Providing Water You Can Trust

Erie County Water Authority 2002 Annual Report

Respectfully Submitted To The

Honorable George E. Pataki
Governor of the State of New York

Honorable Alan G. Hevesi
Comptroller of the State of New York

Honorable Joel A. Giambra
County Executive of Erie County

Honorable Nancy A. Naples
Comptroller of Erie County

Honorable Charles M. Swanick
Chairman, Erie County Legislature

Honorable Owen H. Johnson
Chairman, Senate Finance Committee

Honorable Herman D. Farrell
Chairman, Assembly Ways and Means Committee

Honorable Members of the New York State Legislature

Honorable Members of the Erie County Legislature

COMMISSIONERS' MESSAGE

The Erie County Water Authority is an independent, public benefit corporation created in 1949 by a special act of the New York Legislature known as Title III, Article V of the Public Authorities Law.

The Authority is not an agency of New York State and is totally independent of Erie County government. It operates as a self-sustaining business enterprise and pays all operating expenditures out of revenues generated from the sale of safe, clean water to its more than 143,000 customers. All revenues received must be used for operating expenses, capital improvements and paying outstanding debts.

The Authority has been operating for 49 years solely for the benefit of our customers that rely on our product 24 hours a day, 365 days a year.

It is in celebration of our successful efforts at producing and reliably delivering safe, affordable drinking water and our contributions to the quality of life throughout Western New York, that the Board of Commissioners submits the 49th Annual Report of the Erie County Water Authority.

From left to right:

Robert J. Lichtenthal Jr., Vice-Chairman
Mark G. Patton, Chairman
Acea Mosey-Pawlowski, Treasurer

Chairman's Commentary

Due to turbulent world events, protecting our nation's water supply has become one of the most important issues our industry faces today. Most public and private water utilities have significantly altered how day-to-day business operations are performed.

Almost everything we now do at the Authority is reviewed from a security perspective. Last year, we spent more than $1.5 million for physical and cyber security upgrades throughout the Authority's system. Some of the completed security measures include: video surveillance; motion detectors and intrusion alarms at all major facilities; new gates, fencing and 24-hour-a-day lock down at our water treatment plants; smart card readers and locking systems at all remote facilities; a global positioning system in all field vehicles; anti-virus software and networked computer systems with firewalls; and increased water quality surveillance sampling.

To enhance our ability to test for chemical and biological contaminants, the Authority was one of the first water utilities in the nation to purchase a Microtox testing system. This state-of-the-art testing device detects toxicity in our source and treated water and allows for rapid response in the event of an accidental or deliberate contamination of our water supply.

With the assistance of an $115,000 grant from the Environmental Protection Agency, the Authority also hired a nationally recognized, independent security expert to conduct a full-scale, system-wide vulnerability assessment. The consultant's evaluation determined that the Authority's security systems are well ahead of the curve compared to similar water utilities throughout the country.

The Authority will continue to dedicate substantial financial resources to further improve security. We will remain vigilant and work around the clock to make sure that our system is secure and our customers have a dependable supply of safe drinking water.

Thank you for your continued support, and I look forward to serving our customers for another year as Chairman of the Board of Commissioners.

Sincerely,

Mark G. Patton

The Engineering Department continues to be instrumental in reducing operating costs and providing better service to customers by improving the efficiency of the Authority's system.

In 2002, the Authority completed several capital improvement projects on time and under budget. The Engineering Department supervised the design and construction of 19,000 linear feet of water line improvements in the towns of Amherst and Cheektowaga and the City of Lackawanna, refurbished the interiors and exteriors of the Milestrip Road and Benning Road water storage tanks, and completed a major upgrade to the Sturgeon Point Treatment Plant's electrical system.

The department coordinated the planning of new water districts in the towns of Alden, Boston, Eden, Marilla and Newstead, and the design and construction of several water supply and distribution projects. These projects included the replacement of antiquated water lines in the towns of Amherst and West Seneca and the Village of Lancaster, and the construction of new water lines to service residential and commercial developments in the towns of Amherst, Clarence, Hamburg, Lancaster, Orchard Park and West Seneca.

The Engineering Department also completed the design work on several major capital projects slated to be completed in 2003, including the construction of a transmission main and pump station in Clarence, a new pump station in Lancaster and a new transmission main, pump station and 1.25 million gallon storage tank in the City of Tonawanda, which is transferring ownership of its water system to the Authority in 2004.

The Authority's cost-effective maintenance and capital investment programs continue to increase the useful life of its system and will save customers from more costly repairs and upgrades in the future.

The Distribution Department is responsible for maintaining the Authority's extensive delivery system, which includes 2,510 miles of pipeline, 14,816 hydrants, 22,665 valves and numerous appurtenances. The department also manages the Authority's residential and commercial metering programs and its vehicle fleet.

Last year, line maintenance crews completed 1,356 water line, valve and hydrant repairs and performed 12,406 work orders. Authority mechanics efficiently handled 1,474 preventative maintenance orders and repairs to the vehicle fleet and construction equipment.

The Authority continued to install remote read meters that can be read with a hand held computer from outside a home or business. Currently, the Authority has 144,416 residential meters and 755 large commercial meters in service. More than 66 percent of residential meters have been changed to remote read, and 78 percent of large commercial meters have been changed to more accurate, current production meters. The remote metering program has significantly reduced the hours needed to determine service volume and has resulted in more accurate accounts management and greater customer satisfaction.

As part of the Authority's acquisition of the City of Tonawanda water system, the department replaced 5,914 of the City's 6,206 meters in six months using a private contractor. The final meter changes will be completed in 2003.

The Authority also installed an Automated Vehicle Location (AVL) system in 92 of its field vehicles. The AVL allows the Authority to geographically monitor the exact location of its vehicles throughout the day via satellite technology from centrally located computer systems. It is just one of several state-of-the-art security measures the Authority implemented in 2002.

