# Erie County Water Authority
# Comprehensive Annual Financial Report
# For The Years Ended December 31, 2010 and 2009

ERIE COUNTY, NEW YORK

# ERIE COUNTY WATER AUTHORITY

# Comprehensive Annual Financial Report

# For the Years Ended December 31, 2010 and 2009

295 Main Street
Room 350
Buffalo, New York 14203

Prepared By:
The Finance Department
Erie County Water Authority

# ERIE COUNTY WATER AUTHORITY

## Comprehensive Annual Financial Report

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(concluded)

# INTRODUCTORY SECTION

Erie County Water Authority
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May 30, 2011

The Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Honorable Mark C. Poloncarz
Erie County Comptroller
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members of the Erie County Legislature and County Comptroller Poloncarz:

The Comprehensive Annual Financial Report ("CAFR") of the Erie County Water Authority for the years ended December 31, 2010 and 2009 is respectfully submitted.

## INTRODUCTION

**Management Representation.** This report was prepared by the Finance Department of the Erie County Water Authority (the "Authority") in conformance with current accounting and financial reporting principles promulgated by the Governmental Accounting Standards Board ("GASB"). Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Board of Commissioners and management of the Authority.

Lumsden & McCormick, LLP have issued an unqualified ("clean") opinion on the Erie County Water Authority's financial statements for the years ended December 31, 2010 and December 31, 2009. The independent auditor's report is located at the front of the financial section of this report.

We believe the information as presented is accurate in all material respects, and is presented in a manner designed to fairly set forth the financial position and results of operation of the Authority. We further acknowledge the Authority's responsibility for the design and implementation of programs and internal controls to provide reasonable assurance that fraud is prevented and detected. There are no significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Authority's ability to record, process, summarize and report financial data.

The Management Discussion and Analysis beginning on page 11 provides complementary information not included in this introduction.

## ORGANIZATION PROFILE

The Erie County Water Authority is a Public Benefit Corporation formed in 1949 to provide a potable water supply to the residents of Erie County. The Authority was created by an Act of the New York State Legislature, codified in Sections 1050 through 1073 of Title 3 (the "Erie County Water Authority Act") of Article 5 of the Public Authorities Law of the State of New York (as amended), to, among other things, finance, construct, operate and maintain a water supply and distribution system to benefit the residents of the County of Erie, New York. The Authority became operational in 1953.

The Authority is financially self-sustaining, paying all operating expenses from revenues generated from the sale of water to 158,650 customers. The Erie County Water Authority is not an agency of New York State, nor an agency of Erie County government. The Authority is completely independent with respect to budgeting, bonding authority, debt management and credit rating.

The Erie County Water Authority is governed by a Board of Commissioners. The Board consists of three members appointed by the Chairman of the Legislature of Erie County, subject to confirmation by a majority of said Legislature. Each Board member is appointed for a three-year term and continues to hold office until a successor is confirmed. The three-year terms of office are staggered. The enabling state legislation provides that the members of the Authority shall consist of a Chair, a Vice-Chair and Treasurer who shall be members of the Board of Commissioners, and a Secretary, who need not be a member of the Board of Commissioners. The Board establishes policy and is responsible for the overall operations of the Authority.

The Erie County Water Authority is organized into the following departments: Production, Water Quality, Distribution, Engineering, Finance, Administration, Legal and Office of the Secretary. The Legal Department and the Office of the Secretary answer directly to the Board of Commissioners. The remaining departments are under the supervision and administrative control of the Executive Director.

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 is responsible for the operation and maintenance of the assets while the municipality is responsible for the improvement and replacement of assets; and on a bulk sale basis where the Authority contracts with the municipal customer to provide water while the municipality owns the assets and is responsible for their operation, maintenance, improvements and replacement, as well as billings and customer collections. No financial consideration is afforded municipalities in lease managed agreements with the Authority.

