. 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. Capital assets increased by more than the increase in related net debt service during the year.
- Unrestricted net assets decreased \$7,008,739. The decrease results primarily from current year operations as addressed below and the change in the net assets invested in capital assets, net of related debt.

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

| | Year Ended June 30, | | Increase/(decrease) | |
|--|----------------------|----------------------|---------------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Revenues: | | | | |
| Operating | \$ 36,943,085 | \$ 35,718,517 | \$ 1,224,568 | 3.4 |
| Nonoperating | <u>605,261</u> | <u>318,283</u> | <u>286,978</u> | 90.2 |
| Total revenues | <u>37,548,346</u> | <u>36,036,800</u> | <u>1,511,546</u> | 4.2 |
| Expenses: | | | | |
| General and administrative | 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 | <u>803,854</u> | <u>657,765</u> | <u>146,089</u> | 22.2 |
| Total expenses | <u>32,478,315</u> | <u>31,985,714</u> | <u>492,601</u> | 1.5 |
| Unrealized loss (gain) on derivative | <u>(862,157)</u> | <u>4,809,713</u> | <u>(5,671,870)</u> | n/a |
| Income (loss) before transfers to the City's General Fund | <u>5,932,188</u> | <u>(758,627)</u> | <u>6,690,815</u> | n/a |
| Transfers to the City's General Fund | <u>(4,672,174)</u> | <u>(4,672,174)</u> | <u>-</u> | - |
| Change in net assets | 1,260,014 | (5,430,801) | 6,690,815 | 123.2 |
| Net assets - beginning | <u>25,329,624</u> | <u>30,760,425</u> | <u>(5,430,801)</u> | (17.7) |
| Net assets - ending | <u>\$ 26,589,638</u> | <u>\$ 25,329,624</u> | <u>\$ 1,260,014</u> | 5.0 |

| | Year Ended June 30, | | Increase/(decrease) | |
|---|----------------------|----------------------|-----------------------|---------|
| | 2010 | 2009 | Dollars | Percent |
| Revenues: | | | | |
| Operating | \$ 35,718,517 | \$ 35,615,113 | \$ 103,404 | 0.3 |
| Nonoperating | <u>318,283</u> | <u>847,561</u> | <u>(529,278)</u> | (62.4) |
| Total revenues | <u>36,036,800</u> | <u>36,462,674</u> | <u>(425,874)</u> | (1.2) |
| Expenses: | | | | |
| General and administrative | 8,860,268 | 8,233,638 | 626,630 | 7.6 |
| Depreciation | 3,981,523 | 3,897,306 | 84,217 | 2.2 |
| Interest | 5,800,687 | 6,118,085 | (317,398) | (5.2) |
| Operating transfers | 12,685,471 | 13,543,406 | (857,935) | (6.3) |
| Other | <u>657,765</u> | <u>250,888</u> | <u>406,877</u> | 162.2 |
| Total expenses | <u>31,985,714</u> | <u>32,043,323</u> | <u>(57,609)</u> | (0.2) |
| Unrealized loss on derivative | <u>4,809,713</u> | <u>-</u> | <u>4,809,713</u> | n/a |
| Income (loss) before transfers to the City's General Fund | <u>(758,627)</u> | <u>4,419,351</u> | <u>(5,177,978)</u> | n/a |
| Transfers to the City's General Fund | <u>(4,672,174)</u> | <u>(4,672,174)</u> | <u>-</u> | - |
| Change in net assets | (5,430,801) | (252,823) | (5,177,978) | 2,048.1 |
| Net assets - beginning | <u>30,760,425</u> | <u>31,013,248</u> | <u>(252,823)</u> | (0.8) |
| Net assets - ending | <u>\$ 25,329,624</u> | <u>\$ 30,760,425</u> | <u>\$ (5,430,801)</u> | (17.7) |

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. The excess of expenses and transfers out over revenues results in the Water Board's decrease in net assets.

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.
- Non-operating 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:

- General and administrative 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 an unrealized gain of \$862,157 in 2011 due to market fluctuation.

Significant changes from the year ended June 30, 2009 to the year ended June 30, 2010 in revenue and expenses for the Water Board include the following:

- Operating revenues increased \$103,404, or 0.3%, from the prior year. Charges for services declined \$23,405. This change is the result of a decrease in both the number of customers and actual water consumption between the two years. Miscellaneous revenues increased \$126,809 as the result of the close out agreement with the operator.
- Non-operating revenues decreased \$529,278 or 62.4%. Interest revenue declined due to the reduction in interest rates.
- Overall, expenses decreased \$57,609, or 0.2%, over prior year. The reason for this decrease is a combination of factors, as follows:
 - General and administrative expenses increased by \$626,630. The increase was the result of reimbursing the operator for the cost of street cuts totaling \$918,575 attributed to expenditures made during the contract period. This expenditure was offset by miscellaneous revenues as part of the closeout with the operator. Depreciation expense increased \$84,217 as a result of additional assets acquired during the year.
 - Interest costs decreased \$317,398 based on outstanding debt schedules. \$23,975,000 in debt for new projects was issued at the end of the year.
 - Operating transfers decreased \$857,938 as a result of a decrease in expenditures in both the Water Enterprise Fund and the Water Authority. No additional electricity costs were passed down from the operator to the Water Enterprise Fund in 2010 as compared to \$1,127,060 in 2009.
 - Other operating expenses increased by \$5,216,590. Other expenses increased \$406,877 as additional capital outlay expenditures for new meters were made with operating funds in the 2010 fiscal year.
- In accordance with GASB 51, *Accounting and Reporting for Derivative Instruments*, an unrealized loss of \$4,809,713 was recorded, representing the change in fair value of the swap during the current fiscal year.