The Authority's system-wide improvements and preventative maintenance program continue to enhance work productivity and the dependability of the distribution network.

Production

The Production Department oversees the operations of the Authority's two water treatment plants, 24 pumping stations and 34 water storage tanks. Throughout the year, the department continued its pursuit of technologically advanced methods to manage the Authority's system with increased efficiency.

The Authority treated and distributed a record 25,855.74 billion gallons of safe, clean drinking water to its customers in 2002. The record year can be largely attributed to the hot, dry summer experienced throughout Western New York. During the month of July alone, the Authority delivered more than 100 million gallons a day 17 times and hit a new one-day pumpage record of 119.62 million gallons on July 15.

Last year's exceptional customer demand was met without any interruptions in service – a testament to the performance of the Authority's state-of-the-art production facilities and the dependability of its distribution network.

The Sturgeon Point Treatment Plant, which produced an average of 50.8 million gallons a day last year, received the highest acclaim from the New York State Health Department during its Comprehensive Performance Evaluation. Sturgeon Point's renovated filters, increased on-line monitoring of source and treated water supplies, and enhanced SCADA system allowed for close monitoring of the plant's operations, treatment techniques and quality standards.

The Production Department also managed the implementation of $1.5 million in upgrades to the Authority's security systems and will oversee additional security measures that will be completed next year.

The Administration Department continued its efforts to efficiently develop and manage the Authority's purchasing procedures, storage systems and information services.

Last year, the department experienced record purchasing, reduced inventories, and higher data entry levels to manage increased work orders and new projects resulting from the acquisition of new service areas.

The department produced 7,884 purchase orders totaling $31,569,274 in procurements for 2002. The Authority's fully computerized accounts payable system identifies all aspects of the procurement process from its original requisition to the final payment. Contracts used to acquire the purchase agreements, including specifications sheets, warranties, and maintenance schedules, are optically scanned and stored for retrieval and auditing purposes. Easy electronic access to these documents allows Authority staff to efficiently manage the purchasing process.

The Administration Department continued to pursue cooperative purchasing alliances with public and private sector agencies that have resulted in substantial savings for the Authority. Currently, the Authority jointly bids natural gas, electricity, road salt, stone and uniforms in order to maximize delivery points and reduce costs.

The department also manages the Authority's physical inventory of materials and supplies which totaled $1.5 million in 2002. Inventory decreased 16.6 percent from the previous year due to the Authority's more efficient procurement procedures.

Administration's Information Services unit is the primary administrative support for all Authority operations. Last year, the unit processed 24,865 work orders and closely tracked them through their completion. Information Services also handles the Authority's records management, new service applications, secretarial services, office supplies and general office operations.

The department's efficient management of the Authority's procurement procedures, inventories and information services has greatly enhanced overall business operations.

Customer Service

The Authority's highly trained Customer Service Representatives provide customers professional, courteous service that is informative and efficient. Responsibilities of the department include handling customer inquiries, dispatching crews, processing work orders and maintaining accurate service and billing records.

The Customer Service Department responded to 73,624 phone calls, processed 24,717 work orders and serviced 1,732 walk-in customers in 2002.

The department is also responsible for preparing and mailing bills and post cards for meter readings, processing payments and administering collection procedures for 143,664 active accounts. Throughout the year, Customer Service Representatives distributed 995,011 water bills and read-by-mail postcards. The Authority collected 99.7 percent of its billings and had a 70 percent return rate for read-by-mail postcards. These respective rates are among the highest of any local utility.

The Authority's number one priority is its customers, and it will continue to implement programs and policies to improve the service it provides on their behalf.

The Human Resources Department manages all pre and post-hire activities, benefits administration, labor relations, union contracts, employee training and safety programs, and oversees the Authority's Equal Employment Opportunity Program for qualified job applicants, employees and contractors.

By incorporating modern technology and common safety sense, the department efficiently managed the Authority's proactive safety and training programs. These programs have greatly benefited customers through reduced operating costs and improved employee performance.

For the eighth consecutive year, employees completed more than 4,000 hours of safety training in areas like hazardous material handling, backhoe safety, heavy equipment operation, shoring protection and confined space.

Authority employees also continued to participate in educational development programs, licensing training and professional associations to stay ahead of the latest industry trends and develop their skills to the highest possible levels.

The Authority's ongoing commitment to advanced training, higher education and professional development has provided employees a safe and rewarding work environment.

Water Quality

The Authority's Water Quality Department is a recognized leader both statewide and nationally for innovative water treatment strategies and analysis.

The department maintains a staff of highly trained professionals and uses the latest technology to assure that Authority customers receive water that is safe, clean and pure.

Last year, the Authority conducted more than 75,000 tests for roughly 250 contaminants. All tests exceeded the most stringent governmental regulations mandated by the Environmental Protection Agency and the New York State Department of Health.

The Authority's Water Quality Laboratory holds certifications by the National Environmental Laboratory Accreditation Program (NELAP) and the State's Environmental Laboratory Approval Program (ELAP) for the analysis of both potable and non-potable water. The Water Quality lab is one of only a few labs in New York State to be accredited by both organizations. In addition, the Authority's lab is one of only 13 environmental laboratories nationwide that currently holds conditional Environmental Protection Agency approval for *Cryptosporidium* and *Giardia* testing.

The Water Quality Department also oversees the Authority's extensive research program to improve the level of drinking water quality. The Authority's research efforts this past year continued to focus on early detection of contamination. As part of the Authority's heightened security program, the Water Quality Department added on-line Total Organic Carbon monitors at both treatment plants. These monitors continually analyze the Authority's source and treated water supplies to aid in the detection of organic contaminants.