The Erie County Water Authority's water supply comes from Lake Erie and the Niagara River. Annually, the Authority treats and distributes approximately 25 billion gallons of high-quality water for residential, commercial, and industrial use in thirty-five municipalities as well as the Seneca Nation of Indians. The municipalities are located in Erie County and parts of Chautauqua, Cattaraugus, Wyoming and Western Genesee Counties. Before water is delivered, the Authority rigorously treats it to remove harmful contaminants. Two treatment plants handle that process: the Sturgeon Point Water Treatment Plant in the Town of Evans, New York and the Van de Water Treatment Plant on the upper Niagara River in the Town of Tonawanda, New York. These two water treatment plants, along with 38 pump stations, 40 water tanks, 4 process tanks, 3,386 miles of distribution piping, 17,252 fire hydrants and a water quality laboratory, serve approximately 550,000 people in Western New York, 24 hours a day, 365 days a year. The water produced and delivered by the Erie County Water Authority has always met or exceeded the most stringent water quality standards mandated by federal, state, and local government regulations.

## FINANCIAL INFORMATION

**Budgetary Controls.** Although not obligated to legally adopt a budget, the Authority believes that budget preparation and implementation are important in maintaining fiscal responsibility and accountability, and it is a good business practice to conduct the budgetary process annually. Operating and capital budgets are prepared by management and approved by the Board of Commissioners. The purpose of the budget process is to authorize and control expenditures, evaluate projected revenue to determine the Authority's ability to meet its obligations under various bond covenants and to provide analysis for planning purposes.

Each department head evaluates and specifically identifies their operating and maintenance needs for the coming year. A capital budget is also prepared for the coming year and the next succeeding four years. A series of budget hearings are held with each department head, the Executive Director, the Deputy Director and the Budget Director. A final budget is prepared for review by the Board of Commissioners, and subsequently approved by the Board of Commissioners.

**Financial Reporting.** Financial statements, consisting of a Balance Sheet, Income Statement and Cash Flow Statement, and an investment report are prepared monthly, usually within two weeks of the last day of the month. A monthly presentation is made to the Board of Commissioners, comparing actual results of operations with budget. If unforeseen circumstances arise which alter the projections used in the budget process, a revision may be prepared by the Budget Director at the request of the Executive Director for consideration and approval by the Board of Commissioners.

The Authority retains an independent audit firm to review the Authority's financial statements at the end of the fiscal year. A copy of the independent audit firm's opinion on the Authority's financial statements is contained in this report on page 10.

## OTHER RELEVANT INFORMATION

**Meetings of the Board of Commissioners.** The Board of Commissioners takes an active role in establishing policy and in carrying out its responsibility of oversight of the Authority. The Board of Commissioners holds public meetings on a regular schedule. The Board of Commissioners schedules work sessions with management as needed.

**External Oversight.** In addition to annual review by an independent audit firm, the Authority is subject to periodic audits by the Office of the New York State Comptroller and the Erie County Comptroller. The Authority also reports annually to the New York State Public Authority Office as required by the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009.

During 2005, the New York State Legislature passed, and the Governor signed into law, the Public Authorities Accountability Act of 2005 ("PAAA"). The provisions of the law became effective during 2006. Amendments were passed and signed into law in 2009 as part of the Public Authorities Reform Act of 2009 (PARA). The overall effect of these changes was to create an independent Authorities Budget Office, with increased oversight of public authorities through additional reporting and management requirements. The Authority has been implementing the necessary changes to meet its obligations in a timely manner.

**Operations.** The Authority publishes a Board approved Tariff which establishes policies relating to water service. It includes charges and fees for water and provisions relating to system hookups, extensions of mains, public and private fire protection services and such other matters of importance in servicing its customers and accounts.

In addition to departmental policy and procedures manuals, an Authority-wide internal policy and procedures manual is maintained. It contains sections relating to employment policies, compensation, fringe benefits, code of ethics, and rules of the work environment. These policies have been approved by the Board of Commissioners by formal resolution and are implemented by all operating units of the Authority.

The procurement policy outlines procedures which must be followed for construction contracts, purchasing materials and supplies and obtaining professional services. The Authority's enabling state legislation requires that all construction projects exceeding $5,000 must be competitively bid. The Board of Commissioner's intent is to openly promote fair competition and to acquire the best quality of goods and services at the most reasonable price from responsible providers. During 2006, the Authority amended its procedures to fully comply with the enacted provisions of the New York State Finance Law with respect to the procurement of goods, services and construction work and activity relating to real property.

The Authority has adopted “Management by Objectives” and each department has established goals and objectives. The status of the goals and objectives are reviewed with the Board of Commissioners periodically.

