

CITY OF BUFFALO, NEW YORK
MUNICIPAL WATER
FINANCE AUTHORITY
A COMPONENT UNIT OF THE
CITY OF BUFFALO, NEW YORK
Basic Financial Statements for the
Years Ended June 30, 2010 and 2009,
Required Supplementary Information and
Independent Auditors' Report

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City"), as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's and the City of Buffalo, New York's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above are intended to present the financial position, and the changes in financial position of the City that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2010 and 2009, and the changes in its financial position and budgetary comparison for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements referred to previously present fairly, in all material respects, the financial position of the Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 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 Authority. 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.

Drescher & Malecki LLP

November 30, 2010

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
For the Years Ended June 30, 2010 and 2009

As management of the City of Buffalo, New York's (the "City") Buffalo Municipal Water Finance Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2010 and 2009.

Financial Highlights

- The Authority's restricted cash increased \$15,271,623 from June 30, 2009 to June 30, 2010 which represents unexpended cash from \$23,975,000 revenue bonds for capital projects issued by the Authority during fiscal year ended June 30, 2010.
- The Authority's restricted cash decreased \$2,410,935 from June 30, 2008 to June 30, 2009 and no new debt for capital projects was issued by the Authority during fiscal year ending June 30, 2009

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements.

The basic financial statements consist of two components: the financial statements and the notes which provide additional information that is essential to a full understanding of the data provided in the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

The City uses an enterprise fund to account for the activities of the Authority, which reports information about the general operations of the Authority. The Authority was established to issue debt for the Buffalo Water Board.

The basic financial statements of the Authority reports information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the Authority's operations over the past year.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities. The Statement of Cash Flows provides information related to the sources of cash, the uses of cash, and the change in the cash balance during the reporting period.

Financial Analysis

Our analysis of the financial statements of the Authority begins below. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities. These two statements report the net assets of the Authority and changes in them. Net assets, the difference between assets and liabilities, are one way to measure financial health or financial position. In accordance with a financing agreement, the Buffalo Water Board is required to transfer funds to the Authority to cover the expenses of the Authority, and any fund transfers to the Authority that are not needed for current year operations are returned to the Water Board. Therefore, the Authority does not accumulate any net assets.

Table 1 - Condensed Statements of Net Assets (Deficit)

	June 30,		Increase/(decrease)	
	2010	2009	Dollars	Percent
Current assets:				
Cash	\$ 213,425	\$ 215,366	\$ (1,941)	(0.9)
Other current assets	<u>6,079,527</u>	<u>6,470,569</u>	<u>(391,042)</u>	(6.0)
Total current assets	<u>6,292,952</u>	<u>6,685,935</u>	<u>(392,983)</u>	(5.9)
Noncurrent assets:				
Restricted cash	43,147,582	27,875,959	15,271,623	54.8
Due from Water Board	<u>110,561,296</u>	<u>107,167,046</u>	<u>3,394,250</u>	3.2
Total noncurrent assets	<u>153,708,878</u>	<u>135,043,005</u>	<u>18,665,873</u>	13.8
Total assets	<u>\$ 160,001,830</u>	<u>\$ 141,728,940</u>	<u>\$ 18,272,890</u>	12.9
Liabilities:				
Current liabilities	\$ 8,430,649	\$ 8,540,858	\$ (110,209)	(1.3)
Noncurrent liabilities	<u>151,571,181</u>	<u>133,188,082</u>	<u>18,383,099</u>	13.8
Total liabilities	<u>\$ 160,001,830</u>	<u>\$ 141,728,940</u>	<u>\$ 18,272,890</u>	12.9