The department also implemented an enhanced water quality surveillance program that can screen for chemical, biological and toxic compounds throughout the Authority's distribution system and at its production and storage facilities. In the event of an accidental or deliberate contamination of the water supply, the Authority will receive early warning signals that will allow for rapid response to the problem. This program is a major part of the Authority's overall water quality strategy that helps ensure the safety of its customers' drinking water supply.

Executive Director's Report

Since the appointment of a new Board of Commissioners and the current Management Team in 1996, the Erie County Water Authority has developed into one of the most professionally managed public utilities in New York State. This evolution has greatly benefited our customers and is the result of a steadfast business model and the hard work and dedication of every single Authority employee.

The Authority ended the year with 263 employees, a reduction of 59 full-time positions, or 18 percent, from our total of 322 in 1996. During the same period, our customer base increased by 21,269, or 17.5 percent, to a total of 143,000. Our most recent system acquisition was the Village of Lancaster, which added 4,200 customers to the Authority on December 31, 2002. The Village is now a direct service customer of the Authority and completely out of the water business. This recent expansion trend is likely to continue due to our ability to provide water service more cheaply and efficiently than most local governments in Erie County. Currently, we are discussing with several municipalities the possibility of joining the Authority's system for the first time or expanding their water service needs, including the City of Buffalo, the towns of Orchard Park and Concord and the villages of Williamsville and Blasdell.

The Authority has also maintained its aggressive capital improvement program to enhance water quality and service delivery, especially in the northeastern section of our service district. Last year, we spent $10 million on several major upgrades throughout our system. This commitment to improving our facilities and infrastructure allowed the Authority to meet last summer's record customer demand without any interruptions in service.

We have been able to achieve the aforementioned results while continuing to cut costs and improve efficiencies. The Authority's 2002 operating budget was $29,881,000; an increase of only 2.6 percent compared to our 1996 operating budget of $29,114,753. The compound inflation rate for the same period was 17.7 percent – further evidence of our ability to do more with less and keep annual spending well below the rate of inflation.

We at the Authority are proud of our accomplishments and look forward to continuing to work with government and elected officials throughout our region to assure that every resident of Erie County has an adequate supply of safe, affordable drinking water.

I look forward to your support of our efforts to enhance the Authority's position as a leader in the water service industry.

Sincerely,

Robert A. Mendez

PricewaterhouseCoopers

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Report of Independent Accountants

To the Members of the
Erie County Water Authority

In our opinion, the accompanying balance sheet and the related statements of net income and earnings reinvested in the business and cash flows present fairly, in all material respects, the financial position of the Erie County Water Authority (the Authority) at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 21, 2003

ERIE COUNTY WATER AUTHORITY

Balance Sheet

	December 31, 2002	December 31, 2001
Assets		
Water plant, net	$ 265,538,812	$ 256,408,116
Invested reserve funds		
Future construction	5,019,975	3,925,943
Debt service reserve fund	5,568,762	5,696,514
Net increase/(decrease) in the fair market value of investments	(2,103)	3,683
	276,125,446	266,034,256
Current Assets:		
Cash and cash equivalents	25,879,378	19,199,952
Customers' accounts receivable, less allowance for doubtful accounts of $315,209 and $273,046 respectively	4,177,921	4,363,929
Debt service fund (at amortized cost)	3,965,274	4,142,336
Investments	-	3,050,000
Interest receivable and other assets	2,196,968	1,486,250
Materials and supplies	1,551,190	1,859,323
Total current assets	37,770,731	34,101,790
Unamortized bond discount and expense	1,392,866	1,585,304
Long-term investment	7,354,550	8,154,128
Total assets	$ 322,643,593	$ 309,875,478
Capitalization and Liabilities		
Capitalization:		
Earnings reinvested in the business	$ 176,744,270	$ 168,492,470
Contributions in aid of construction	47,074,276	37,899,067
Total capitalization	223,818,546	206,391,537
Water revenue bonds - long term	77,802,830	83,607,830
Total capitalization and long term debt	301,621,376	289,999,367
Current liabilities:		
Accounts payable	4,866,520	4,473,066
Water revenue bonds - current	5,805,000	3,725,917
Interest and other accrued liabilities	3,195,103	4,221,299
Accrued retirement contributions	919,588	1,980,492
Construction retention	221,215	239,384
Total current liabilities	15,007,426	14,640,158
Accrued sick pay	1,588,261	1,527,878
Long-term interest payable	4,003,332	3,499,125
Advances for construction	423,198	208,950
Total capitalization and liabilities	$ 322,643,593	$ 309,875,478

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Net Income and Earnings Reinvested in the Business

	December 31, 2002	December 31, 2001
Operating revenues	$ 48,362,387	$ 45,633,628
Operating expenses:		
Operation and administration	21,670,370	22,397,889
Maintenance	6,536,653	6,494,451
Depreciation and amortization	9,111,962	9,061,901
Total operating expenses	37,318,985	37,954,241
Operating income before miscellaneous income and net interest charges	11,043,402	7,679,387
Net interest charges:		
Interest expense	4,657,045	4,911,337
Interest income	(1,810,853)	(2,054,934)
Amortization of investment premium/discount	6,949	8,170
Interest capitalization during construction	(61,539)	(39,409)
Net interest charges	2,791,602	2,825,164
Net income	$ 8,251,800	$ 4,854,223
Earnings reinvested in the business:		
Beginning of year	168,492,470	163,638,247
End of year	$ 176,744,270	$ 168,492,470

