

**CITY OF BUFFALO**  
**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, 2010 and 2009*  
*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, 2010 and 2009 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 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 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, 2010 and 2009, 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, 2010 and 2009, 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 & Mahler LLP*

November 30, 2010

**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, 2010 and 2009**

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

**Financial Highlights**

- 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 assets of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2009 by \$30,760,425 (*net assets*). Investment in capital assets (net of related debt) totaled \$8,941,210 and the balance of \$21,819,215 was unrestricted and available to meet future obligations of the Board.
- The Water Board's net assets decreased by \$5,430,801 and \$252,823 for the years ended June 30, 2010 and 2009, respectively.
- 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% primarily because of an unrealized loss on a derivative totaling \$4,809,713. For the year ended June 30, 2009 total operating and nonoperating revenues decreased by \$2,809,960 from the year ended June 30, 2008 or 7.2% while total expenses increased \$4,328,314 or 15.6% over the same period.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Water Board's basic financial statements. The basic financial statements include financial statements and notes to the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information relating to the Water Board's budgetary comparisons.

The City uses one fund to account for the activities of the Water Board, an enterprise fund, which reports information about the general operations of the Water Board.

The basic financial statements of the Water Board reports information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the Water Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Water Board creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Water Board. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Water Board's operations over the past year and can be used to determine whether the Water Board has successfully recovered all its costs through its charges for water service, as well as its profitability. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Water Board's cash receipts and cash payments during the reporting

period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing and investing activities. The Statement of Cash Flows provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Financial Analysis

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets 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)	
	2010	2009	Dollars	Percent
<b>Assets</b>				
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
<b>Liabilities:</b>				
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
<b>Net assets:</b>				
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)
	June 30,		Increase/(decrease)	
	2009	2008	Dollars	Percent
<b>Assets</b>				
Current assets	\$ 35,947,397	\$ 34,749,183	\$ 1,198,214	3.4
Capital assets	116,126,904	117,199,937	(1,073,033)	(0.9)
Other noncurrent assets	<u>2,192,066</u>	<u>8,441,295</u>	<u>(6,249,229)</u>	(74.0)
Total assets	<u>\$ 154,266,367</u>	<u>\$ 160,390,415</u>	<u>\$ (6,124,048)</u>	(3.8)
<b>Liabilities:</b>				
Current liabilities	\$ 9,940,762	\$ 9,845,391	\$ 95,371	1.0
Noncurrent liabilities	<u>113,565,180</u>	<u>119,531,776</u>	<u>(5,966,596)</u>	(5.0)
Total liabilities	<u>123,505,942</u>	<u>129,377,167</u>	<u>(5,871,225)</u>	(4.5)
<b>Net assets:</b>				
Invested in capital assets, net of related debt	8,941,210	8,467,031	474,179	5.6
Unrestricted	<u>21,819,215</u>	<u>22,546,217</u>	<u>(727,002)</u>	(3.2)
Total net assets	<u>\$ 30,760,425</u>	<u>\$ 31,013,248</u>	<u>\$ (252,823)</u>	(0.8)

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.

The Condensed Statements of Net Assets show a decrease of \$252,823 in net assets from \$31,013,248 at June 30, 2008 to \$30,760,425 at June 30, 2009. Significant changes from 2008 to 2009 in the Condensed Statements of Net Assets and the reasons for the changes are:

- Current assets increased \$1,198,214. The majority of the increase was in cash, which increased \$1,239,866. Certain debt covenants require the Water Authority to include a planned surplus in excess of 1.15 times their debt service costs within its budget, such requirement generally results in positive cash flow. The increase in cash was offset by a decrease in receivables of \$41,652.
- Capital assets decreased \$1,073,033. Depreciation expense of \$3,897,306 exceeded capital assets additions of \$2,824,273 during the year including upgrades to the filter gallery at the filtration plant and infrastructure.
- Other noncurrent assets decreased \$6,249,229, the majority of which is attributable to transferring the deferred financing costs related to the bond refunding to the Buffalo Municipal Water Finance Authority (“Water Authority”).