The Authority applied for, and received, upgrades from all three credit rating agencies in 2008. Fitch Ratings rated the 2008 bonds and parity debt a long-term underlying rating of AA, Standard and Poor’s Rating Services rating is AA+, and Moody’s Investors Services rating is Aa3.

**ECONOMIC CONDITION AND OUTLOOK**

The Authority service area within Erie County encompasses some of the most affluent, growing communities in Western New York. While the Western New York area as a whole faces a number of economic challenges, the Authority’s suburban service area has continued to sustain moderate economic growth.

Due primarily to migration from urban areas, which are not in the Authority’s service territory, the Authority experiences a modest growth rate in its customer base. This normal growth has been augmented when the Authority has acquired village, town and city systems. The growth in its account base has been offset, however, by a steady decrease in overall consumption due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water.

In order to help stabilize water rates, the Authority, over the past decade, has been able to use its unrestricted cash to reduce the total amount of outstanding debt, either by executing bond call provisions or in-substance defeasances. Current unrestricted and internally restricted cash balances are being used to fund a five year capital plan which prioritizes new investment and needed improvements.

The prudent practices of the Erie County Water Authority are reflected in the operating results, reported over a ten year period in the Statistical Section of this report.

**LONG TERM FINANCIAL PLANNING**

The Authority has been exposed to significant cost increases primarily for employee health care costs and pension costs. To mitigate the negative cost pressures, the Authority has reduced its workforce from 280.9 budgeted full-time equivalents in 2001 to 258.9 budgeted full-time equivalents in 2010. Through its membership in the Labor Management Healthcare Coalition, which negotiates with and selects healthcare providers for Coalition members, the Authority has converted to a single health care provider for medical coverage – BlueCross BlueShield of WNY and a single provider for prescription coverage – MedImpact. Consequently, the trend in health care costs has stabilized. The Authority maintains a seat on the Labor Management Healthcare Coalition, giving the Authority more control over its future healthcare costs. Personnel and fringe benefit costs account for approximately sixty percent of the Authority’s operating and maintenance expenses.

The Authority has joined a consortium of other municipal power users in an effort to lower costs. The consortium was formed to secure lower prices for electricity purchases through aggregation of purchases in the open market. Erie County, which acts as the lead agency in the consortium, purchases electricity by competitive bid and bills the Authority on a monthly basis.

Security risks, disasters, and power outages have highlighted a need for infrastructure enhancements and redundancy throughout the system. The biggest fiscal challenge on the horizon is to generate sufficient cash flow to help meet the infrastructure needs of the system. Federal appropriations have been, and will continue to be, sought from various legislative committees to assist in installing such infrastructure in vital areas.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge of $3.00 per quarter was implemented to maintain the Authority's aggressive investment program in very costly system-wide infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide dependable, high quality water supply and fire protection services to all customers.

**MAJOR INITIATIVES**

Internally, departments are encouraged to establish standards for providing excellent customer service, and to set and monitor goals each year. The Authority regularly participates in an industry wide benchmarking survey prepared by the American Productivity and Quality Center using Qualserve performance indicators for water and wastewater utilities. The survey compared water utilities from the northeast, midwest, south and western regions of the United States, as well as one water utility in Canada. The Authority's participation in the survey is an excellent opportunity to determine what aspects of the operation are working well and where attention needs to be focused to achieve more favorable results.

The Authority believes that it is very important to make sure that its customers are provided the most efficient service possible. To that end, the Authority has commissioned several customer surveys since 2001 – the most recent was completed in October 2009. The focus of the surveys is customer perception of the service they receive from the Authority as well as their opinion on emerging issues relevant to their experience with us.

The Erie County Water Authority has promoted consolidation of water systems to those municipalities who have either managed or owned separate water treatment and/or delivery systems. The Authority believes that through the economy-of-scale, the cost of potable water can be kept at a reasonable price for its rate payers and as an attractive tool for economic development purposes. Work is currently being completed in the Town of Evans and the Village of Blasdell to convert their systems from bulk sales to a lease managed environment and in the Town of Hamburg to convert their system from lease managed to direct service.

During 2010, the Authority planned for the implementation in 2011 of streamlined customer bill production processes and the introduction of multiple electronic bill payment options for its customers.