	June 30,		Increase/(decrease)	
	2009	2008	Dollars	Percent
Current assets:				
Cash	\$ 215,366	\$ 155,030	\$ 60,336	38.9
Other current assets	<u>6,470,569</u>	<u>6,711,522</u>	<u>(240,953)</u>	(3.6)
Total current assets	<u>6,685,935</u>	<u>6,866,552</u>	<u>(180,617)</u>	(2.6)
Noncurrent assets:				
Restricted cash	27,875,959	30,286,894	(2,410,935)	(8.0)
Due from Water Board	<u>107,167,046</u>	<u>114,804,104</u>	<u>(7,637,058)</u>	(6.7)
Total noncurrent assets	<u>135,043,005</u>	<u>145,090,998</u>	<u>(10,047,993)</u>	(6.9)
Total assets	<u>\$ 141,728,940</u>	<u>\$ 151,957,550</u>	<u>\$ (10,228,610)</u>	(6.7)
Liabilities:				
Current liabilities	\$ 8,540,858	\$ 7,308,531	\$ 1,232,327	16.9
Noncurrent liabilities	<u>133,188,082</u>	<u>144,649,019</u>	<u>(11,460,937)</u>	(7.9)
Total liabilities	<u>\$ 141,728,940</u>	<u>\$ 151,957,550</u>	<u>\$ (10,228,610)</u>	(6.7)

As can be seen from the table on the previous page, total assets and total liabilities increased \$18,272,890 from June 30, 2009 to June 30, 2010, while total assets and total liabilities decreased \$10,228,610 from June 30, 2008 to June 30, 2009.

There was no change in net assets for the years ended June 30, 2010 and 2009. Transfers in from the Buffalo Water Board covered all operating expenses.

Significant changes from 2009 to 2010 in the Statement of Net Assets and the reasons for the changes are:

Current assets decreased \$392,983, which was primarily due to a decrease of \$644,338 in bond proceeds held by the New York State Environmental Facilities Corporation (the "EFC") to pay for capital improvements at the filtration plant during the year. This was offset by an increase of \$252,764 in the amount due from entities comprising the water system resulting from an increase in the current portion of bonds payable.

Restricted cash increased \$15,271,623. This is attributable to unspent proceeds relating to the issuance of \$23,975,000 in revenue bonds during the year to fund capital projects.

The primary cause for the increase of \$3,394,250 in Due from Water Board is the result of capital expenditures made during the year in excess of bond principal payments. The remaining difference results from changes in accrued interest receivable.

Current liabilities decreased by \$110,209 resulting primarily from a decrease in accrued interest of \$134,809 and accounts payable of \$228,164 from 2009 to 2010 offset by the current portion of bonds payable increasing \$252,764.

Long-term liabilities increased by \$18,383,099 resulting from issuance of \$23,975,000 of new debt offset by principal payments in the current year.

Significant changes from 2008 to 2009 in the Statement of Net Assets and the reasons for the changes are:

Current assets decreased \$240,952, which was due to an increase in the current portion of bond payments net of the receipt of \$950,188 of bond proceeds held by the New York State Environmental Facilities Corporation (the "EFC") to pay for capital improvements at the filtration plant during the year.

Restricted cash decreased \$2,410,935. Firstly, there were no new bonds issued during the year to fund capital projects. Secondly, the decrease is the result of a combination of capital expenditures made during the year and the reduction of debt service reserves required at June 30, 2009 due to debt service payments made during the year.

The primary cause for the decrease of \$7,637,059 in Due from Water Board is the result of payment of bond principal net of capital expenditures made during the year. The remaining difference results from changes in accrued interest receivable.

Current liabilities increased by \$1,232,327 resulting primarily from the current portion of bonds payable increasing \$740,000 and accrued interest increasing \$250,000 from 2008 to 2009.

Long-term liabilities decreased by \$11,460,937 resulting from principal payments made on existing debt, as well as the fact that no new debt was issued during the year.