- Total liabilities decreased \$5,871,225; of this, current liabilities increased \$95,371 and long-term liabilities decreased \$5,966,596. 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, the transfer of deferred financing costs to the Authority decreased the long-term liabilities.
- Net assets invested in capital assets, net of related debt, increased by \$474,179. 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 \$727,002. 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.

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

	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)
Unrealized loss on derivative	4,809,713	-	4,809,713	n/a
Other	<u>657,765</u>	<u>250,888</u>	<u>406,877</u>	162.2
Total expenses	<u>36,795,427</u>	<u>32,043,323</u>	<u>4,752,104</u>	14.8
Excess (deficiency) of revenues over (under) expenses	<u>(758,627)</u>	<u>4,419,351</u>	<u>(5,177,978)</u>	(117.2)
Transfers out	<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)

	Year Ended June 30,		Increase/(decrease)	
	2009	2008	Dollars	Percent
Revenues:				
Operating	\$ 35,615,113	\$ 37,230,293	\$ (1,615,180)	(4.3)
Nonoperating	847,561	2,042,341	(1,194,780)	(58.5)
Total revenues	<u>36,462,674</u>	<u>39,272,634</u>	<u>(2,809,960)</u>	(7.2)
Expenses:				
General and administrative	8,233,638	7,412,774	820,864	11.1
Depreciation	3,897,306	3,734,546	162,760	4.4
Interest	6,118,085	5,844,608	273,477	4.7
Operating transfers	13,543,406	10,307,340	3,236,066	31.4
Other	250,888	415,741	(164,853)	(39.7)
Total expenses	<u>32,043,323</u>	<u>27,715,009</u>	<u>4,328,314</u>	15.6
Excess (deficiency) of revenues over (under) expenses	<u>4,419,351</u>	<u>11,557,625</u>	<u>(7,138,274)</u>	(61.8)
Transfers out	<u>(4,672,174)</u>	<u>(4,672,174)</u>	<u>-</u>	-
Change in net assets	(252,823)	6,885,451	(7,138,274)	(103.7)
Net assets - beginning	<u>31,013,248</u>	<u>24,127,797</u>	<u>6,885,451</u>	28.5
Net assets - ending	<u>\$ 30,760,425</u>	<u>\$ 31,013,248</u>	<u>\$ (252,823)</u>	(0.8)

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, 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 increased \$4,752,104, or 14.8%, over prior year. The reason for this increase 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. Also, 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.

Significant changes from the year ended June 30, 2008 to the year ended June 30, 2009 in revenue and expenses for the Water Board include the following:

- Operating revenues decreased \$1,615,180, or 4.3%, from the prior year. This change is the result of a decline in both the number of customers and actual water consumption between the two years.
- Non-operating revenues decreased \$1,194,780 or 58.5%. Interest revenue declined due to the reduction in interest rates.
- Overall, expenses increased \$4,328,314, or 15.6%, over prior year. The reason for this increase is a combination of factors, as follows:
  - General and administrative expenses increased by \$820,864. The contract with the operator increased based on operating indicators. Depreciation expense increased \$162,760 as a result of additional assets acquired during the year.
  - Interest costs increased \$273,477 based on outstanding debt schedules. No debt for new projects was issued during the year.
  - Operating transfers increased \$3,236,066 as a result of an increase in expenditures in both the Water Enterprise Fund and the Water Authority. Employees received a wage increase; additionally there was an increase in the cost of fringe benefits.
  - Other operating expenses decreased by \$164,853. Additional capital outlay expenditures for new meters were made with operating funds in the 2008 fiscal year.

## **Budgetary Highlights**

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 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 contract. 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.