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Cash Flows

	December 31, 2002	December 31, 2001
Cash flows from operating activities:		
Net income	$ 8,251,800	$ 4,854,223
Adjustments to reconcile net income to net cash provided by (used for) operating activities -		
Depreciation and amortization	9,111,962	9,061,901
Interest expense, net	(125,235)	36,612
Interest capitalization during construction	(61,539)	(39,409)
Change in:		
Debt service fund	177,062	736,053
Customers' accounts receivable	186,008	(552,918)
Materials and supplies	308,133	(418,382)
Other assets	(767,434)	578,834
Accounts payable	393,454	131,780
Accrued retirement contributions	(1,060,904)	(93,580)
Construction retention	(18,169)	(68,965)
Other liabilities	(1,026,196)	(1,335,273)
Sick pay accrual	60,383	96,173
Net cash provided by operating activities	15,429,325	12,987,049
Cash flows from investing activities:		
Proceeds from the sale or maturity of investments	126,515,330	65,277,879
Purchase of investments	(122,954,630)	(62,198,414)
Net decrease in the fair value of investments	5,786	101,414
Cash transfer for investment	(47,959)	105,604
Additions to water plant, net of disposals	(10,073,571)	(9,140,859)
Net cash used for investing activities	(6,555,044)	(5,854,376)
Cash flows from capital and related financing activities:		
Repayment of water revenue bonds	(3,725,917)	(3,910,472)
Increase in contributions in aid of construction	1,316,814	1,039,319
Increase (decrease) in advances for construction	214,248	(108,725)
Net cash used for capital and related financing activities	(2,194,855)	(2,979,878)
Net increase in cash and cash equivalents	6,679,426	4,152,795
Cash and cash equivalents:		
Beginning of year	19,199,952	15,047,157
End of year	$ 25,879,378	$ 19,199,952

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

1. Organization and significant accounting policies
Organization and summary of operations

The Erie County Water Authority (the Authority) is a public benefit corporation created in 1949 by the State of New York. The accounts of the Authority are maintained generally in accordance with the Uniform System of Accounts prescribed by the New York State Public Service Commission (PSC), although the Authority is not subject to PSC rules and regulations or those of any other state or federal regulatory agency. The rates established by the Authority do not require PSC approval.

The Erie County Water Authority operates its business activities on a direct service basis where the Authority owns the assets and is responsible for their operation, maintenance, improvement and replacement; on a leased managed service basis where the Authority leases the assets and is responsible for the operation and maintenance of the assets while the lessor is responsible for the improvement and replacement of assets; and on a bulk sales basis where the Authority contracts with the customer to provide water while the customer owns the assets and is responsible for their operation, maintenance, improvement and replacement as well as billings and customer collections.

The Authority began with a mandate to provide potable water to all locations within Erie County, except Buffalo, Tonawanda and Grand Island, and has fulfilled this mandate by providing water to over 540,000 residents of Erie County operating on one of the three bases set forth above – direct service, leased managed service or bulk service. The Authority has had a regional outlook for many years as evidenced by our service expansion throughout the county and by the Inter-Community Transmission main built in the early 1990's to expand water service to the Cattaraugus Indian Reservation and some Chautauqua County customers. During fiscal year 2002 the Authority entered into an agreement to convert the Village of Lancaster from bulk service to direct service and Water District No. 17 in the Town of Orchard Park from lease managed to direct service and added over four thousand direct service customers to its operations and asset base. In 2002, the Authority has started to provide water to Monroe County Water Authority who in turn provides water to the residents of Western Genesee County. In addition, the Authority will begin to provide direct service to the City of Tonawanda in 2004.

Basis of accounting

The Authority prepares its financial statements using the accrual basis of accounting. The activities of the Authority are reported in conformity with governmental accounting and financial reporting principles of the Governmental Accounting Standards Board (GASB). As allowed by governmental accounting standards, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Water plant

The cost of additions to water plant including purchased or contributed property and replacements of retired units of property is capitalized. Cost includes direct material, labor, overhead and an allowance for funds used during construction equivalent to the cost of borrowed funds used for construction purposes. Overhead is added proportionately to the cost of a project on a monthly basis. The cost of retirements of water plant is charged against accumulated depreciation. Maintenance and repairs are charged to expense as incurred, and major betterments are capitalized.

Depreciation of water plant is computed using the straight-line method based upon annual rates established in accordance with PSC guidelines, which range from 1% to 20%.

Depreciation expense approximated 2.3% of the original cost of average depreciable property for both years ended December 31, 2002 and 2001.

Investment securities

Investments are carried at market value based on quoted market prices for those investments subject to market forces and at amortized cost for investments not subject to market forces. The cost of investments sold is determined using the specific identification method and then adjusted to market value changes to reflect the combined net change in these elements in the income statement.

The Authority's deposits at December 31, 2002 were entirely covered by federal deposit insurance or by collateral held by the Authority's custodial banks in the Authority's name.

Materials and supplies

Materials and supplies are stated at the lower of cost or market, cost being determined on the basis of moving-average cost.

Accrued sick pay

Certain Authority employees who enter retirement, or who are separated from employment other than for cause, are paid 80% of their earned and unused sick leave pursuant to collective bargaining agreements and board policy. Sick pay is accrued when earned.

Unamortized bond discount and expense

Bond discount and expense resulting from the issuance of water revenue bonds have been deferred and are being amortized over the life of the bonds using the straight-line method.

Long-term investment

The long-term investment is accounted for at cost plus accrued income. See further discussion at Note 8.

Advances for construction and contributions in aid of construction

Advances for construction primarily represent amounts received from contractors for water main extensions. Upon completion of the extension, the remaining advance is transferred to contributions in aid of construction.

Contributions in aid of construction represent amounts received from individuals, governmental agencies, and others, to reimburse the Authority for construction costs incurred on capital projects or the original cost of water plant systems contributed to the Authority by municipalities and others.