Budgetary Highlights

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. In addition, there was a negative budget variance of \$33,430 in transfers to the Division of Water, which resulted from unbudgeted fringe benefit costs for other post employment benefits. Total non-operating expenses exceeded budget by \$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. Additionally, the unrealized gain on the derivative of \$862,157 was not included in the budget.

For the year ended June 30, 2010, the total of expenses and transfers out in the Water Board's 2009-2010 amended budget were \$1,673,596 greater than the original budget. The final 2009-2010 budget includes \$710,036 of funds appropriated for prior year encumbrances. Additionally, a \$963,560 increase in appropriations was necessary for capital outlays from the ongoing projects reserve. There were no amendments to the budgeted revenues during 2010. Comparing the final budget with actual results, total charges for services were \$859,059 less than budget. Included within total charges for services is a negative variance in meter rates of \$1,048,565 and within flat rates of \$259,960. Both the number of active accounts and the consumption of water by metered customers declined. In addition, interest on meter rates was \$366,984 above budget due to slower collection of receivables. Nonoperating revenues, representing interest earnings, were \$57,117 less than budget. This negative variance in interest earnings was the result of a decrease in interest rates.

Comparing the final 2009-2010 budget with actual results, total operating expenses, excluding operating transfers out, were \$3,072,838 more than budgeted. Significant deficit operating expenses budget variances for 2010 included depreciation of \$3,981,523. These expenses are not budgeted for annually, as water rates are not intended to cover the cost of non-cash related expenditures, which resulted in such negative variances. In addition, there was a negative budget variance of \$38,739 in services and supplies which resulted from one-time costs associated with the closeout of the operator contact. Total non-operating expenses exceeded budget by \$10,631,892; of this total, bond interest represents \$5,196,019 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$14,087,158. This positive variance also includes amounts for principal and depreciation which are budgeted for but not actually transferred. Transfers to the Division of Water were \$182,612 less than budget due to a budgetary excess for electricity.

Capital Assets and Debt Financing

Capital Assets. At June 30, 2011 and 2010, the Board had \$121,937,741 and \$120,979,631, respectively, invested in capital assets, as reflected in Table 3 below. At June 30, 2011, the change represents a net increase of \$958,110, or 0.8%, from June 30, 2010, consisting of the installation of a backup generator at the Colonel Ward pumping station, rehabilitation of pumps at the filtration plant and infrastructure. While at June 30, 2010, the change represents a net increase of \$4,852,727, or 4.2%, from June 30, 2009, which was primarily the result of improvements made to the Colonel Ward pumping station and infrastructure.

Table 3 – Capital Assets

| | 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 |

| | June 30, | | Increase/(decrease) | |
|----------------------------|-----------------------|-----------------------|---------------------|---------|
| | 2010 | 2009 | Dollars | Percent |
| Land | \$ 145,116 | \$ 145,116 | \$ - | - |
| Construction in progress | 713,135 | 1,029,439 | (316,304) | (30.7) |
| Buildings and improvements | 79,406,580 | 73,993,095 | 5,413,485 | 7.3 |
| Equipment | 1,438,760 | 1,316,650 | 122,110 | 9.3 |
| Infrastructure | 91,634,165 | 88,276,243 | 3,357,922 | 3.8 |
| Total capital assets | 173,337,756 | 164,760,543 | 8,577,213 | 5.2 |
| Accumulated depreciation | (52,358,125) | (48,633,639) | (3,724,486) | 7.7 |
| Net capital assets | <u>\$ 120,979,631</u> | <u>\$ 116,126,904</u> | <u>\$ 4,852,727</u> | 4.2 |

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 \$1,934,051 and \$2,365,720 of outstanding General Obligation Bonds at June 30, 2011 and 2010, respectively, which were issued to finance water projects. This debt will be fully paid in 2018. The Water Authority has \$155,565,000 and \$161,400,000 of Revenue Bonds outstanding at June 30, 2011 and 2010, 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 2012 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.