**AWARDS AND ACKNOWLEDGEMENTS**

The Authority has received the American Public Works Association (APWA) 2011 Project of the Year Award in the Disaster Preparedness Category in Western New York for our standby power capital improvement program. In 2007, the Authority began to study the need for permanent standby power for key operations. Over the last four years, the Authority has invested in both permanent and portable generators to ensure the delivery of safe potable water in the event of a power outage. As a result of the award, our standby power capital improvement program will be considered for awards at the state and national level.

In order to provide meaningful financial and operational data for its operations, the Authority, starting with fiscal year 2004, has prepared and issued a Comprehensive Annual Financial Report. The Authority has received recognition for its financial reporting efforts. The Certificate of Achievement for Excellence in Financial Reporting was presented to the Authority by the Government Finance Officers Association of the United States and Canada for each fiscal year 2004 through 2009.

The preparation of this report would not have been possible without the dedicated service of the entire staff of the Finance Department. We wish to express our appreciation to the Finance Department staff and all other members of the Authority who assisted and contributed to the preparation of this report. We would also like to extend our congratulations on the receipt of a Certificate of Achievement for Excellence in Financial Reporting for the 2009 report, which is presented on page 7.

As it looks toward the future, the Erie County Water Authority is well positioned to continue to efficiently meet the demand for safe, clean drinking water in the communities that it serves.

Respectfully Submitted,

Kelly M. Vacco, Chair

Francis G. Warthling, Vice-Chair

John F. O'Donnell, Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Erie County Water Authority