During 2002, the Authority recorded asset values and contributions in aid of construction from the Village of Lancaster and the Town of Orchard Park in the amount of $6,542,159 and $1,316,236 respectively and assumed responsibility for the operation, maintenance and improvements to these water systems now and in the future. The asset values were determined by current replacement cost discounted to original cost by application of construction costs indices based upon the average age of the assets acquired, and further adjusted for depreciation to date of acquisition, with the resulting asset net book value being recorded as contributions in aid of construction.

Operating revenues

Operating revenues are recorded as water service is supplied. Water supplied, but not billed, as of the calendar year-end is estimated based upon historical usage and has been accounted for as earned but unbilled revenue. Billings in advance of water supplied are accounted for as a reduction to earned but unbilled revenue.

Statement of cash flows

For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to be all unrestricted cash accounts and short-term investments purchased with an original maturity of generally three months or less. Cash paid for interest on the water revenue bonds amounted to $6,264,334 for 2002 versus $6,077,179 for 2001.

Income taxes

As a public benefit corporation, the Authority is exempt from Federal and State income taxes.

2. Water plant

	December 31, 2002	December 31, 2001
	(in thousands)	
Buildings and structures	$ 168,037	$ 166,620
Mains and hydrants	165,039	151,518
Equipment	27,720	26,937
Land	2,194	2,194
Other	39,088	37,272
Water plant in service	402,078	384,541
Less accumulated depreciation	142,328	130,836
	259,750	253,705
Construction work in progress	5,789	2,703
	$ 265,539	$ 256,408

3. Water revenue bonds

Water revenue bonds are summarized as follows:

Series	Final annual installment payment due	Year of earliest redemption	Interest rate	Original issue	Balance as of December 31, 2002	Balance as of December 31, 2001
				(in thousands)		
Series 1992FR	06/01/08	2006	6.20-6.30%	$ 50,270	$ 4,473	$ 4,473
Series 1993A	12/01/16	2009	Variable (*)	27,500	27,500	27,500
Series 1993B	12/01/16	2009	Variable (*)	15,000	15,000	15,000
Series 1993FR	12/01/05	1997	4.88-6.17%	43,886	15,445	18,206
Series 1998B	12/15/17	1998	3.65-5.20%(**)	7,781	6,205	6,525
Series 1998D	10/15/19	2000	3.90-5.15%(**)	16,860	14,985	15,630
					$ 83,608	$ 87,334
Less portion due within one year					5,805	3,726
					$ 77,803	$ 83,608

(*) The interest rate was 1.45% and 1.40% at December 31, 2002 and 2001, respectively.
(**)Gross rates subject to subsidy from the New York State Environmental Facilities Corporation (EFC).
FR Fourth Resolution

The Series 1992 Bonds represent Capital Appreciation Serial Bonds (Appreciation Bonds), the Series 1993A and Series 1993B Bonds represent Variable Weekly Bonds and the Series 1993 Fourth Resolution Bonds represent Current Interest Bonds and Appreciation Bonds. Interest on the Current Interest Bonds and Variable Weekly Bonds is payable semi-annually on June 1 and December 1. Interest on the Appreciation Bonds is compounded semi-annually on June 1 and December 1 but is not payable until bond maturity. The accrued interest on the Appreciation Bonds is reflected as current and long-term interest payable.

Concurrent with the issuance of the Series 1993A Bonds and the Series 1993B Bonds, the Authority entered into interest rate swap agreements as a hedge against fluctuating interest rates. The forward interest rate swap agreement for the Series 1993B Bonds became effective in March 1996. The interest rate swap agreements provide for the Authority and a counterparty to exchange a net dollar amount calculated as the difference between a weekly variable rate and a contractual fixed rate of 5.24% and 5.89%, for the Series 1993A Bonds and the Series 1993B Bonds, respectively. Settlement with the counterparty occurs with the semi-annual payment of interest on May 31 and November 30. Amounts receivable or payable are accrued as a component of interest expense. The notional amount of the interest rate swap agreement is consistent with the Series 1993A Bond and Series 1993B Bond issuance amounts and decreases concurrent with subsequent maturities of the Series 1993A Bonds and Series 1993B Bonds.

The Current Interest Serial 1998B and 1998D Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 1998B (EFC Project No. 15568) and Bond Series 1998D (EFC Project No. 16504) in 1998. The 1998B and 1998D bonds in the amounts of $7,780,931 and

$16,859,700, respectively, representing the Authority's portion of these financings, were issued to cover the costs of the construction of two new clearwell water tanks and a new pumping station at the Authority's Sturgeon Point plant. Payments are made to the bondholders as follows:

	Interest	Principal
1998B	June 15 and December 15	December 15
1998D	April 15 and October 15	October 15

The bonds bear different rates of interest ranging from 3.65% to 5.20% over their respective installment payment dates ending on December 15, 2017 and October 15, 2019, respectively. The terms of the borrowings provide for an interest subsidy of approximately one-third of the stated interest rates shown above. The subsidy is generated from a United States Environmental Protection Agency grant to the EFC which EFC invests and credit the borrower with the earnings on the invested funds as an offset to the interest payable on the bonds.

Total principal and interest payments relating to Water Revenue Bonds through maturity are summarized as follows:

Year ending December 31,	**Principal**	**CAB Interest**	**Current Interest**	**Total**
2003	$ 5,805,000	$ –	$ 4,196,668	$ 10,001,668
2004	5,955,000	–	3,869,494	9,824,494
2005	6,740,000	–	3,522,976	10,262,976
2006	3,238,577	2,996,423	3,215,281	9,450,281
2007	3,289,497	3,385,503	3,167,724	9,842,724
2008-2019	58,579,756	250,244	18,822,097	77,652,097
	$ 83,607,830	$ 6,632,170	$ 36,794,240	$ 127,034,240
Less portion due within one year	5,805,000	–	4,196,668	10,001,668
	$ 77,802,830	$ 6,632,170	$ 32,597,572	$ 117,032,572

As provided by the respective bond resolutions, the Series 1993A Bonds and the Series 1993B Bonds are redeemable prior to maturity at the election of the Authority, at any time. In order to redeem these bonds the Authority would be required to unwind the swap agreements.