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

| | June 30, | |
|---|-----------------------|-----------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,225,914 | \$ 29,695,520 |
| Accounts receivable—water (less allowance for doubtful accounts of \$13,206,655 and \$12,285,583 at June 30, 2011 and 2010, respectively) | 3,303,510 | 3,702,859 |
| Other receivables | 866,646 | 991,112 |
| Due from City of Buffalo | 222,064 | 222,064 |
| Due from other agencies | 134,526 | 127,425 |
| Total current assets | <u>33,752,660</u> | <u>34,738,980</u> |
| Noncurrent assets: | | |
| Capital assets not being depreciated: | | |
| Land | 145,116 | 145,116 |
| Construction in progress | 941,374 | 713,135 |
| Capital assets being depreciated: | | |
| Buildings and improvements | 82,137,356 | 79,406,580 |
| Machinery and equipment | 1,275,718 | 1,438,760 |
| Infrastructure | 93,736,395 | 91,634,165 |
| Accumulated depreciation | <u>(56,298,218)</u> | <u>(52,358,125)</u> |
| Total capital assets being depreciated | 120,851,251 | 120,121,380 |
| Deferred financing costs | <u>2,536,427</u> | <u>2,691,486</u> |
| Total noncurrent assets | <u>124,474,168</u> | <u>123,671,117</u> |
| Total assets | <u>\$ 158,226,828</u> | <u>\$ 158,410,097</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts and retainages payable | \$ 2,365,608 | \$ 2,765,144 |
| Due to Buffalo Municipal Water Finance Authority | 6,505,000 | 5,835,000 |
| Due to City of Buffalo Division of Water | 2,635,146 | 1,837,200 |
| Due to City of Buffalo | <u>190,661</u> | <u>147,930</u> |
| Total current liabilities | <u>11,696,415</u> | <u>10,585,274</u> |
| Noncurrent liabilities | | |
| Accrued derivative liability | 3,897,514 | 4,759,671 |
| Due to Buffalo Municipal Water Finance Authority | 107,558,792 | 110,561,296 |
| Due to City of Buffalo Division of Water | <u>8,484,469</u> | <u>7,174,232</u> |
| Total noncurrent liabilities | <u>119,940,775</u> | <u>122,495,199</u> |
| Total liabilities | <u>131,637,190</u> | <u>133,080,473</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 12,062,469 | 10,519,148 |
| Unrestricted | <u>14,527,169</u> | <u>14,810,476</u> |
| Total net assets | <u>\$ 26,589,638</u> | <u>\$ 25,329,624</u> |

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

CITY OF BUFFALO
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, | |
|---|----------------------|----------------------|
| | 2011 | 2010 |
| Operating revenues: | | |
| Charges for services | \$ 36,685,528 | \$ 35,260,941 |
| Other operating revenues | <u>257,557</u> | <u>457,576</u> |
| Total operating revenues | <u>36,943,085</u> | <u>35,718,517</u> |
| Operating expenses: | | |
| Services and supplies | 5,633,356 | 8,860,268 |
| Depreciation | 4,164,885 | 3,981,523 |
| Other | 803,854 | 657,765 |
| Net operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water | <u>14,801,809</u> | <u>12,685,471</u> |
| Total operating expenses | <u>25,403,904</u> | <u>26,185,027</u> |
| Operating income | 11,539,181 | 9,533,490 |
| Nonoperating revenues (expenses): | | |
| Interest income | 363,819 | 318,283 |
| Interest expense | (7,074,411) | (5,800,687) |
| Other | 241,442 | - |
| Unrealized gain (loss) on derivative | <u>862,157</u> | <u>(4,809,713)</u> |
| Total nonoperating revenues (expenses) | <u>(5,606,993)</u> | <u>(10,292,117)</u> |
| Income (loss) before transfers to the City's General Fund | 5,932,188 | (758,627) |
| Transfers to the City's General Fund | <u>(4,672,174)</u> | <u>(4,672,174)</u> |
| Change in net assets | 1,260,014 | (5,430,801) |
| Total net assets—beginning | <u>25,329,624</u> | <u>30,760,425</u> |
| Total net assets—ending | <u>\$ 26,589,638</u> | <u>\$ 25,329,624</u> |

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

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

| | Year Ended June 30, | |
|---|----------------------|----------------------|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 37,463,315 | \$ 36,486,531 |
| Operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water | (14,801,809) | (12,685,471) |
| Cash payments for goods and services | <u>(6,840,263)</u> | <u>(8,526,094)</u> |
| Net cash provided by operating activities | <u>15,821,243</u> | <u>15,274,966</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Transfers to the City of Buffalo General Fund | (4,672,174) | (4,672,174) |
| Advances from other funds | <u>(181,589)</u> | <u>3,600,856</u> |
| Net cash (used) by noncapital financing activities | <u>(4,853,763)</u> | <u>(1,071,318)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (5,122,995) | (8,834,250) |
| Interest payments | <u>(6,677,910)</u> | <u>(6,350,147)</u> |
| Net cash (used) by capital and related financing activities | <u>(11,800,905)</u> | <u>(15,184,397)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest earned on short-term investments | <u>363,819</u> | <u>318,200</u> |
| Net cash provided by capital and related financing activities | <u>363,819</u> | <u>318,200</u> |
| Net (decrease) in cash and cash equivalents | (469,606) | (662,549) |
| Cash and cash equivalents—beginning | <u>29,695,520</u> | <u>30,358,069</u> |
| Cash and cash equivalents—ending | <u>\$ 29,225,914</u> | <u>\$ 29,695,520</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 11,539,181 | \$ 9,533,490 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,164,884 | 3,981,523 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 399,349 | (76,837) |
| Decrease in other receivables | 124,466 | 844,851 |
| (Increase) in due from other agencies | (7,101) | - |
| (Decrease) increase in accounts and retentions payable | (399,536) | 992,754 |
| (Decrease) in other accrued liabilities | <u>-</u> | <u>(815)</u> |
| Net cash provided by operating activities | <u>\$ 15,821,243</u> | <u>\$ 15,274,966</u> |