For the year ended June 30, 2009, the total of expenses and transfers out in the Water Board's 2008-2009 amended budget were \$2,282,773 greater than the original budget. The final 2008-2009 budget includes \$633,621 of funds appropriated for prior year encumbrances. Additionally, a \$1,649,152 increase in appropriations was necessary for capital outlays for ongoing projects. There were no amendments to the budgeted revenues during 2009. Comparing the final budget with actual results, total charges for services were \$3,015,654 less than budget. Included within total charges for services is a negative variance in meter rates of \$1,892,413 and within flat rates of \$998,640. Both the number of active accounts and the consumption of water by metered customers declined. In addition, interest on flat rates was \$548,760 below budget due to the write off of uncollectible receivables through the foreclosure process. Nonoperating revenues, representing interest earnings, were \$560,439 less than budget. This negative variance in interest earnings was the result of a decrease in interest rates.

Comparing the final 2008-2009 budget with actual results, total operating expenses were \$759,559 more than budgeted. Significant deficit operating expenses budget variances for 2009 included depreciation of \$3,987,306. 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. This shortage was offset by a positive budget variance of \$1,548,635 in services and supplies. The budget included a \$1,450,000 estimate as a reserve for uncollected receivables, however the actual charge during the year was \$449,541. Total non-operating expenses exceeded budget by \$6,118,085; of this total, bond interest represents \$5,706,889 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$14,417,133. 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 \$1,233,420 greater than budget. This shortfall was the result of recording additional other post-employment liabilities of \$1,443,319 in the 2009 fiscal year.

## Capital Assets and Debt Financing

**Capital Assets.** At June 30, 2010 and 2009, the Board had \$120,979,631 and \$116,126,904, respectively, invested in capital assets, as reflected in Table 3 below. 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. While at June 30, 2009, the change represents a net decrease of \$1,073,033, or 0.9%, from June 30, 2008, which was the result of depreciation expensed in excess of improvements made to the filtration plant and infrastructure.

**Table 3 – Capital Assets**

	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
	June 30,		Increase/(decrease)	
	2009	2008	Dollars	Percent
Land	\$ 145,116	\$ 145,116	\$ -	-
Construction in progress	1,029,439	1,027,911	1,528	0.1
Buildings and improvements	73,993,095	72,685,558	1,307,537	1.8
Equipment	1,316,650	1,186,602	130,048	11.0
Infrastructure	88,276,243	86,978,768	1,297,475	1.5
Total capital assets	164,760,543	162,023,955	2,736,588	1.7
Accumulated depreciation	(48,633,639)	(44,824,018)	(3,809,621)	8.5
Net capital assets	<u>\$ 116,126,904</u>	<u>\$ 117,199,937</u>	<u>\$ (1,073,033)</u>	(0.9)

