

**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER**  
**FINANCE AUTHORITY**  
**A COMPONENT UNIT OF THE**  
**CITY OF BUFFALO, NEW YORK**  
*Basic Financial Statements and*  
*Supplementary Information for the*  
*Years Ended June 30, 2014 and 2013*  
*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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**Years Ended June 30, 2014 and 2013**

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Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Authority Investments, as required by Public Authorities Law of the State of New York, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



November 18, 2014

**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, 2014 and 2013**

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As management of the City of Buffalo, New York's (the "City") Buffalo Municipal Water Finance Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2014 and 2013. This document should be read in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative. For comparative purposes, certain items relating to the June 30, 2013 and 2012 presentation have been reclassified.

**Financial Highlights**

- The Authority's total assets and deferred outflows of resources decreased \$7,667,043 from June 30, 2013 to June 30, 2014 primarily due to scheduled payments made on long-term debt, which also decreased the total liabilities \$7,667,043.
- The Authority's restricted cash decreased \$4,593,165 from June 30, 2013 to June 30, 2014.

**Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise of two components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other 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.

**Basic financial statements**—The basic financial statements are prepared using the accrual basis of accounting. The financial statements include:

The *statements of net position* present all of the Authority's assets, deferred outflows of resources, and liabilities and provide 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.

The *statements of revenues, expenses, and changes in net position* present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *statements of cash flows* provide information related to the sources of cash, the uses of cash, and the change in the cash balances 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.

These financial statements can be found on pages 8-10 of this report.

**Notes to the financial statements**—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11-17 of this report.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents *supplementary information* concerning the Authority’s budgetary comparison for the years ended June 30, 2014 and 2013 and the Schedule of Authority Investments, as required to be reported under New York State Public Authority Law. Supplementary information can be found on pages 18-20 of this report.

### Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Authority’s activities. These two statements report the net position of the Authority and changes in them. Net position, the difference between the sum of assets and deferred outflows of resources, and liabilities, is 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 position.

Table 1, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Table 1—Condensed Statements of Net Position for the fiscal years ended June 30, 2014 and June 30, 2013**

	June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Current assets:				
Cash	\$ 268,067	\$ 223,575	\$ 44,492	19.9
Restricted cash	34,083,202	38,676,367	(4,593,165)	(11.9)
Other current assets	<u>7,790,898</u>	<u>7,608,995</u>	<u>181,903</u>	2.4
Total current assets	<u>42,142,167</u>	<u>46,508,937</u>	<u>(4,366,770)</u>	(9.4)
Noncurrent assets:				
Due from Water Board	<u>109,664,128</u>	<u>112,495,171</u>	<u>(2,831,043)</u>	(2.5)
Total noncurrent assets	<u>109,664,128</u>	<u>112,495,171</u>	<u>(2,831,043)</u>	(2.5)
Total assets	<u>151,806,295</u>	<u>159,004,108</u>	<u>(7,197,813)</u>	(4.5)
Deferred outflows of resources	<u>3,949,573</u>	<u>4,418,803</u>	<u>(469,230)</u>	(10.6)
Liabilities:				
Current liabilities	10,938,199	10,630,985	307,214	2.9
Noncurrent liabilities	<u>144,817,669</u>	<u>152,791,926</u>	<u>(7,974,257)</u>	(5.2)
Total liabilities	<u>155,755,868</u>	<u>163,422,911</u>	<u>(7,667,043)</u>	(4.7)
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Table 2, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2013 and June 30, 2012.

**Table 2—Condensed Statements of Net Position for the fiscal years ended June 30, 2013 and June 30, 2012**

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Current assets:				
Cash	\$ 223,575	\$ 224,827	\$ (1,252)	(0.6)
Restricted cash	38,676,367	45,326,058	(6,649,691)	(14.7)
Other current assets	7,608,995	6,973,994	635,001	9.1
Total current assets	<u>46,508,937</u>	<u>52,524,879</u>	<u>(6,015,942)</u>	<u>(11.5)</u>
Noncurrent assets:				
Due from Water Board	112,495,171	112,806,160	(310,989)	(0.3)
Total noncurrent assets	<u>112,495,171</u>	<u>112,806,160</u>	<u>(310,989)</u>	<u>(0.3)</u>
Total assets	<u>159,004,108</u>	<u>165,331,039</u>	<u>(6,326,931)</u>	<u>(3.8)</u>
Deferred outflows of resources	<u>4,418,803</u>	<u>4,873,478</u>	<u>(454,675)</u>	<u>(9.3)</u>
Liabilities:				
Current liabilities	10,630,985	9,843,096	787,889	8.0
Noncurrent liabilities	<u>152,791,926</u>	<u>160,361,421</u>	<u>(7,569,495)</u>	<u>(4.7)</u>
Total liabilities	<u>163,422,911</u>	<u>170,204,517</u>	<u>(6,781,606)</u>	<u>(4.0)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