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

CITY OF BUFFALO
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Buffalo Water Board (the “Water Board”) is a public benefit corporation created pursuant to Section 1049 of Title 2-B of Article V of the New York State Public Authorities Law (the “Act”). According to the Act, the Water Board may establish rates and charges for water and related services to fund the costs of the operation, management, maintenance and repairs for the Buffalo Water System (the “Water System”). The Water Board is a blended component unit of the City of Buffalo, New York (the “City”), and as such, is included in the City’s basic financial statements.

The Water Board acquired title to the Water System from the City for \$26,536,880 plus assumed liabilities of approximately \$31,000,000 in 1992. The transfer was recorded as its net book value. The Water Board also entered into an Operation Agreement with the City, contracting with the City of Buffalo Division of Water (the “Division of Water”) to operate, manage and maintain the Water System. By an amendment dated August 1, 1997, the management of the operation and maintenance of the Water System is performed by a private contractor under contract to the Water Board (the “Private Operator”). The Water Board is responsible for generating sufficient revenues to meet the debt service requirements of the City related to the Water System.

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

Amounts transferred to the Division of Water for Water System operations and to the Water Authority for its administrative costs are shown as direct operating expenses in the statement of revenues, expenses and changes in net 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 Standard 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, 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 post employment benefits for employees which were not included in the budget. Of note, the budget did not include an appropriation for the unrealized gain on the derivative of \$862,157 in the current year.

For the year ended June 30, 2010, 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 \$3,981,523, \$569,043, and \$5,196,019, 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 \$14,087,158 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, the budget did not include an appropriation for the unrealized loss on the SWAP of \$4,809,713 that resulted from adopting GASB Statement No. 53. In addition, there was a negative budget variance of \$691,108 in services which resulted from one-time costs associated with the closeout of the operator contract.

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, 2011, was \$29,225,914 and the bank balances were \$29,050,230. The carrying amount of cash in banks, including certificates of deposit, at June 30, 2010, was \$29,695,520, and the bank balances were \$29,705,033.

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, 2011 and 2010, 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, 2011 and 2010, 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 Government Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which required the Board to consider whether the magnitude of the decline in service utility is significant and unexpected. Based on such review, the Board concluded that no impairment loss need be recognized for capital assets for the year ended June 30, 2011 and 2010.

Allocated Costs—Certain services associated with operating the Water Board are performed by the City. During the years ended June 30, 2011 and 2010, the Water Board transferred \$4,672,174 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, 2011, the Board adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*, which did not have a material impact on the 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. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 GASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and New Position*, and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for the year ending June 30, 2012, and GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending June 30, 2013. The Water Board is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 57, 60, 61, 62, 63, and 64 will have on its financial position and results of operations.

2. ACCOUNTS RECEIVABLE

Accounts receivable as of year-end for the Water Board and related allowance for uncollectible accounts as of June 30, 2011 and 2010, are as follows:

| | June 30, 2011 | | |
|-----------------------------|----------------------|------------------------|---------------------|
| | Receivable | Allowance | Net |
| Accounts receivable — water | \$ 16,510,165 | \$ (13,206,655) | \$ 3,303,510 |
| Accounts receivable — other | 866,646 | - | 866,646 |
| Due from the City | 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> |
| | June 30, 2010 | | |
| | Receivable | Allowance | Net |
| Accounts receivable — water | \$ 15,988,442 | \$ (12,285,583) | \$ 3,702,859 |
| Accounts receivable — other | 991,112 | - | 991,112 |
| Due from the City | 222,064 | - | 222,064 |
| Due from other agencies | 127,425 | - | 127,425 |
| | <u>\$ 17,329,043</u> | <u>\$ (12,285,583)</u> | <u>\$ 5,043,460</u> |