**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 \$2,365,720 and \$2,891,435 of outstanding General Obligation Bonds at June 30, 2010 and 2009, respectively, which were issued to finance water projects. This debt will be fully paid in 2018. The Water Authority has \$161,400,000 and \$143,007,236 of Revenue Bonds outstanding at June 30, 2010 and 2009, respectively, that 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 2011 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,	
	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 29,695,520	\$ 30,358,069
Accounts receivable—water (less allowance for doubtful accounts of \$12,285,583 and \$11,770,488 at June 30, 2010 and 2009, respectively)	3,702,859	3,626,023
Other receivables	991,112	1,835,880
Due from City of Buffalo	222,064	-
Due from other agencies	127,425	127,425
Total current assets	<u>34,738,980</u>	<u>35,947,397</u>
Noncurrent assets:		
Capital assets not being depreciated:		
Land	145,116	145,116
Construction in progress	713,135	1,029,439
Capital assets being depreciated:		
Buildings and improvements	79,406,580	73,993,095
Machinery and equipment	1,438,760	1,316,650
Infrastructure	91,634,165	88,276,243
Accumulated depreciation	<u>(52,358,125)</u>	<u>(48,633,639)</u>
Total capital assets being depreciated	120,121,380	114,952,349
Deferred financing costs	<u>2,691,486</u>	<u>2,192,066</u>
Total noncurrent assets	<u>123,671,117</u>	<u>118,318,970</u>
Total assets	<u>\$ 158,410,097</u>	<u>\$ 154,266,367</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts and retainages payable	\$ 2,765,144	\$ 1,772,390
Due to Buffalo Municipal Water Finance Authority	5,835,000	5,582,236
Due to City of Buffalo Division of Water	1,837,200	2,550,985
Due to City of Buffalo	147,930	34,336
Other accrued liabilities	<u>-</u>	<u>815</u>
Total current liabilities	<u>10,585,274</u>	<u>9,940,762</u>
Noncurrent liabilities		
Accrued derivative liability	4,759,671	-
Due to Buffalo Municipal Water Finance Authority	110,561,296	107,167,046
Due to City of Buffalo Division of Water	<u>7,174,232</u>	<u>6,398,134</u>
Total noncurrent liabilities	<u>122,495,199</u>	<u>113,565,180</u>
Total liabilities	<u>133,080,473</u>	<u>123,505,942</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,519,148	8,941,210
Unrestricted	<u>14,810,476</u>	<u>21,819,215</u>
Total net assets	<u>\$ 25,329,624</u>	<u>\$ 30,760,425</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,	
	2010	2009
Operating revenues:		
Charges for services	\$ 35,260,941	\$ 35,284,346
Other operating revenues	457,576	330,767
Total operating revenues	35,718,517	35,615,113
Operating expenses:		
Services and supplies	8,860,268	8,233,638
Depreciation	3,981,523	3,897,306
Other	657,765	250,888
Net operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	12,685,471	13,543,406
Total operating expenses	26,185,027	25,925,238
Operating income	9,533,490	9,689,875
Nonoperating revenues (expenses):		
Interest income	318,283	847,561
Interest expense	(5,800,687)	(6,118,085)
Unrealized loss on derivative	(4,809,713)	-
Total nonoperating revenues (expenses)	(10,292,117)	(5,270,524)
Income before transfers to the City's General Fund	(758,627)	4,419,351
Transfers to the City's General Fund	(4,672,174)	(4,672,174)
Change in net assets	(5,430,801)	(252,823)
Total net assets—beginning	30,760,425	31,013,248
Total net assets—ending	\$ 25,329,624	\$ 30,760,425

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,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 36,486,531	\$ 35,656,180
Operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	(12,685,471)	(13,543,406)
Cash payments for goods and services	(8,526,094)	(9,021,292)
Net cash provided by operating activities	15,274,966	13,091,482
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers to the City of Buffalo General Fund	(4,672,174)	(4,672,174)
Advances from other funds	3,600,856	539,433
Net cash (used) by noncapital financing activities	(1,071,318)	(4,132,741)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(8,834,250)	(2,824,273)
Interest payments	(6,350,147)	(5,713,155)
Net cash (used) by capital and related financing activities	(15,184,397)	(8,537,428)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned on short-term investments	318,200	818,553
Net cash provided by capital and related financing activities	318,200	818,553
Net increase (decrease) in cash and cash equivalents	(662,549)	1,239,866
Cash and cash equivalents—beginning	30,358,069	29,118,203
Cash and cash equivalents—ending	\$ 29,695,520	\$ 30,358,069
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,533,490	\$ 9,689,875
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	3,981,523	3,897,306
Changes in assets and liabilities:		
(Increase) in accounts receivable	(76,837)	(47,682)
Decrease in other receivables	844,851	88,749
Increase in accounts and retentions payable	992,754	121,363
(Decrease) in other accrued liabilities	(815)	(658,129)
Net cash provided by operating activities	\$ 15,274,966	\$ 13,091,482

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, 2010 and 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The Water Board acquired title to the Water System from the City for \$26,536,880 plus assumed liabilities of approximately \$31,000,000 in 1992. The transfer was recorded 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, 2010, expenses exceeded appropriations within certain operating 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.

For the year ended June 30, 2009, expenses exceeded appropriations within certain operating expense lines. Significant budget variance explanations are as follows:

The negative variances related to depreciation expense, amortization expense, and interest expense in the amounts of \$3,897,306, \$411,196, and \$5,706,889, 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 \$14,417,133. In addition, transfers out to the Division of Water were \$1,233,420 greater than budget. The budget did not include an appropriation for other post-employment benefits of \$1,443,319.