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

	Year Ended June 30,		Increase/(decrease)	
	2010	2009	Dollars	Percent
Expenses:				
Services and supplies	\$ (643,019)	\$ (648,452)	\$ 5,433	(0.8)
Transfers in	643,019	648,452	(5,433)	(0.8)
Change in net assets	-	-	-	-
Net assets—beginning	-	-	-	-
Net assets—ending	\$ -	\$ -	\$ -	-

	Year Ended June 30,		Increase/(decrease)	
	2009	2008	Dollars	Percent
Expenses:				
Services and supplies	\$ (648,452)	\$ (187,560)	\$ (460,892)	245.7
Transfers in	648,452	187,560	460,892	245.7
Change in net assets	-	-	-	-
Net assets—beginning	-	-	-	-
Net assets—ending	\$ -	\$ -	\$ -	-

While the Statement of Net Assets would show any change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table 2, there was no change in net assets for the years ended June 30, 2010 and 2009.

The decrease in services and supplies for the year ended June 30, 2010 by \$5,433 from the year ended June 30, 2009 is due primarily to lower fiscal agent fees. The increase in services and supplies for the year ended June 30, 2009 by \$460,892 from the year ended June 30, 2008 is due primarily to a change in our variable debt obligation such that we pay a remarketing agent as well as a letter of credit fee as opposed to simply paying an auction broker. This results in lower interest costs on the debt obligation.

Budgetary Highlights

For the fiscal year ended June 30, 2010 the original budget was increased for prior year outstanding encumbrances of \$19,500. Actual expenditures were lower than budget by \$17,681. This was primarily due to lower than anticipated service expenses related to consulting fees. According to the operating agreement, the Water Board is required to cover all expenditures of the Authority.

For the fiscal year ended June 30, 2009 the original budget was changed to provide for the increase in remarketing and letter of credit fees associated with the Authority's variable demand rate obligation. Actual expenditures were lower than budget by \$35,719. This was primarily due to lower than anticipated service expenses related to engineering consulting fees. According to the operating agreement, the Water Board is required to cover all expenditures of the Authority.

Long-Term Debt

The Authority had \$161,400,000 and \$143,007,236 of outstanding revenue bonds at June 30, 2010 and June 30, 2009, respectively, before adjusting for unamortized premiums, discounts and refunding costs. These bonds are scheduled to be paid in full by 2040. The Authority issued \$23,975,000 in revenue bonds for capital projects during the year ended June 30, 2010 and there were no debt issuances throughout the year ended June 30, 2009.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York, 14202.

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

	June 30,	
	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 213,425	\$ 215,366
Due from entities comprising the water system	5,835,000	5,582,236
Due from other funds	532	-
Due from other governments	243,995	888,333
Total current assets	6,292,952	6,685,935
Noncurrent assets:		
Restricted cash and cash equivalents	43,147,582	27,875,959
Due from entities comprising the water system	110,561,296	107,167,046
Total noncurrent assets	153,708,878	135,043,005
Total assets	\$ 160,001,830	\$ 141,728,940
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 15,352	\$ 243,517
Accrued interest	2,580,297	2,715,105
Current portion of bonds payable	5,835,000	5,582,236
Total current liabilities	8,430,649	8,540,858
Noncurrent liabilities:		
Revenues bonds payable	151,571,181	133,188,082
Total noncurrent liabilities	151,571,181	133,188,082
Total liabilities	160,001,830	141,728,940
NET ASSETS		
Restricted	-	-
Unrestricted	-	-
Total net assets	\$ -	\$ -

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

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Revenues, Expenses and Changes in Fund Net Assets

	Year Ended June 30,	
	2010	2009
Operating expenses:		
Services and supplies	\$ 643,019	\$ 648,452
Total operating expenses	643,019	648,452
Operating loss	(643,019)	(648,452)
Transfer in	643,019	648,452
Change in net assets	-	-
Total net assets—beginning	-	-
Total net assets—ending	\$ -	\$ -