3. CAPITAL ASSETS

A summary of capital assets activity for the years ended June 30, 2011 and 2010 are as follows:

| | 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> |
| | | | | |
| | Balance July 1, 2009 | Increases and Reclassifications | Decreases and Reclassifications | Balance June 30, 2010 |
| Capital assets not being depreciated | | | | |
| Land | \$ 145,116 | \$ - | \$ - | \$ 145,116 |
| Construction in progress | 1,029,439 | 9,807,972 | (10,124,276) | 713,135 |
| Total capital assets not being depreciated | <u>1,174,555</u> | <u>9,807,972</u> | <u>(10,124,276)</u> | <u>858,251</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 73,993,095 | 5,413,485 | - | 79,406,580 |
| Equipment | 1,316,650 | 379,146 | (257,036) | 1,438,760 |
| Infrastructure | 88,276,243 | 3,357,922 | - | 91,634,165 |
| Total capital assets, being depreciated | <u>163,585,988</u> | <u>9,150,553</u> | <u>(257,036)</u> | <u>172,479,505</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 13,610,580 | 1,512,076 | - | 15,122,656 |
| Equipment | 1,040,599 | 166,674 | (257,036) | 950,237 |
| Infrastructure | 33,982,460 | 2,302,772 | - | 36,285,232 |
| Total accumulated depreciation | <u>48,633,639</u> | <u>3,981,522</u> | <u>(257,036)</u> | <u>52,358,125</u> |
| Total capital assets being depreciated, net of accumulated depreciation | <u>114,952,349</u> | <u>5,169,031</u> | <u>-</u> | <u>120,121,380</u> |
| Capital assets, net of accumulated depreciation | <u>\$ 116,126,904</u> | <u>\$ 14,977,003</u> | <u>\$ (10,124,276)</u> | <u>\$ 120,979,631</u> |

4. 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, 2011. 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, 2011, is as follows:

| Year Issued | Original Amount | Interest Rates (%) | Last Payment | Balance July 1, 2010 | Additions and Reclassifications | Deductions and Reclassifications | Balance June 30, 2011 | Due Within One Year |
|-----------------------------|-----------------|--------------------|--------------|-----------------------|---------------------------------|----------------------------------|-----------------------|---------------------|
| 1998 | \$ 16,325,000 | 4.0-4.75 | 2013 | \$ 830,000 | - | \$ 265,000 | \$ 565,000 | \$ 275,000 |
| 1998 | 49,715,000 | 4.0-5.0 | 2027 | 8,900,000 | - | 2,720,000 | 6,180,000 | 2,850,000 |
| 2002 | 11,785,000 | 2.5-4.75 | 2018 | 2,375,000 | - | 255,000 | 2,120,000 | 265,000 |
| 2002 | 4,379,279 | 1.533-5.123 | 2022 | 2,925,000 | - | 205,000 | 2,720,000 | 210,000 |
| 2003 | 3,901,741 | 2.596-6.306 | 2031 | 3,240,000 | - | 100,000 | 3,140,000 | 105,000 |
| 2006 | 19,917,236 | 3.607-4.794 | 2028 | 17,000,000 | - | 735,000 | 16,265,000 | 750,000 |
| 2007 | 13,010,000 | 3.6-4.375 | 2038 | 12,545,000 | - | 245,000 | 12,300,000 | 255,000 |
| 2008 | 29,220,000 | 5.0 | 2027 | 28,900,000 | - | - | 28,900,000 | - |
| 2008 | 62,020,000 | 3.7-5.07 | 2036 | 60,710,000 | - | 1,310,000 | 59,400,000 | 1,335,000 |
| 2010 | 23,975,000 | 2.02-6.89 | 2040 | 23,975,000 | - | - | 23,975,000 | 460,000 |
| | | | | 161,400,000 | - | 5,835,000 | 155,565,000 | 6,505,000 |
| Unamortized premium | | | | 1,589,112 | - | 228,559 | 1,360,553 | - |
| Unamortized discount | | | | (169,172) | - | (6,266) | (162,906) | - |
| Unamortized refunding costs | | | | (5,413,759) | - | (427,060) | (4,986,699) | - |
| Net bonded debt | | | | <u>\$ 157,406,181</u> | <u>\$ -</u> | <u>\$ 5,630,233</u> | <u>\$ 151,775,948</u> | <u>\$ 6,505,000</u> |

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, 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 Water Board to the Water Authority totals \$114,063,792 of which \$6,505,000 is recorded as a current liability and \$107,558,792 as a noncurrent asset.

The amount of proceeds expended net of principal payments made as of June 30, 2010, was \$124,453,792 (which represents the outstanding proceeds of \$161,400,000, net of the unexpended funds of \$36,946,208). Additionally, the Water Authority owes the Water Board \$8,057,496 as of June 30, 2010, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Water Board to the Water Authority totals \$116,396,296 of which, \$5,835,000 is recorded as a current liability and \$110,561,296 as a noncurrent asset.