***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, 2010, was \$29,695,520 and the bank balances were \$29,705,033. The carrying amount of cash in banks, including certificates of deposit, at June 30, 2009, was \$30,358,069, and the bank balances were \$30,385,471.

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, 2010 and 2009, 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, 2010 and 2009, 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:

Asset Class	Estimated Useful Lives
Land	n/a
Land improvements	10-20
Buildings	50
Infrastructure	40

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, 2010 and 2009.

**Allocated Costs**—Certain services associated with operating the Water Board are performed by the City. During the years ended June 30, 2010 and 2009, 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, 2010, the Board 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 a loss on derivative of \$4,809,713 and a derivative liability in the amount of \$4,759,671 recorded within the Water Board financial statements.

Additionally, during the year, the Water Board 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 Water Board’s financial position or results of operations.

**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. 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 Water Board 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. ACCOUNTS RECEIVABLE

Accounts receivable as of year-end for the Water Board and related allowance for uncollectible accounts as of June 30, 2010 and 2009, are as follows:

	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>
	June 30, 2009		
	Receivable	Allowance	Net
Accounts receivable — water	\$ 15,396,511	\$ (11,770,488)	\$ 3,626,023
Accounts receivable — other	1,835,880	-	1,835,880
Due from other agencies	127,425	-	127,425
	<u>\$ 17,359,816</u>	<u>\$ (11,770,488)</u>	<u>\$ 5,589,328</u>

### 3. CAPITAL ASSETS

A summary of capital assets activity for the years ended June 30, 2010 and 2009 are as follows:

	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>
	Balance July 1, 2008	Increases and Reclassifications	Decreases and Reclassifications	Balance June 30, 2009
Capital assets not being depreciated				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	1,027,911	2,606,540	(2,605,012)	1,029,439
Total capital assets not being depreciated	<u>1,173,027</u>	<u>2,606,540</u>	<u>(2,605,012)</u>	<u>1,174,555</u>
Capital assets, being depreciated:				
Buildings and improvements	72,685,558	1,307,537	-	73,993,095
Equipment	1,186,602	217,733	(87,685)	1,316,650
Infrastructure	86,978,768	1,297,475	-	88,276,243
Total capital assets, being depreciated	<u>160,850,928</u>	<u>2,822,745</u>	<u>(87,685)</u>	<u>163,585,988</u>
Less accumulated depreciation for:				
Buildings and improvements	12,130,795	1,479,785	-	13,610,580
Equipment	1,017,391	110,893	(87,685)	1,040,599
Infrastructure	31,675,833	2,306,627	-	33,982,460
Total accumulated depreciation	<u>44,824,019</u>	<u>3,897,305</u>	<u>(87,685)</u>	<u>48,633,639</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>116,026,909</u>	<u>(1,074,560)</u>	<u>-</u>	<u>114,952,349</u>
Capital assets, net of accumulated depreciation	<u>\$ 117,199,936</u>	<u>\$ 1,531,980</u>	<u>\$ (2,605,012)</u>	<u>\$ 116,126,904</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, 2010. 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, 2010, is as follows:

Year Issued	Original Amount	Interest Rates (%)	Last Payment	Balance July 1, 2009	Additions and Reclassifications	Deductions and 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	-
				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)	-
<b>Net bonded debt</b>				<b>\$ 138,770,318</b>	<b>\$ 24,021,496</b>	<b>\$ 5,385,633</b>	<b>\$ 157,406,181</b>	<b>\$ 5,835,000</b>

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.