As can be seen from Table 1 and Table 2, the sum of assets and deferred outflows of resources, and total liabilities each decreased \$7,667,043 from June 30, 2013 to June 30, 2014, while the sum of assets and deferred outflows of resources, and total liabilities each decreased \$6,781,606 from June 30, 2012 to June 30, 2013.

There was no change in net position for the fiscal years ended June 30, 2014 and 2013. Transfers in from the Buffalo Water Board covered all operating expenses.

Significant changes from 2013 to 2014 in the Statements of Net Position and the reasons for the changes are:

- Total assets decreased \$7,197,813, which was primarily due to restricted cash and amounts due from entities comprising the water system decreasing \$4,593,165 and \$2,665,145, respectively, for cash utilized to make bond payments during the year.
- Deferred outflows of resources decreased by \$469,230 for current year amortization of a deferred loss on refunding.
- Total liabilities decreased by \$7,667,043, resulting primarily from the scheduled payments of bonds during the fiscal year.

Significant changes from 2012 to 2013 in the Statements of Net Position and the reasons for the changes are:

- Total assets decreased \$6,326,931, which was primarily due to restricted cash and amounts due from entities comprising the water system decreasing \$6,649,691 and \$310,989, respectively, for cash utilized to make bond payments during the year. This was slightly offset by an increase in the amount due from entities comprising the water system of \$635,000, resulting from an increase in the current portion of bonds payable.
- Deferred outflows of resources decreased by \$454,675 for current year amortization of a deferred loss on refunding.
- Current liabilities increased by \$787,889 resulting primarily from an increase in the current portion of bonds payable by \$635,000
- Long-term liabilities decreased by \$7,569,495, resulting from the scheduled payments of bonds during the fiscal year.

Table 3, as presented below, shows the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Table 3—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2014 and June 30, 2013**

	Year Ended June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Expenses:				
Services and supplies	\$ 509,635	\$ 589,759	\$ (80,124)	(13.6)
Transfers in	509,635	589,759	(80,124)	(13.6)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

While the Statements of Net Position display the change in the Authority's financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As illustrated in Table 3, there was no change in net position for the years ended June 30, 2014 and 2013.

The decrease in services and supplies for the year ended June 30, 2014 by \$80,124 from the fiscal year ended June 30, 2013 is due primarily to the decrease in fiscal agent fees in the current year.

Table 4, as presented below, shows the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

**Table 4—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2013 and June 30, 2012**

	Year Ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Expenses:				
Services and supplies	\$ 589,759	\$ 611,236	\$ (21,477)	(3.51)
Transfers in	589,759	611,236	(21,477)	(3.51)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

As illustrated in Table 4, there was no change in net position for the years ended June 30, 2013 and 2012.

The decrease in services and supplies for the fiscal year ended June 30, 2013 by \$21,477 from the fiscal year ended June 30, 2012 is due primarily to lower legal and fiscal agent fees.

### **Budgetary Highlights**

Budgetary comparison schedules are presented as supplementary information.

For the fiscal year ended June 30, 2014, the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$46,157. This was primarily due to lower than anticipated fiscal agent expenses fees.

For the fiscal year ended June 30, 2013, the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$23,472. This was primarily due to lower than anticipated fiscal agent expenses and legal fees.

### **Long-Term Debt**

The Authority had \$152,105,000 and \$159,470,000 of outstanding revenue bonds at June 30, 2014 and June 30, 2013, respectively. These bonds are scheduled to be paid in full by 2040. No new debt was issued by the Authority during the fiscal years ended June 30, 2014 and June 30, 2013.