Prior to 1993, the Authority completed a plan of restructuring a significant portion of its debt through a series of bond issuances. The net proceeds from these issuances and certain existing funds were deposited with an escrow agent pursuant to refunding agreements, and invested in U.S. Government securities. The maturities of these invested funds and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased bonds as they mature. These advance refunding transactions effectively released the Authority from its obligation to repay these bonds and constituted in-substance defeasances. The principal outstanding on the bonds defeased prior to 1993 is $58,617,456 at December 31, 2002 with maturities ranging from the year 2003 to the year 2014.

In November 1999, the Authority defeased a portion of the 1993 Fourth Resolution Taxable Bonds. Available cash of $13,684,547 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1993 Fourth Resolution Taxable Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. The principal outstanding is $8,200,000 at December 31, 2002 with maturities ranging from the year 2003 to the year 2005.

In December 2000, the Authority defeased a portion of the 1992 Fourth Resolution Bonds and a portion of the 1993 Fourth Resolution Taxable Bonds. Securities and available cash of $4,191,215 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1992 and 1993 Fourth Resolution Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1992 and 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. The principal outstanding is $2,438,635 at December 31, 2002 with maturities ranging from the year 2003 to the year 2007.

4. Debt service reserve fund

During 1993, the Authority established a debt service reserve fund as required by the Series 1993A and 1993B bond resolutions to maintain a specified amount of funds to meet future debt service requirements. These requirements state that the Authority must deposit funds equal to the lesser of the maximum amount of principal and interest becoming due in any succeeding calendar year on the Series 1993A and Series 1993B Bonds or 9.9% of the initial principal amount of the Series 1993A and Series 1993B Bonds.

The 1992 and 1993 Fourth Resolution Bond Series established a debt service reserve fund as required by the Series 1992 and 1993 Fourth Resolution bond resolutions to maintain a specified amount of funds to meet future debt service requirements. These requirements state that the Authority must deposit funds equal to the lesser of the maximum amount of principal and interest becoming due in any succeeding calendar year on the Series 1992 and 1993 Fourth Resolution Bonds or 9.9% of the initial principal amount less the original issue discount on the Series 1992 and 1993 Fourth Resolution Bonds. Surety bonds issued by AMBAC Indemnity Corporation have been deposited in the Reserve Account in full satisfaction of the Reserve Account Requirements for the Series 1992 and Series 1993 Fourth Resolution Bonds.

During 1998, the Authority established a debt service reserve fund as required by the Series 1998B and 1998D bond resolutions to maintain a specified amount of funds to meet future debt service requirements. These requirements state that the Authority must deposit funds equal to the lesser of ten percent of the total principal of the loan, the maximum annual debt service or 125% of the average annual debt service for the Series 1998B and 1998D Bonds.

At December 31, 2002 the debt service reserve fund was $5,568,762 and at December 31, 2001 the debt service reserve fund was $5,696,514.

5. Debt service fund

The 1992 Fourth Resolution, 1993A, 1993B, 1993 Fourth Resolution, 1998B and 1998D bond resolutions require that a specified amount of funds be maintained in the debt service fund. The requirements of the debt service fund state that the Authority must deposit funds to provide for monthly interest and principal payments to start not later than six months prior to the payment of interest and twelve months prior to the payment of principal. Accordingly, the Authority had funds set aside in the debt service fund amounting to $3,965,274 and $4,142,336 at December 31, 2002 and 2001, respectively.

6. Future construction reserve fund

The Authority is required by the water revenue bond resolutions to maintain, on deposit, funds in the amount of one-twelfth of the subsequent year's budgeted improvement and replacement expenditures, but not less than one-twelfth of one half of 1% of the total gross cost of water plant in service and under construction. Accordingly, as the budgeted expenditures exceeded one half of 1% of water plant, the Authority was required to have reserve funds for future construction set aside in the amount of $1,757,992 and $1,071,975 at December 31, 2002 and 2001 respectively. Additionally, certain funds provided by the Series 1992, Series 1993A and 1993B Bonds are required to be maintained in this fund to pay for future acquisition and construction costs.

During 2002, and for future years, the Board has committed to pay for capital costs from available operating funds in excess of reserve requirements and other defined financial commitments.

At December 31, 2002, the future construction reserve was $5,019,975 and at December 31, 2001 the future construction reserve was $3,925,943.

7. Investment securities

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (the Statement), establishes standards of financial accounting and reporting for certain investments held by most governmental entities and all investments held by governmental external investment pools. Included in interest income in the Statement of Net Income and Earnings Reinvested in the Business were changes in the fair value of investments of a loss of $5,786 in 2002 and a loss of $101,414 in 2001.

The Authority's bond resolutions allow for monies to be invested in the following instruments:

- Obligations of the United States Government;
- Obligations of Federal Agencies which represent full faith and credit of the United States Government;
- Bonds issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;
- Time deposits and money market accounts;
- Commercial paper which matures not more than 270 days after the date of purchase; and
- Municipal obligations of any state, instrumentality, or local governmental unit of such state.