Remaining annual maturities on long-term obligations of the Buffalo Municipal Water Finance Authority at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Water Authority Bonds</u>
2011	\$ 5,835,000
2012	6,505,000
2013	6,740,000
2014	7,020,000
2015	7,280,000
2016-2020	41,500,000
2021-2025	30,620,000
2026-2030	34,315,000
2031-2035	11,500,000
2036-2040	8,700,000
2041-2045	1,385,000
	<u>\$ 161,400,000</u>

**General Bonded Debt**—Total general bonded debt as financed through the City of Buffalo, Division of Water at June 30, 2010 is as follows:

Calendar Year	Original Amount	Interest Rates (%)	Year of Last Payment	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Due Within One Year
1998	1,585,000	4.0-5.0	2009	\$ 500,000	\$ -	\$ 180,000	\$ 320,000	\$ 185,000
2005	4,064,877	5.0	2018	2,391,435	-	345,715	2,045,720	246,669
Total				<u>\$ 2,891,435</u>	<u>\$ -</u>	<u>\$ 525,715</u>	<u>\$ 2,365,720</u>	<u>\$ 431,669</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
2011	\$ 431,669	\$ 189,362	\$ 26,394	\$ 248,060	\$ -	\$ 941,715	\$ 1,837,200
2012	393,894	-	-	-	-	118,123	512,017
2013	271,752	-	-	-	-	95,706	367,458
2014	301,137	-	-	-	-	74,725	375,862
2015	315,852	-	-	-	-	54,298	370,150
2016-2020	651,416	-	-	-	-	60,209	711,625
Beyond	-	-	961,692	100,971	3,774,457	-	4,837,120
Total	<u>\$ 2,365,720</u>	<u>\$ 189,362</u>	<u>\$ 988,086</u>	<u>\$ 349,031</u>	<u>\$ 3,774,457</u>	<u>\$ 1,344,776</u>	<u>\$ 9,011,432</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, 2010, are as follows:

<u>Fiscal Year</u>	<u>Water Authority</u>	<u>Division of Water</u>
2011	\$ 6,497,448	\$ 112,954
2012	6,924,351	93,159
2013	6,642,089	77,008
2014	6,353,251	63,420
2015	6,039,966	48,363
2016-2020	24,967,541	56,925
2021-2025	16,908,921	-
2026-2030	9,776,862	-
2031-2035	4,600,367	-
2036-2040	1,709,318	-
2041-2045	47,692	-
	<u>\$ 90,467,806</u>	<u>\$ 451,829</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 \$988,086 and \$875,636 at June 30, 2010 and 2009, 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, 2010. Due to retirement systems was \$189,362 and \$147,693 at June 30, 2010 and 2009, respectively.

**Summary of Changes of Noncurrent Liabilities** — The following is a summary of changes in noncurrent liabilities:

	<u>Balance July 1, 2009</u>	<u>Additions/ Adjustments</u>	<u>Deductions/ Adjustments</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Due to Buffalo Municipal Water Finance Authority	\$ 112,749,282	\$ 9,731,878	\$ 6,084,864	\$ 116,396,296	\$ 5,835,000
Due to City of Buffalo Division of Water	8,949,119	2,862,135	2,799,822	9,011,432	1,837,200
Total	<u>\$ 121,698,401</u>	<u>\$ 12,594,013</u>	<u>\$ 8,884,686</u>	<u>\$ 125,407,728</u>	<u>\$ 7,672,200</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 \$349,031 and \$449,195 at June 30, 2010 and 2009, 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, 2008, the effective date of the biannual OPEB valuation, follows.

Active employees	121
Retired employees	56
Spouses of retirees	<u>40</u>
Total	<u><u>217</u></u>

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

*Annual OPEB Benefit Cost* – For the years ended June 30, 2010 and 2009, Water's annual OPEB cost (expense) of approximately \$2,329,008 and \$2,193,000, respectively, is not equal to the Annual Required Contribution of approximately \$2,301,900 and \$2,182,600, respectively. Considering the annual expense as well as payment for current health insurance premiums which totaled approximately \$878,570 and \$749,500 for the years ended June 30, 2010 and 2009, respectively, for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$1,450,438 and \$1,443,500 for the years ended June 30, 2010 and 2009, respectively.