### **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.

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# BASIC FINANCIAL STATEMENTS



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**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 268,067	\$ 223,575
Restricted cash and cash equivalents	34,083,202	38,676,367
Due from entities comprising the water system	7,790,898	7,365,000
Due from other governments	-	243,995
Total current assets	42,142,167	46,508,937
Noncurrent assets:		
Due from entities comprising the water system	109,664,128	112,495,171
Total noncurrent assets	109,664,128	112,495,171
Total assets	151,806,295	159,004,108
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	3,949,573	4,418,803
Total deferred outflows of resources	3,949,573	4,418,803
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	12,030	12,294
Accrued interest	3,135,271	3,253,691
Bonds payable within one year	7,790,898	7,365,000
Total current liabilities	10,938,199	10,630,985
Noncurrent liabilities:		
Bonds payable	144,817,669	152,791,926
Total noncurrent liabilities	144,817,669	152,791,926
Total liabilities	155,755,868	163,422,911
<b>NET POSITION</b>		
Net investment in capital assets	-	-
Unrestricted	-	-
Total net position	\$ -	\$ -

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

**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 Net Position**  
**Years Ended June 30, 2014 and 2013**

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	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Operating expenses:		
Services and supplies	\$ 509,635	\$ 589,759
Total operating expenses	509,635	589,759
Operating loss	(509,635)	(589,759)
Transfers in	509,635	589,759
Change in net position	-	-
Total net position—beginning	-	-
Total net position—ending	\$ -	\$ -

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

**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to supplies for goods and services	\$ (509,899)	\$ (613,043)
Net cash used for operating activities	(509,899)	(613,043)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	509,635	441,921
Advances from other funds	2,816,591	-
Net cash provided by noncapital financing activities	3,326,226	441,921
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on bonds	(7,365,000)	(6,479,821)
Net cash used for capital and related financing activities	(7,365,000)	(6,479,821)
Net decrease in cash and cash equivalents	(4,548,673)	(6,650,943)
Cash and cash equivalents—beginning	38,899,942	45,550,885
Cash and cash equivalents—ending	\$ 34,351,269	\$ 38,899,942
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (509,635)	\$ (589,759)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
(Decrease) in accounts payable	(264)	(23,284)
Net cash used for operating activities	\$ (509,899)	\$ (613,043)

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

**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, 2014 and 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Buffalo Municipal Water Finance Authority (the “Authority”), a component unit of the City of Buffalo, New York (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the “GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

***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 non-negotiable 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 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***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

These financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a

liability is incurred, regardless of the timing of related cash flows. 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 and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### ***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position***

***Cash, Cash Equivalents and Investments***—The Authority’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. Permissible investments include obligations of the United States Treasury, United State Agencies, repurchase agreements, obligations of New York State or its localities and certificates of deposit. Investments are stated at fair value which approximates cost.

***Restricted Cash and Cash Equivalents***—Unspent proceeds from debt are reported as restricted cash and cash equivalents.

***Deferred Outflows/Inflows of Resources***—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At June 30, 2014 and 2013, the Authority reports a deferred loss on refunding within deferred outflows of resources for \$3,949,573 and \$4,418,803, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2014 and 2013, the Authority does not have any items that qualify for reporting in this category.

### ***Other***

***Annual Budgets***—Annual budgets are used as a management tool. The Authority may amend the budget, but only in accordance with, and after receipt of, amended budget documents.

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

***Reclassifications***—Certain amounts from the prior year were reclassified to conform with the current year presentation. Additionally, certain amounts included in the City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 were reclassified to conform with the Authority’s presentation.

***Adoption of New Accounting Pronouncements***—During the year ended June 30, 2014, the Authority implemented GASB Statements No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; and No. 70, *Accounting and Financial Reporting for Nonexchange*

*Financial Guarantees.* GASB Statement No. 66 improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 67 improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope, and GASB Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements Nos. 66, 67, and 70 did not have a material impact on the Authority's financial position or results from operations.

***Future Impacts of Accounting Pronouncements***—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB statement No. 27*, No. 69, *Government Combinations and Disposals of Government Operations*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the fiscal year ending June 30, 2015. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 68, 69 and 71 will have on its financial position and results of operations when such statements are adopted.