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

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

	Year Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Transfers in from entities comprising the water system	\$ 643,019	\$ 648,452
Payments for services and supplies	(871,184)	(381,734)
Net cash provided (used) by operating activities	(228,165)	266,718
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers (to) from other funds	(3,539,256)	832,495
Net cash provided (used) by capital and related financing activities	(3,539,256)	832,495
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond proceeds	23,975,000	-
Principal payment on long-term debt	(5,582,236)	(4,400,000)
Receipt of EFC proceeds	644,339	950,188
Net cash provided (used) by capital and related financing activities	19,037,103	(3,449,812)
Net increase (decrease) in cash and cash equivalents	15,269,682	(2,350,599)
Cash and cash equivalents - beginning	28,091,325	30,441,924
Cash and cash equivalents - ending	\$ 43,361,007	\$ 28,091,325
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (643,019)	\$ (648,452)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Operating transfers	643,019	648,452
Changes in assets and liabilities:		
Accounts receivable	-	28,002
Accounts payable	(228,165)	238,716
Net cash (used) provided by operating activities	\$ (228,165)	\$ 266,718

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

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Years Ended June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Buffalo Municipal Water Finance Authority (the “Authority”) is a public benefit corporation created pursuant to Section 1048A-BB of Title 2B of Article V of the New York State Public Authorities Law (the “Act”). According to the Act, the Authority may borrow money and issue negotiable or nonnegotiable notes, bonds, or other obligations. The Authority is the entity created to finance the capital needs of the Buffalo Water System (the “System”), which is owned by the Buffalo Water Board (the “Board”), a public benefit corporation created by the Act. The Authority is a blended component unit of the City of Buffalo, New York (the “City”) and, as such, is included in the City’s basic financial statements.

The Authority, Board, and City have entered into a financing agreement originally dated September 24, 1992, to ensure sufficient water rates are collected to fund the costs of operating, managing, and maintaining the System. The Board is responsible for establishing rates and charges for water services; collection of user charges and fees; and operations, repairs, and maintenance of the System. By an amendment dated August 1, 1997, the Authority amended its previous financing agreement with the Board and the City to allow the Board to engage a private contractor to manage the operation and maintenance of the System, which was previously performed by the City.

The Authority continues to hold construction funds for the Board and disburses funds as capital project expenditures are incurred. The Board pays funds to the Authority to meet authority debt service obligations. The operations of the Authority are limited to facilitating the financing of the System’s acquisition and construction improvements. As a result of the financing agreement between the Authority, Board, and City, the bond issuance and interest costs are, from an economic standpoint, borne by the Board and, therefore, accounted for by the Board. Transfers from the Board fund the operating and administrative costs of the Authority.

Measurement Focus and Basis of Accounting—This fund is reported using the economic resources measurement focus.

These financial statements are accounted for on an accrual basis. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

Budgets and Budgetary Accounting—Each year, the Authority adopts and files with the bond trustee, the Board, and the City a certified copy of the budget showing the expenses, the aggregate debt service, and the projected debt service for the ensuing fiscal year. The Authority is required to present its budget for the ensuing fiscal year by March 1. If for any reason the Authority has not adopted a budget before July 1, the budget for the then-current fiscal year shall be deemed to be the budget for the ensuing fiscal year until a new budget is adopted. The Authority may at any time adopt an amended budget for the then-current or ensuing fiscal year, which is then filed with the bond trustee, the Board, and the City.

Cash and Cash Equivalents—The statement of cash flows consider all highly liquid investments including restricted cash with maturities of three months or less when purchased, to be cash equivalents.

The Authority’s policy is to obtain collateral for its cash deposits based on calculated average monthly balances for each bank in which the Authority maintains cash deposits. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by Federal Deposit Insurance Corporation insurance. The amount of cash in banks, including certificates of deposit, as of June 30, 2010, was \$213,517 and the book balance was \$213,425. The carrying amount of cash in banks, including certificates of deposit, as of June 30, 2009, was \$215,366 and the bank balance was \$225,095. All deposits of the Authority were fully collateralized as of June 30, 2010 and 2009.