	Year Ended June 30,	
	2010	2009
<b>Annual OPEB Cost and Net OPEB Obligation</b>		
Actuarial accrued liability (AAL)	\$ 32,153,800	\$ 30,384,300
Unfunded actuarial accrued liability (UAAL)	\$ 32,153,800	\$ 30,384,300
Normal cost - beginning of the year	\$ 1,127,100	\$ 1,159,600
Amortization factor based on 30 years	26.2	26.2
Annual covered payroll	\$ 6,089,858	\$ 6,290,154
UAAL as a percentage of covered payroll	527.99%	483.05%

**Level Dollar Amortization**

**Calculation of ARC Under Projected Unit Credit Method**

ARC normal cost with interest - end of year	\$ 1,018,300	\$ 969,800
UAAL over 30 years with interest - end of year	1,227,100	1,159,600
Interest	<u>56,100</u>	<u>53,200</u>
Annual required contribution (ARC)	2,301,500	2,182,600
Interest on net OPEB obligation	116,201	44,000
Adjustment to ARC	<u>(88,693)</u>	<u>(33,600)</u>
Annual OPEB cost (expense)	2,329,008	2,193,000
Contribution for years ended June 30, 2010 and 2009	<u>(878,570)</u>	<u>(749,500)</u>
Increase in net OPEB obligation	1,450,438	1,443,500
Net OPEB obligation - beginning	<u>2,324,019</u>	<u>880,519</u>
Net OPEB obligation - ending	<u>\$ 3,774,457</u>	<u>\$ 2,324,019</u>
Percent of annual OPEB cost contributed	37.72%	34.18%

*Funded Status and Funding Progress* – As of July 1, 2009, the most recent actuarial valuation date, the OPEB plan for the Water Enterprise Fund was unfunded, resulting in an unfunded accrued liability of \$32,153,800.

*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, 2009 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 5.0% 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 valuation assumes healthcare cost trends as follows: both pre-65 and post-65 medical and prescription, 9.0%; all reduced by decrements to reach a rate of 5.0% in 2037.

*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.

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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, 2010**

	Original Budget	Final Budget	Actual	Variance
<b>OPERATING REVENUES:</b>				
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	<u>127,877</u>	<u>127,877</u>	<u>457,576</u>	<u>329,699</u>
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>
<b>OPERATING EXPENSES:</b>				
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	<u>14,730,177</u>	<u>14,730,177</u>	<u>643,019</u>	<u>14,087,158</u>
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
<b>NONOPERATING REVENUES (EXPENSES):</b>				
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>
<b>OTHER FINANCING USES:</b>				
Transfers out:				
City of Buffalo's General Fund	(4,672,174)	(4,672,174)	(4,672,174)	-
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>

**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, 2009**

	Original Budget	Final Budget	Actual	Variance
<b>OPERATING REVENUES:</b>				
Charges for services:				
Meter rates	\$ 30,750,000	\$ 30,750,000	\$ 28,857,587	\$ (1,892,413)
Flat rates	4,691,000	4,691,000	3,692,360	(998,640)
Charges for collection services	740,000	740,000	793,609	53,609
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	50,000	50,000	99,546	49,546
General labor and supplies	250,000	250,000	351,382	101,382
Utility turn-on fees	260,000	260,000	283,427	23,427
Installation of corporation cocks	125,000	125,000	99,164	(25,836)
Installation and repair of meters	20,000	20,000	55,004	35,004
Interest on meter rates receivable	625,000	625,000	818,374	193,374
Interest on flat rates receivable	232,000	232,000	(316,760)	(548,760)
Miscellaneous	47,300	47,300	40,953	(6,347)
Total charges for services	<u>38,300,000</u>	<u>38,300,000</u>	<u>35,284,346</u>	<u>(3,015,654)</u>
Other revenues:				
Miscellaneous	36,077	36,077	330,767	294,690
Total other revenues	<u>36,077</u>	<u>36,077</u>	<u>330,767</u>	<u>294,690</u>
Total operating revenue	<u>38,336,077</u>	<u>38,336,077</u>	<u>35,615,113</u>	<u>(2,720,964)</u>
<b>OPERATING EXPENSES:</b>				
Service and supplies:				
Materials and supplies	100	100	-	100
Services	1,027,890	2,175,380	1,732,128	443,252
Payment to operator	6,501,510	6,501,510	6,501,510	-
Reserve for uncollected receivables	1,450,000	1,105,283	-	1,105,283
Total service and supplies	<u>8,979,500</u>	<u>9,782,273</u>	<u>8,233,638</u>	<u>1,548,635</u>
Other :				
Depreciation	-	-	3,897,306	(3,897,306)
Capital Outlay	360,000	1,840,000	250,888	1,589,112
Total depreciation and amortization	<u>360,000</u>	<u>1,840,000</u>	<u>4,148,194</u>	<u>(2,308,194)</u>
Total operating expenses	<u>9,339,500</u>	<u>11,622,273</u>	<u>12,381,832</u>	<u>(759,559)</u>
Operating income	<u>28,996,577</u>	<u>26,713,804</u>	<u>23,233,281</u>	<u>3,480,523</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, 2009**