## 2. CASH AND 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 FDIC insurance. The amount of cash in banks, including certificates of deposit, as of June 30, 2014, was \$268,090 and the book balance was \$268,067. The carrying amount of cash in banks, including certificates of deposit, as of June 30, 2013, was \$441,616 and the book balance was \$223,575. All deposits of the Authority were fully collateralized as of June 30, 2014 and 2013.

All deposits are carried at fair value and are classified by custodial credit risk at June 30, 2014 and 2013 as follows:

	June 30, 2014		June 30, 2013	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
FDIC insured	\$ 752,067	\$ 752,067	\$ 752,191	\$ 752,191
Uninsured:				
Collateral held by pledging bank's agent in Water Board's name	33,603,513	33,599,202	38,369,387	38,147,751
Total	\$ 34,355,580	\$ 34,351,269	\$ 39,121,578	\$ 38,899,942

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

	June 30, 2014		June 30, 2013	
	Bank Balance	Carrying Balance	Bank Balance	Carrying Balance
U.S. Treasury	\$ 725,264	\$ 725,264	\$ 725,264	\$ 725,264
Money market fund	33,357,938	33,357,938	37,954,725	37,951,103
Total	<u>\$ 34,083,202</u>	<u>\$ 34,083,202</u>	<u>\$ 38,679,989</u>	<u>\$ 38,676,367</u>

**Custodial Credit Risk**—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, 2014 and 2013, the Authority’s deposits were FDIC insured or collateralized.

### 3. 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, 2014, the Board owed the Authority \$125,609,242 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 \$8,154,216 as of June 30, 2014, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$117,955,026, of which \$7,790,898 is recorded as a current asset and \$109,664,128 as a noncurrent asset.

As of June 30, 2013, the Board owed the Authority \$128,075,894 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 \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171, of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

#### 4. LONG-TERM LIABILITIES

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

Long-term bonded debt outstanding as of June 30, 2014, is as follows:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2013	Additions	Payments	Balance 6/30/2014	Due Within One Year
2002	\$ 11,785,000	2.5-4.8	2018	\$ 1,580,000	\$ -	\$ 290,000	\$ 1,290,000	\$ 300,000
2003	3,901,741	5.6-6.3	2031	350,000	-	110,000	240,000	115,000
2006	19,917,236	3.6-4.8	2028	14,745,000	-	790,000	13,955,000	815,000
2007	13,010,000	3.6-4.38	2038	11,780,000	-	275,000	11,505,000	285,000
2007	29,220,000	5.0	2027	28,900,000	-	3,440,000	25,460,000	3,610,000
2008	62,020,000	3.7-5.1	2036	57,055,000	-	1,410,000	55,645,000	1,435,000
2010	23,975,000	2.0-6.9	2040	23,045,000	-	480,000	22,565,000	490,000
2011	2,720,000	1.5-5.1	2022	2,290,000	-	225,000	2,065,000	230,000
2012	17,150,000	1.8-4.0	2037	17,150,000	-	345,000	16,805,000	355,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	-	2,575,000	-
Total				159,470,000	-	7,365,000	152,105,000	7,635,000
Unamortized bond premium				940,155	-	193,171	746,984	165,710
Unamortized bond discount				(253,229)	-	(9,812)	(243,417)	(9,812)
Net bonded debt				<u>\$ 160,156,926</u>	<u>\$ -</u>	<u>\$ 7,548,359</u>	<u>\$ 152,608,567</u>	<u>\$ 7,790,898</u>

On April 11, 2012, the Authority issued \$17,150,000 of water system revenue bonds. Principal payments begin on July 1, 2013 and mature in 2037. These bonds were issued at a discount of \$106,401 and bear an interest rate ranging between 1.75% and 4.00%.

On June 21, 2012, the Authority refinanced a \$2,575,000 New York State Environmental Facilities bond issue. Principal payments begin on July 15, 2016 and mature in 2031. These bonds bear an interest rate ranging between 5.60 % and 6.31%.

The Authority advances the proceeds of the revenue bonded debt to the Water Board as the related expense is incurred by the Board. Accordingly, the amount due from the Water 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, 2014, was \$125,609,242 (which represents the outstanding proceeds of \$152,105,000, net of the unexpended funds of \$26,495,758). Additionally, the Water Authority owes the Water Board \$8,154,216 as of June 30, 2014, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Water Board to the Authority totals \$117,455,026, of which \$7,790,898 is recorded as a current asset and \$109,664,128 as a noncurrent asset.