Remaining annual maturities on long-term obligations of the Buffalo Municipal Water Finance Authority at June 30, 2011 are as follows:

| <u>Fiscal Year</u> | <u>Water Authority Bonds</u> |
|--------------------|--------------------------------------|
| 2012 | 6,505,000 |
| 2013 | 6,740,000 |
| 2014 | 7,020,000 |
| 2015 | 7,280,000 |
| 2016 | 7,620,000 |
| 2017-2021 | 39,720,000 |
| 2022-2026 | 31,515,000 |
| 2027-2031 | 30,030,000 |
| 2032-2036 | 11,330,000 |
| 2037-2041 | 7,805,000 |
| | <u>\$ 155,565,000</u> |

General Bonded Debt—Total general bonded debt as financed through the City of Buffalo, Division of Water at June 30, 2011 is as follows:

| Calendar Year Issues | Original Amount | Interest Rates (%) | Year of Last Payment | Balance June 30, 2010 | Additions | Deductions | Balance June 30, 2011 | Due Within One Year |
|----------------------------|--------------------|-----------------------|----------------------------|--------------------------|-------------|-------------------|--------------------------|---------------------------|
| 1998 | 1,585,000 | 4.0-5.0 | 2011 | \$ 320,000 | \$ - | \$ 185,000 | \$ 135,000 | \$ 135,000 |
| 2005 | 4,064,877 | 5.0 | 2018 | 2,045,720 | - | 246,669 | 1,799,051 | 258,894 |
| Total | | | | <u>\$ 2,891,435</u> | <u>\$ -</u> | <u>\$ 431,669</u> | <u>\$ 1,934,051</u> | <u>\$ 393,894</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 |
|----------------|---------------------|--------------------------------|--------------------------|---------------------------|--|---------------------|----------------------|
| 2012 | \$ 393,894 | \$ 259,180 | \$ 38,295 | \$ 242,118 | \$ - | \$ 1,701,659 | \$ 2,635,146 |
| 2013 | 271,752 | - | - | - | - | 95,706 | 367,458 |
| 2014 | 301,137 | - | - | - | - | 74,725 | 375,862 |
| 2015 | 315,852 | - | - | - | - | 54,298 | 370,150 |
| 2016 | 331,797 | - | - | - | - | 35,043 | 366,840 |
| 2017-2021 | 319,619 | - | - | - | - | 25,166 | 344,785 |
| Beyond | - | - | 791,122 | 156,252 | 5,712,000 | - | 6,659,374 |
| Total | <u>\$ 1,934,051</u> | <u>\$ 259,180</u> | <u>\$ 829,417</u> | <u>\$ 398,370</u> | <u>\$ 5,712,000</u> | <u>\$ 1,986,597</u> | <u>\$ 11,119,615</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, 2011, are as follows:

| <u>Fiscal Year</u> | <u>Water Authority</u> | <u>Division of Water</u> |
|--------------------|------------------------|--------------------------|
| 2012 | \$ 6,924,351 | \$ 93,159 |
| 2013 | 6,642,089 | 77,008 |
| 2014 | 6,353,241 | 63,420 |
| 2015 | 6,039,966 | 48,363 |
| 2016 | 5,728,898 | 32,571 |
| 2017-2021 | 23,144,824 | 24,354 |
| 2022-2026 | 15,560,799 | - |
| 2027-2031 | 8,380,993 | - |
| 2032-2036 | 4,000,235 | - |
| 2037-2041 | 1,194,953 | - |
| | <u>\$ 83,970,349</u> | <u>\$ 338,875</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 \$829,417 and \$988,086 at June 30, 2011 and 2010, 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, 2011. Due to retirement systems was \$259,180 and \$189,362 at June 30, 2011 and 2010, 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:

| | <u>Balance July 1, 2010</u> | <u>Additions/ Adjustments</u> | <u>Deductions/ Adjustments</u> | <u>Balance June 30, 2011</u> | <u>Due Within One Year</u> |
|---|---------------------------------|-----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| Due to Buffalo Municipal Water Finance Authority | \$ 116,396,296 | \$ 4,553,697 | \$ 6,886,201 | \$ 114,063,792 | \$ 6,505,000 |
| Due to City of Buffalo Division of Water | <u>9,011,432</u> | <u>4,191,556</u> | <u>2,083,373</u> | <u>11,119,615</u> | <u>2,635,146</u> |
| Total | <u>\$ 125,407,728</u> | <u>\$ 8,745,253</u> | <u>\$ 8,969,574</u> | <u>\$ 125,183,407</u> | <u>\$ 9,140,146</u> |

5. 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 \$398,370 and \$349,031 at June 30, 2011 and 2010, respectively.

6. 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, 2011 and 2010, Water's annual OPEB cost (expense) of approximately \$2,990,543 and \$2,329,008, respectively, is not equal to the Annual Required Contribution of approximately \$2,989,300 and \$2,301,900, respectively. Considering the annual expense as well as payment for current health insurance premiums which totaled approximately \$1,053,000 and \$878,570 for the years ended June 30, 2011 and 2010, respectively, for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$1,937,543 and \$1,450,438 for the years ended June 30, 2011 and 2010, respectively.