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

	June 30, 2010		June 30, 2009	
	Bank	Book	Bank	Book
U.S. Treasury	\$ 757,340	\$ 757,340	\$ 10,197,793	\$ 10,197,793
Money market fund	42,257,962	42,390,242	6,290,999	6,290,999
Certificates of deposit	-	-	11,387,167	11,387,167
Total	<u>\$ 43,015,302</u>	<u>\$ 43,147,582</u>	<u>\$ 27,875,959</u>	<u>\$ 27,875,959</u>

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of June 30, 2010 and 2009, the Authority’s deposits were FDIC insured or collateralized.

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

Adoption of New Accounting Pronouncement—During the year ended June 30, 2010, the Authority adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, which requires that changes in fair value of derivative instruments be reported as deferrals; concluding, the overall impact to the

financial statements for the year ended June 30, 2010 was not material to the Authority's financial position or results of operations. Additionally, during the year, the Authority completed the process of evaluating the impact that will result from adopting GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets, Instruments* and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. GASB Statement No. 51, and 58 did not have a material impact on the Authority's financial position or results of operations.

Future Impacts of Accounting Pronouncements — The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending June 30, 2011; and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending June 30, 2012. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 54, 57 and 59 will have on its financial position and results of operations.

2. DUE FROM ENTITIES COMPRISING THE WATER SYSTEM

Due from entities comprising the water system represents the net receivables and payables between the Authority and the Board. The Authority issues all debt on behalf of the Board. As of June 30, 2010, the Board owed the Authority \$124,453,792 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$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 Board to the Authority totals \$116,396,296 of which, \$5,835,000 is recorded as a current asset and \$110,561,296 as a noncurrent asset. As of June 30, 2009, the Board owed the Authority \$120,454,150 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$7,704,868 as of June 30, 2009, for interest earned on funds held by the trustee, unamortized refunding costs, and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$112,749,282 of which, \$5,582,236 is recorded as a current asset and \$107,167,046 as a noncurrent asset.

3. LONG-TERM BONDED DEBT

All long-term bonded debt instruments are revenue bonds, which are backed by the full faith and credit of the Authority. Interest is paid semiannually. Principal is paid annually.

Long-term bonded debt outstanding as of June 30, 2010, is as follows:

Year Issued	Original Amount	Interest Rates (%)	Last Payment	Balance July 1, 2009	Additons & Reclassifications	Deductions & Reclassifications	Balance June 30, 2010	Due Within One Year
1998	\$ 16,325,000	4.0-4.75	2013	\$ 1,080,000	\$ -	\$ 250,000	\$ 830,000	\$ 265,000
1998	49,715,000	4.0-5.0	2027	11,505,000	-	2,605,000	8,900,000	2,720,000
2002	11,785,000	2.5-4.75	2018	2,620,000	-	245,000	2,375,000	255,000
2002	4,379,279	1.533-5.123	2022	3,125,000	-	200,000	2,925,000	205,000
2003	3,901,741	2.596-6.306	2031	3,340,000	-	100,000	3,240,000	100,000
2006	19,917,236	3.607-4.794	2028	17,712,236	-	712,236	17,000,000	735,000
2007	13,010,000	3.6-4.375	2038	12,780,000	-	235,000	12,545,000	245,000
2008	29,220,000	5.0	2027	28,900,000	-	-	28,900,000	-
2008	62,020,000	3.7-5.07	2036	61,945,000	-	1,235,000	60,710,000	1,310,000
2010	23,975,000	2.02-6.89	2040	-	23,975,000	-	23,975,000	-
Total bonded debt				143,007,236	23,975,000	5,582,236	161,400,000	5,835,000
Unamortized premium				1,782,817	46,496	240,201	1,589,112	-
Unamortized discount				(175,437)	-	(6,265)	(169,172)	-
Unamortized refunding costs				(5,844,298)	-	(430,539)	(5,413,759)	-
Net bonded debt				<u>\$ 138,770,318</u>	<u>\$ 24,021,496</u>	<u>\$ 5,385,633</u>	<u>\$ 157,406,181</u>	<u>\$ 5,835,000</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, 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.