(concluded)

	Original Budget	Final Budget	Actual	Variance
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest	1,408,000	1,408,000	847,561	(560,439)
Authority bond interest expense	-	-	(5,706,889)	(5,706,889)
Amortization	-	-	(411,196)	(411,196)
Total nonoperating revenues (expenses)	<u>1,408,000</u>	<u>1,408,000</u>	<u>(5,270,524)</u>	<u>(6,678,524)</u>
Excess of revenues over expenses	<u>30,404,577</u>	<u>28,121,804</u>	<u>17,962,757</u>	<u>(10,159,047)</u>
<b>OTHER FINANCING USES:</b>				
Transfers out:				
City of Buffalo's General Fund	(4,672,174)	(4,672,174)	(4,672,174)	-
City of Buffalo Division of Water	(11,661,534)	(11,661,534)	(12,894,954)	(1,233,420)
Water Authority	<u>(15,065,585)</u>	<u>(15,065,585)</u>	<u>(648,452)</u>	<u>14,417,133</u>
Total other financing uses	<u>(31,399,293)</u>	<u>(31,399,293)</u>	<u>(18,215,580)</u>	<u>13,183,713</u>
Change in net assets	(994,716)	(3,277,489)	(252,823)	3,024,666
Net assets—beginning	<u>31,013,248</u>	<u>31,013,248</u>	<u>31,013,248</u>	-
Net assets—ending	<u>\$ 30,018,532</u>	<u>\$ 27,735,759</u>	<u>\$ 30,760,425</u>	<u>\$ 3,024,666</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**

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Effective Date	Metered Rate Bills	
	Regular	Percent Change
January 1, 2004	15.46 per 1,000 cubic feet	22.9
April 1, 2004	16.07 per 1,000 cubic feet	4.0
January 1, 2005	17.68 per 1,000 cubic feet	10.0
July 1, 2005	18.99 per 1,000 cubic feet	7.5
July 1, 2010	20.22 per 1,000 cubic feet	6.5

Source: Division of Water

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**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
2006	\$ 5,171,132	\$ 5,056,132	97.8 %
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

METER RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2006	\$ 31,811,558	\$ 30,643,830	96.3 %
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

ALL ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings
2006	\$ 36,982,690	\$ 35,699,962	96.5 %
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

Source: Division of Water

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**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, 2010**

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	Usage (per Cubic Foot)	Charges
Luvata (OAB Holding, Outokumpu, American Brass)	43,334,900	\$ 606,499
Buffalo Municipal Housing Authority (including Marine Drive)	30,297,786	563,724
Erie County Medical Center	22,935,850	320,190
Tyson Foods	21,234,400	279,989
Sorrento Cheese	21,112,700	290,697
Roswell Park Cancer Institute	15,778,532	276,680
Buffalo Sewer Authority	15,118,453	216,114
State University of New York at Buffalo	13,355,015	205,276
Buffalo State College	13,047,800	203,074
Veterans Hospital	10,993,410	154,829

Source: American Water Service

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