## New York

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

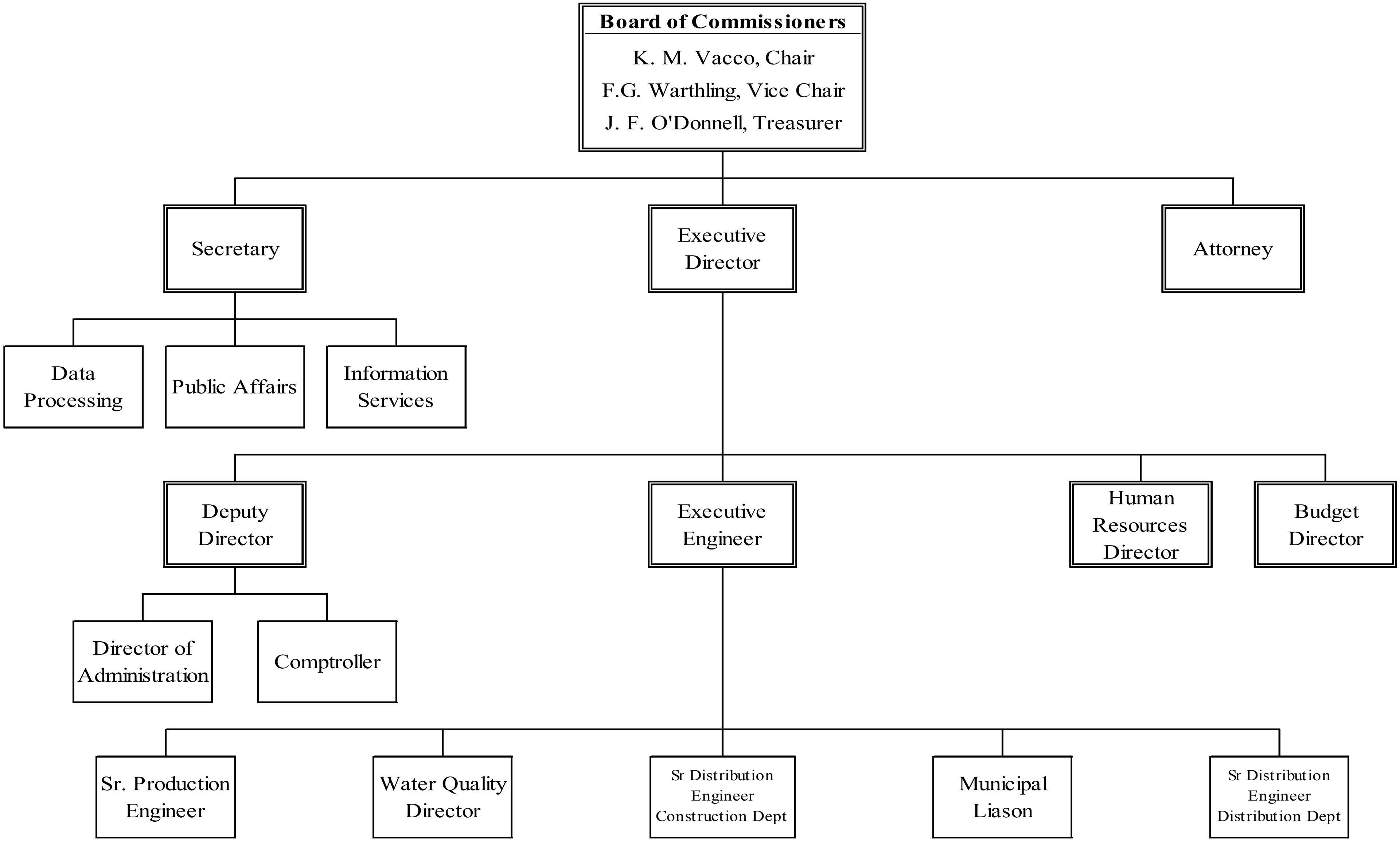
Executive Director

## ERIE COUNTY WATER AUTHORITY
## Members of the Board of Commissioners

Members of the Board of the Erie County Water Authority are appointed by the Chairman of the Erie County Legislature upon receiving nominations from the majority of the Majority Caucus or the Minority Caucus, subject to confirmation by a majority of the Legislature. Each Member is appointed to a three year term; and, not more than two members of the Authority's Board of Commissioners, at any time, shall belong to the same political party.

| Board Members on 12/31/2010 | Most Recent Appointment Date |
|---|---|
| Kelly M. Vacco, Chair | April 2008 |
| Francis G. Warthling, Vice Chair | April 2009 |
| John F. O'Donnell, Treasurer | April 2010 |

## ERIE COUNTY WATER AUTHORITY
### Members of the Board of Commissioners



# FINANCIAL SECTION

Lumsden & McCormick, LLP
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Erie County Water Authority

We have audited the accompanying financial statements of Erie County Water Authority (the Authority) as of December 31, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated March 24, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other postemployment benefits on pages 4 through 18 and 40 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.

Lumsden & McCormick, LLP

March 24, 2011



www.lumsdencpa.com 403 Main St., Suite 430 · Buffalo, New York 14203 716-856-3300 · Fax 716-856-2524

Management provides the following discussion and analysis ("MD&A") of the Erie County Water Authority's (the "Authority") financial activities and statements for the years ended December 31, 2010 and 2009. The information contained in this analysis should be used by the reader in conjunction with the information contained in the audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages. The Authority is not required to legally adopt a budget; therefore, comparative budgetary information is not included in this report.

**Financial Highlights**

- The Authority's net assets decreased $12,550,178 as a result of activity for the year ended December 31, 2010. For 2010 $3,965,783 is net income, $1,088,835 represents capital contributions (contributions in aid of construction), and $17,604,796 is a special item resulting in a loss from a change in estimated fair value of acquired assets. Conversely, net assets increased $5,791,877 as a result of activity for the year ended December 31, 2009. In 2009, $5,168,490 is net income and $623,387 represents capital contributions.
- The assets of the Authority exceeded its liabilities by $282,797,051 and $295,347,229, representing net assets at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, unrestricted net assets were $26,346,449 and $35,762,611, respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness, net of deferred amounts for bond premiums and issuance costs, decreased $9,213,201 compared to a decrease of $5,776,915 during 2009.

**Overview of the Financial Statements**

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

- The ***Statement of Net Assets*** presents information on all of the Authority's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The ***Statement of Revenue, Expenses and Changes in Net Assets*** presents information showing how the Authority's net assets changed during the most recent reporting period. All changes in net assets 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 prior or future periods (e.g., earned but unused vacation leave and depreciation expense on capital assets).
- The ***Statement of Cash Flows*** presents information depicting the Authority's cash flow activities for the reporting period ended and the effect that these activities had on the Authority's cash and cash equivalent balances.
- The ***Notes to Financial Statements*** present 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 following the financial statements section of this report.