| | Year Ended June 30, | |
|--|---------------------|---------------------|
| | 2011 | 2010 |
| Annual OPEB Cost and Net OPEB Obligation | | |
| Actuarial accrued liability (AAL) | \$ 43,295,900 | \$ 32,153,800 |
| Unfunded actuarial accrued liability (UAAL) | \$ 43,295,900 | \$ 32,153,800 |
| Normal cost - beginning of the year | \$ 1,654,400 | \$ 1,127,100 |
| Amortization factor based on 30 years | 26.2 | 26.2 |
| Annual covered payroll | \$ 5,975,977 | \$ 6,089,858 |
| UAAL as a percentage of covered payroll | 724.50% | 527.99% |
| Level Dollar Amortization | | |
| Calculation of ARC Under Projected Unit Credit Method | | |
| ARC normal cost with interest - end of year | \$ 1,276,300 | \$ 1,018,300 |
| UAAL over 30 years with interest - end of year | 1,654,400 | 1,227,100 |
| Interest | <u>58,600</u> | <u>56,100</u> |
| Annual required contribution (ARC) | 2,989,300 | 2,301,500 |
| Interest on net OPEB obligation | 151,000 | 116,201 |
| Adjustment to ARC | <u>(149,757)</u> | <u>(88,693)</u> |
| Annual OPEB cost (expense) | 2,990,543 | 2,329,008 |
| Contribution for years ended June 30, 2011 and 2010 | <u>(1,053,000)</u> | <u>(878,570)</u> |
| Increase in net OPEB obligation | 1,937,543 | 1,450,438 |
| Net OPEB obligation - beginning | <u>3,774,457</u> | <u>2,324,019</u> |
| Net OPEB obligation - ending | <u>\$ 5,712,000</u> | <u>\$ 3,774,457</u> |
| Percent of annual OPEB cost contributed | 35.21% | 37.72% |

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, 2010 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.

7. SUBSEQUENT EVENTS

In July 2011, the New York State Environmental Facilities Corporation issued \$2,720,000 of refunding bonds for the Buffalo Municipal Water Finance Authority. Principal payments begin on April 15, 2012 and mature in 2022. These bonds bear an interest rate ranging between 0.6% and 3.6%.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF BUFFALO
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 |
|-------------------------------------|--------------------|-------------------|-------------------|---------------------|
| OPERATING REVENUES: | | | | |
| 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> |
| OPERATING EXPENSES: | | | | |
| Service 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 service 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
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 |
|---|----------------------|----------------------|----------------------|---------------------|
| NONOPERATING REVENUES (EXPENSES): | | | | |
| 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 |
| Unrealized gain (loss) on derivative | - | - | 862,157 | 862,157 |
| Total nonoperating revenues (expenses) | <u>375,400</u> | <u>375,400</u> | <u>(5,606,993)</u> | <u>(5,982,393)</u> |
| Excess of revenues over expenses | <u>2,834,459</u> | <u>568,987</u> | <u>5,932,188</u> | <u>5,363,201</u> |
| OTHER FINANCING USES: | | | | |
| 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) | 1,260,014 | 5,363,201 |
| Net assets—beginning | <u>25,329,624</u> | <u>25,329,624</u> | <u>25,329,624</u> | <u>-</u> |
| Net assets—ending | <u>\$ 23,491,909</u> | <u>\$ 21,226,437</u> | <u>\$ 26,589,638</u> | <u>\$ 5,363,201</u> |

CITY OF BUFFALO
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, 2010

| | Original Budget | Final Budget | Actual | Variance |
|-------------------------------------|--------------------|--------------------|-------------------|---------------------|
| OPERATING REVENUES: | | | | |
| Charges for services: | | | | |
| Meter rates | \$ 29,000,000 | \$ 29,000,000 | \$ 27,951,435 | \$ (1,048,565) |
| Flat rates | 4,310,000 | 4,310,000 | 4,050,040 | (259,960) |
| Charges for collection services | 740,000 | 740,000 | 835,256 | 95,256 |
| Buffalo Sewer Authority | 509,700 | 509,700 | 509,700 | - |
| Hydrant rates | 85,000 | 85,000 | 75,899 | (9,101) |
| General labor and supplies | 270,000 | 270,000 | 196,688 | (73,312) |
| Utility turn-on fees | 300,000 | 300,000 | 282,269 | (17,731) |
| Installation of corporation cocks | 95,000 | 95,000 | 81,903 | (13,097) |
| Installation and repair of meters | 30,000 | 30,000 | 50,160 | 20,160 |
| Interest on meter rates receivable | 625,000 | 625,000 | 991,984 | 366,984 |
| Interest on flat rates receivable | 100,000 | 100,000 | 201,373 | 101,373 |
| Miscellaneous | 56,300 | 56,300 | 34,234 | (22,066) |
| Total charges for services | <u>36,121,000</u> | <u>36,121,000</u> | <u>35,260,941</u> | <u>(860,059)</u> |
| Other revenues: | | | | |
| Miscellaneous | 127,877 | 127,877 | 457,576 | 329,699 |
| Total other revenues | <u>127,877</u> | <u>127,877</u> | <u>457,576</u> | <u>329,699</u> |
| Total operating revenues | <u>36,248,877</u> | <u>36,248,877</u> | <u>35,718,517</u> | <u>(530,360)</u> |
| OPERATING EXPENSES: | | | | |
| Service and supplies: | | | | |
| Materials and supplies | 100 | 100 | - | 100 |
| Services | 1,421,566 | 1,662,704 | 2,353,812 | (691,108) |
| Payment to operator | 6,506,456 | 6,506,456 | 6,506,456 | - |
| Reserve for uncollected receivables | 825,000 | 652,269 | - | 652,269 |
| Operating transfers to: | | | | |
| City of Buffalo Division of Water | 12,225,064 | 12,225,064 | 12,042,452 | 182,612 |
| Water Authority | 14,730,177 | 14,730,177 | 643,019 | 14,087,158 |
| Total service and supplies | <u>35,708,363</u> | <u>35,776,770</u> | <u>21,545,739</u> | <u>14,231,031</u> |
| Other : | | | | |
| Depreciation | - | - | 3,981,523 | (3,981,523) |
| Capital Outlay | - | 1,605,189 | 657,765 | 947,424 |
| Total depreciation and amortization | <u>-</u> | <u>1,605,189</u> | <u>4,639,288</u> | <u>(3,034,099)</u> |
| Total operating expenses | <u>35,708,363</u> | <u>37,381,959</u> | <u>26,185,027</u> | <u>11,196,932</u> |
| Operating income | <u>540,514</u> | <u>(1,133,082)</u> | <u>9,533,490</u> | <u>(10,666,572)</u> |