The amortized cost and market value of investment securities were as follows:

	December 31, 2002		December 31, 2001	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Future construction fund				
Cash and equivalents	$ 2,374,463	$ 2,374,463	$ 1,329,856	$ 1,329,856
Mortgage-backed securities	399,651	399,720	1,049,465	1,049,919
Commercial Paper	2,245,861	2,245,539	1,546,622	1,546,622
Total	$ 5,019,975	$ 5,019,722	$ 3,925,943	$ 3,926,397
Debt service reserve fund				
Cash and equivalents	$ 162,488	$ 162,488	$ 184,547	$ 184,547
U.S. Treasury securities	1,712,676	1,712,676	1,712,676	1,712,676
Mortgage-backed securities	599,477	599,580	2,003,256	2,003,949
Commercial Paper	3,094,121	3,093,622	1,796,035	1,796,035
Total	$ 5,568,762	$ 5,568,366	$ 5,696,514	$ 5,697,207
Debt service fund				
Cash and equivalents	$ 3,965,274	$ 3,965,274	$ 4,142,336	$ 4,142,336
Total	$ 3,965,274	$ 3,965,274	$ 4,142,336	$ 4,142,336
Operating and Maintenance Fund				
Cash and equivalents	$ 11,504,178	$ 11,504,178	$ 8,169,025	$ 8,169,025
Mortgage-backed securities	2,198,083	2,198,460	6,198,223	6,200,759
Commercial Paper	12,177,117	12,175,286	7,882,704	7,882,704
Total	$ 25,879,378	$ 25,877,924	$ 22,249,952	$ 22,252,488
Total	$ 40,433,389	$ 40,431,286	$ 36,014,745	$ 36,018,428
Market Value Less Amortized Cost		$ (2,103)		$ 3,683

8. Long-term investment

During 1990, the Authority entered into a zero coupon bond agreement which requires the Authority to make monthly deposits into an investment account through December 2008. During 1997, the Board established a policy that all earnings and proceeds to be distributed in conformance with the agreement shall be deposited into the capital fund to be used solely for future capital expenses. At December 31, 2002 and 2001, the zero coupon bond investment balance is $7,354,550 and $8,154,128, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately $363,000. The second year will be approximately $277,000, the third year will be approximately $197,000, the fourth year will be approximately $119,000, and the fifth year will be approximately $49,000. The total amount due for the sixth and final year is approximately $21,000. On December 1, 2002 the Authority received $1,850,492 as the third guaranteed annual payment from this investment. Varying amounts will be received each December 1 through 2008. The total amount to be received in future years is approximately $10.2 million.

9. Pension plan and other post retirement benefits

The Authority contributes to the New York State and Local Employees Retirement System (State Plan), which is a cost-sharing, multi-employer, public employee retirement system. The State Plan provides retirement, disability, and death benefits to members as authorized by the New York State Retirement and Social Security Law. The State Plan issues publicly available financial reports that contain financial statements and required supplementary information for the State Plan. The State Plan report may be obtained by writing to the New York State and Local Retirement Systems - Employees Retirement System, 110 State Street, Albany, New York 12244-001.

Plan members who joined the State Plan before July 27, 1976 are not required to make contributions. Those joining on or after July 27, 1976 are required to contribute 3% of their annual salary for the first ten years of their membership, or credited service, in the Retirement System.

The contribution requirements of the State Plan members and the Authority are established by the New York State Retirement and Social Security Law and may be amended by the State Legislature. The Authority's contribution to the State Plan amounted to $300,598 and $285,783 in 2002 and 2001, respectively.

In December 1993, the New York State Court of Appeals ruled that the New York State Legislature had acted unconstitutionally in requiring the pension system to use the Projected Unit Cost (PUC) actuarial method instead of the aggregate cost actuarial method in determining employers annual pension contributions to the pension system. The New York State Comptroller issued a letter dated December 10, 1993 outlining a plan to collect the additional pension contributions due for wages paid from April 1, 1990 through March 31, 1993 over the next seventeen year period beginning with the fiscal year commencing April 1, 1995 using an approximate average annual contribution rate of 2.25% of wages to be paid over the amortization period. The Authority began accruing for this obligation in 1993 and had accumulated $1,598,346 in accruals through March 31, 2002. The Authority contacted the New York State Employees Retirement System (NYSERS) during 2002 and inquired as to when it would be billed for this obligation and was advised that this obligation was satisfied in a manner different from the original plan and that the Authority had no obligations under the revised plan. Based upon these facts, the Authority reversed the accumulated accrual of $1,598,346 against operating expenses during 2002.

In addition to providing pension benefits, the Authority provides certain health care benefits to retired employees. The Authority's employees covered by collective bargaining units may become eligible for these benefits if they reach normal retirement age while working for the Authority for at least 15 years. For exempt employees the Authority uses a formula based on years of service and age. The Authority recognizes the cost of providing health care benefits to retired employees by expensing the annual premiums, which totaled $576,888 and $472,998 for 2002 and 2001, respectively.

10. Deferred compensation plan

Employees of the Authority may elect to participate in the Erie County Water Authority Deferred Compensation Plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan permits participating employees to defer a portion of their salary until future years, usually after retirement.

Section 457 of the Internal Revenue Code was recently amended by the Small Business Job Protection Act of 1996 to require that an eligible deferred compensation plan must, by January 1, 1999, provide that all amounts deferred and the income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. The Plan was amended effective October 1, 1997 to comply with the law, and the plan assets were placed into trust at that time. The plan was further amended in December 2001 to comply with the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, which increased contribution limits and provided new portability provisions.

11. Commitments and contingencies

The Authority maintains and operates certain facilities employed in the sale and distribution of water, which it leases from various local water district municipalities pursuant to lease management agreements. Such agreements generally are for ten-year terms, are noncancellable during the initial nine years and provide that the lessor purchase and obtain in return water exclusively from the Authority. Subsequent to its initial term, these agreements continue on a month-to-month basis until a new agreement is negotiated. Future maintenance and operating costs to be incurred by the Authority under such arrangements presently in effect are not determinable.