While the amount of proceeds expended net of principal payments made as of June 30, 2009, was \$120,454,150 (which represents the outstanding proceeds of \$143,007,236, net of the unexpended funds of \$22,553,086). Additionally, the Authority owes the Board \$7,704,868 as of June 30, 2009, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The \$6,145,772 reclassification represents unamortized refunding costs related to the 2008 \$62,020,000 refund bonds.

Future payments on long-term debt at June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 5,835,000	\$ 6,497,448
2012	6,505,000	6,924,351
2013	6,740,000	6,642,089
2014	7,020,000	6,353,251
2015	7,280,000	6,039,966
2016-2020	41,500,000	24,967,541
2021-2025	30,620,000	16,908,921
2026-2030	34,315,000	9,776,862
2031-2035	11,500,000	4,600,367
2036-2040	8,700,000	1,709,318
2041-2045	<u>1,385,000</u>	<u>47,692</u>
Total	<u>\$ 161,400,000</u>	<u>\$ 90,467,806</u>

On June 25, 2010, the Authority issued \$23,975,000 revenue bonds, of which \$2,925,000 was issued as tax-exempt bonds and \$21,050,000 was issued as taxable Build America Bonds. These bonds mature in 2040 and bear an interest rate ranging between 2.0% and 6.887%.

On May 9, 2008, the Authority issued \$62,020,000 par revenue bonds to currently refund \$62,300,000 of existing debt. The Authority refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the Water System and Citibank, N.A, NY (“Swap Provider”) that converts the Authority’s variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008-A Bonds. Under the terms of the Swap Agreement, the Authority will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the Authority a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the Authority under the Swap Agreement does not affect the Authority’s obligation to pay, when due, the principal and interest on the Series 2008-A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005-B Bonds on July 1, 2035. The Water System entered into this swap agreement to hedge its interest rate exposure over the life of the bonds.

Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the Authority or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The Authority shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2010, the notional amount of the bonds is \$60,200,000. The amount that the Authority received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$111,690, was exceeded by the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$125,678, by \$13,998. At June 30, 2009, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$640,220 was exceeded by the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$743,183, by \$(102,963).

The fair value of the SWAP at June 30, 2010 based on quoted market prices is negative \$4,759,671 and is recorded as a derivative liability within the noncurrent liabilities on the Board's financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Fund Net Assets—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance
Operating expenses:				
Services and supplies	\$ 40,200	\$ 59,700	\$ 48,250	\$ 11,450
Fiscal agent expenses	<u>601,000</u>	<u>601,000</u>	<u>594,769</u>	<u>6,231</u>
Total operating expenses	641,200	660,700	643,019	17,681
Deficiency of revenues over expenses	<u>(641,200)</u>	<u>(660,700)</u>	<u>(643,019)</u>	<u>17,681</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>641,200</u>	<u>641,200</u>	<u>643,019</u>	<u>1,819</u>
Total other financing sources	<u>641,200</u>	<u>641,200</u>	<u>643,019</u>	<u>1,819</u>
Change in net assets	-	(19,500)	-	19,500
Total net assets—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets—ending	<u>\$ -</u>	<u>\$ (19,500)</u>	<u>\$ -</u>	<u>\$ 19,500</u>

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Fund Net Assets—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance
Operating expenses:				
Services and supplies	\$ 40,200	\$ 78,170	\$ 41,795	\$ 36,375
Fiscal agent expenses	30,000	606,001	606,657	(656)
Total operating expenses	70,200	684,171	648,452	35,719
Deficiency of revenues over expenses	(70,200)	(684,171)	(648,452)	35,719
Other financing sources:				
Operating transfers in—transfer from Water Board	70,200	684,171	648,452	(35,719)
Total other financing sources	70,200	684,171	648,452	(35,719)
Change in net assets	-	-	-	-
Total net assets—beginning	-	-	-	-
Total net assets—ending	\$ -	\$ -	\$ -	\$ -

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