(continued)

CITY OF BUFFALO
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, 2010

(concluded)

| | Original Budget | Final Budget | Actual | Variance |
|---|----------------------|----------------------|----------------------|---------------------|
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Interest | 375,400 | 375,400 | 318,283 | (57,117) |
| Authority bond interest expense | (35,625) | (35,625) | (5,231,644) | (5,196,019) |
| Amortization | - | - | (569,043) | (569,043) |
| Unrealized loss on derivative | - | - | (4,809,713) | (4,809,713) |
| Total nonoperating revenues (expenses) | <u>339,775</u> | <u>339,775</u> | <u>(10,292,117)</u> | <u>(10,631,892)</u> |
| Excess of revenues over expenses | <u>880,289</u> | <u>(793,307)</u> | <u>(758,627)</u> | <u>34,680</u> |
| OTHER FINANCING USES: | | | | |
| 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 | (3,791,885) | (5,465,481) | (5,430,801) | 34,680 |
| Net assets—beginning | <u>30,760,425</u> | <u>30,760,425</u> | <u>30,760,425</u> | <u>-</u> |
| Net assets—ending | <u>\$ 26,968,540</u> | <u>\$ 25,294,944</u> | <u>\$ 25,329,624</u> | <u>\$ 34,680</u> |

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ADDITIONAL INFORMATION

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

| Effective Date | Metered Rate Bills | |
|-------------------|----------------------------|-------------------|
| | Regular | Percent Change |
| July 1, 2006 | 18.99 per 1,000 cubic feet | - |
| 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 |

Source: Division of Water

CITY OF BUFFALO
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 |
|-------------------------|------------------|----------------------|---|
| 2007 | \$ 4,845,084 | \$ 4,812,499 | 99.3 % |
| 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 |

METER RATE ACCOUNTS

| Years Ended June 30, | Water Billing | Total Collections | Percent of Total Collections to Total Current Billings |
|-------------------------|------------------|----------------------|---|
| 2007 | \$ 30,739,580 | \$ 30,265,469 | 98.5 % |
| 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 |

ALL ACCOUNTS

| Years Ended June 30, | Water Billing | Total Collections | Percent of Total Collections to Total Current Billings |
|-------------------------|------------------|----------------------|---|
| 2007 | \$ 35,584,664 | \$ 35,077,968 | 98.6 % |
| 2008 | 33,375,720 | 34,144,169 | 102.3 |
| 2009 | 32,164,615 | 32,328,559 | 100.5 |
| 2010 | 32,276,498 | 32,169,838 | 99.7 |
| 2011 | 35,280,899 | 30,383,421 | 86.1 |

Source: Division of Water

CITY OF BUFFALO
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Top Ten Accounts By Usage
Year Ended June 30, 2011

| | Usage (per Cubic Foot) | Charges |
|--|---------------------------|------------|
| OAB Holding, Inc | 48,029,000 | \$ 739,409 |
| Buffalo Municipal Housing Authority (including Marine Drive) | 37,865,165 | 733,033 |
| Roswell Park Cancer Institute | 20,349,653 | 385,297 |
| Erie County Medical Center | 25,085,300 | 382,331 |
| Tyson Foods | 21,410,228 | 315,426 |
| Sorrento Lactalis, Inc | 20,142,500 | 303,134 |
| Buffalo Sewer Authority | 17,344,889 | 273,287 |
| Buffalo State College | 14,158,518 | 236,395 |
| State University of New York at Buffalo | 13,111,704 | 229,819 |
| VA Financial Services Center | 12,691,240 | 196,105 |

Source: Veolia Water Service

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