The Authority is subject to various laws and regulations, which primarily establishes uniform minimum national quality standards. The Authority has established procedures for the on-going evaluation of its operations to identify potential exposures and assure continued compliance with these regulatory standards.

The Authority is also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2002 and 2001 aggregated $532,356 and $515,236, respectively. Future minimum annual rentals to be paid under such leases are not significant.

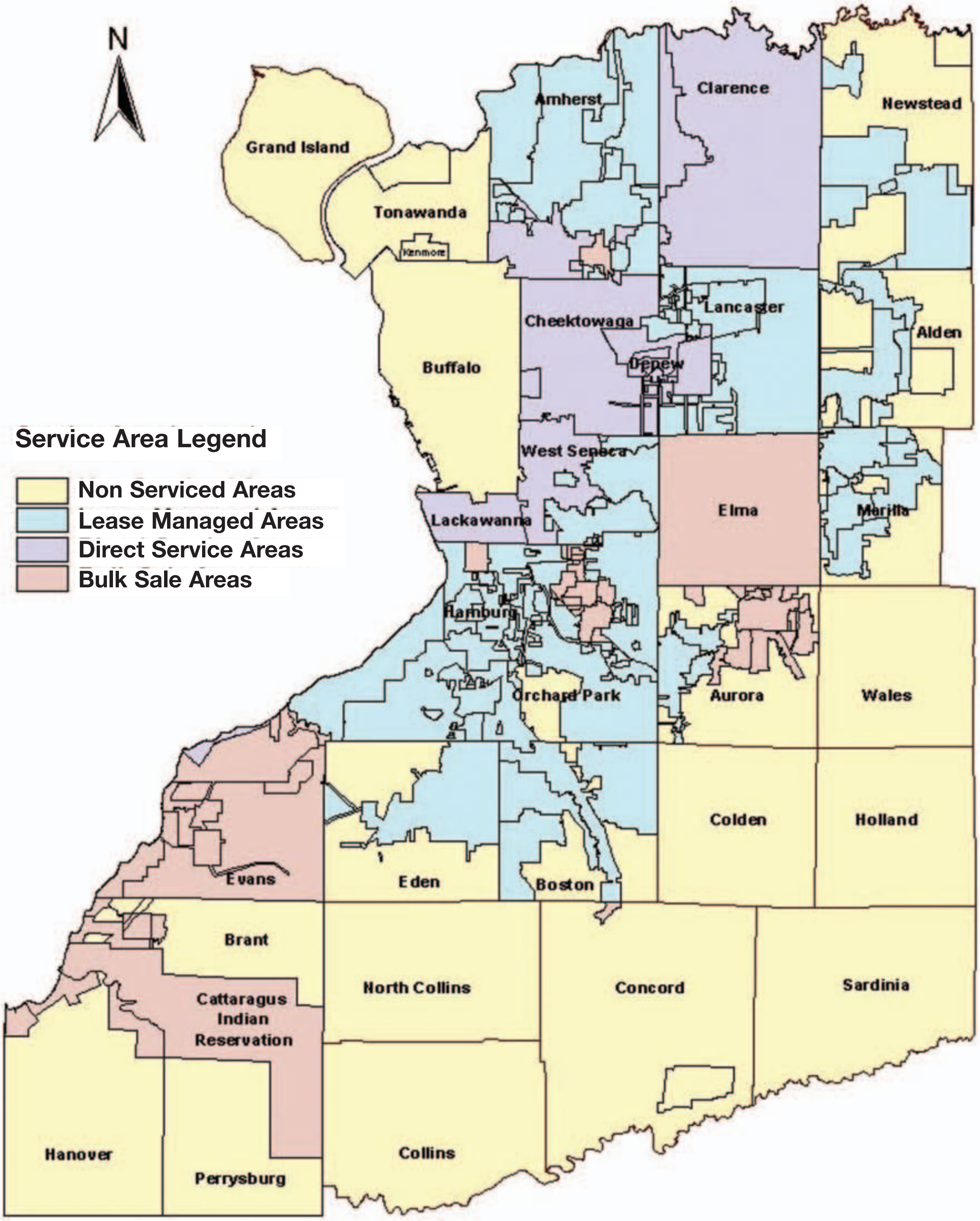
The Erie County Water Authority and the City of Tonawanda entered into Direct Service Agreement on January 10, 2002. Included in the agreement is a commitment to invest approximately $7,700,000 in the City of Tonawanda water system infrastructure, which will revert to the beneficial ownership of the Authority at such time that both parties have met the conditions in the executory agreement. The residents approved a referendum on January 7, 2003 to transfer the water system assets to the Erie County Water Authority.

The Authority has committed approximately $3,200,000 to build a pipeline and pump station within Erie County to the Genesee County line under the “Genesee County Public Supply Program.” This involves a three party agreement with New York State providing a $3,000,000 grant under its “Pipeline For Jobs” program. The Authority will receive $1,300,000 with the balance going to Monroe County Water Authority and Genesee County for their portions of the project. The remaining balance of the Authority’s commitment as of December 31, 2002 is $1,198,000, of which $498,000 will be funded by the remaining portion of the state grant.

The Authority on February 5, 2003 issued a letter of intent to the City of Buffalo, the Buffalo Water Board and the Buffalo Municipal Water Finance Authority proposing the acquisition of the Buffalo municipal water system by the Erie County Water Authority. Although the letter of intent has expired, negotiations on this matter are on-going.

The Authority is involved in litigation and other matters arising in its normal operating, financing, and investing activities. While the resolution of such litigation or other matters could have a material effect on earnings and cash flows in the year of resolution, none of this litigation, and none of these other matters, are expected to have a material effect on the financial condition of the Authority at this time.

Service Area Map



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