The amount of proceeds expended net of principal payments made as of June 30, 2013, was \$128,075,894 (which represents the outstanding proceeds of \$159,470,000, net of the unexpended funds of \$31,394,106). Additionally, the Water Authority owes the Water Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171 of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

Future payments on long-term debt at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 7,635,000	\$ 6,584,132
2016	7,990,000	6,265,638
2017	8,355,000	5,917,510
2018	8,645,000	5,535,457
2019	9,045,000	5,147,444
2020-2024	35,310,000	20,811,744
2025-2029	36,635,000	13,442,011
2030-2034	19,070,000	6,995,224
2035-2039	13,215,000	3,327,612
2040-2043	6,205,000	475,531
Total	<u>\$ 152,105,000</u>	<u>\$ 74,502,303</u>

**Accrued Derivative Liability**—On May 9, 2008, the Authority issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously 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 2008A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008A Bonds. Under the terms of the Swap Agreement, the Water System will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the Water System a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the Water System under the Swap Agreement does not affect the Authority’s obligation to pay, when due, the principal and interest on the Series 2008A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005B 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 Water System 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 Water System 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, 2014, the notional amount of the bonds is \$55,175,000. The amount that the Authority received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$63,539, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$32,273, by \$31,266. At June 30, 2013, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$85,063, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$75,273, by \$9,790. The fair value of the derivative at June 30, 2014 based on quoted market prices is negative \$1,816,216, and is recorded as a derivative liability within the noncurrent liabilities on the Board’s financial statements.

## 5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2014, which is the date the financial statements are available for issuance, and has determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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## SUPPLEMENTARY INFORMATION



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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 Net Position—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
Operating expenses:				
Services and supplies	\$ 60,300	\$ 61,925	\$ 44,650	\$ 17,275
Fiscal agent expenses	<u>493,867</u>	<u>493,867</u>	<u>464,985</u>	<u>28,882</u>
Total operating expenses	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>46,157</u>
Deficiency of revenues over expenses	<u>(554,167)</u>	<u>(555,792)</u>	<u>(509,635)</u>	<u>46,157</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>(46,157)</u>
Total other financing sources	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>(46,157)</u>
Change in net position	-	-	-	-
Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**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 Net Position—Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
Operating expenses:				
Services and supplies	\$ 60,300	\$ 61,925	\$ 49,550	\$ 12,375
Fiscal agent expenses	<u>551,306</u>	<u>551,306</u>	<u>540,209</u>	<u>11,097</u>
Total operating expenses	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>23,472</u>
Deficiency of revenues over expenses	<u>(611,606)</u>	<u>(613,231)</u>	<u>(589,759)</u>	<u>23,472</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
Total other financing sources	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
Change in net position	-	-	-	-
Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF BUFFALO, NEW YORK**  
**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK**  
**Schedule of Authority Investments**  
**Year Ended June 30, 2014**

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**Annual Investment Report** - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the Water Authority, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report.

- a. Investment guidelines – the Water Authority’s investment policy was adopted by the Board of Directors.
- b. Amendments to guidelines – none.
- c. Explanation of guidelines and investments – the Water Authority has not made any amendments to its investment policy. These guidelines restrict investment of Water Authority funds to:
  - Certificates of Deposit (“CD”) issued by a bank or trust company authorized to do business in New York State;
  - Time Deposit (“TD”) accounts and Negotiable Order of Withdrawal (“NOW”) accounts in a bank or trust company authorized to do business in New York State;
  - Obligations of New York State;
  - Repurchase agreements involving the purchase and sale of direct obligations of the United States;
  - Obligations of agencies of the federal government, if principal and interest is guaranteed by the United States; and
  - With the approval of the New York State Comptroller, in Revenue Anticipation Notes or Tax Anticipation Notes of other local governments.
- d. Results of the annual independent audit – the independent auditors have issued an unmodified opinion on the Water Authority’s financial statements for the fiscal year ended June 30, 2014.
- e. Investment income record – The Water Authority had no investment income for the fiscal year ended June 30, 2014.
- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report – no such fees or commissions were paid during the fiscal year ended June 30, 2014.