## Financial Analysis

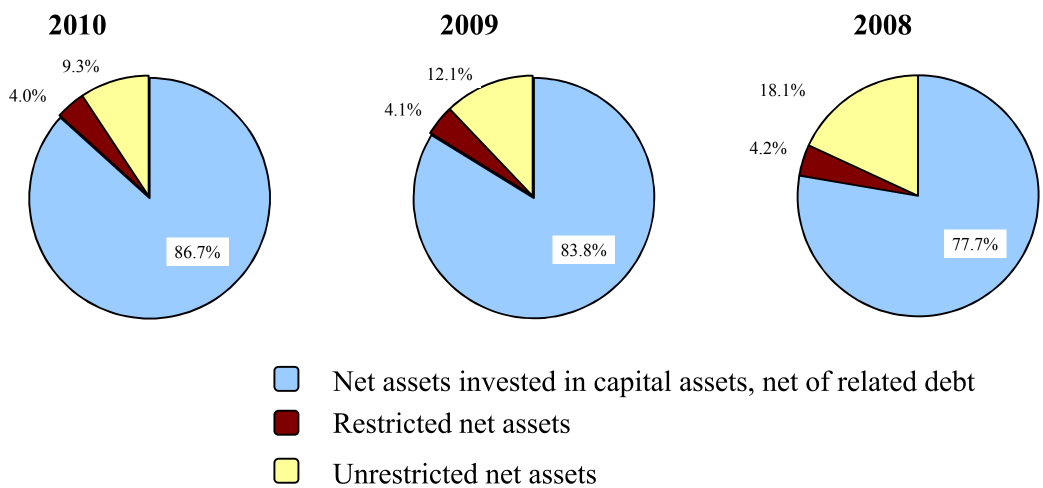
As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by $282,797,051 at December 31, 2010 as compared to $295,347,229 at December 31, 2009, as presented below in Table 1:

**Table 1 - Condensed Statement of Net Assets**

| | 2010 | 2009 | Decrease Dollars | Decrease Percent |
|---|---|---|---|---|
| Current assets | $ 32,428,335 | $ 34,091,966 | $ (1,663,631) | (4.9) |
| Noncurrent assets: | | | | |
| Other noncurrent assets | 29,383,276 | 33,426,598 | (4,043,322) | (12.1) |
| Capital assets | 339,622,802 | 351,859,544 | (12,236,742) | (3.5) |
| Total assets | 401,434,413 | 419,378,108 | (17,943,695) | (4.3) |
| Current liabilities | 19,422,202 | 19,575,321 | (153,119) | (0.8) |
| Noncurrent liabilities | 99,215,160 | 104,455,558 | (5,240,398) | (5.0) |
| Total liabilities | 118,637,362 | 124,030,879 | (5,393,517) | (4.3) |
| Invested in capital assets, net of related debt | 245,207,926 | 247,452,433 | (2,244,507) | (0.9) |
| Restricted | 11,242,676 | 12,132,185 | (889,509) | (7.3) |
| Unrestricted | 26,346,449 | 35,762,611 | (9,416,162) | (26.3) |
| Total net assets | $ 282,797,051 | $ 295,347,229 | $ (12,550,178) | (4.2) |

| | 2009 | 2008 | Increase/(Decrease) Dollars | Increase/(Decrease) Percent |
|---|---|---|---|---|
| Current assets | $ 34,091,966 | $ 34,305,092 | $ (213,126) | (0.6) |
| Noncurrent assets: | | | | |
| Other noncurrent assets | 33,426,598 | 51,120,519 | (17,693,921) | (34.6) |
| Capital assets | 351,859,544 | 331,813,950 | 20,045,594 | 6.0 |
| Total assets | 419,378,108 | 417,239,561 | 2,138,547 | 0.5 |
| Current liabilities | 19,575,321 | 20,760,295 | (1,184,974) | (5.7) |
| Noncurrent liabilities | 104,455,558 | 106,923,914 | (2,468,356) | (2.3) |
| Total liabilities | 124,030,879 | 127,684,209 | (3,653,330) | (2.9) |
| Invested in capital assets, net of related debt | 247,452,433 | 224,964,824 | 22,487,609 | 10.0 |
| Restricted | 12,132,185 | 12,137,312 | (5,127) | (0.0) |
| Unrestricted | 35,762,611 | 52,453,216 | (16,690,605) | (31.8) |
| Total net assets | $ 295,347,229 | $ 289,555,352 | $ 5,791,877 | 2.0 |

At December 31, 2010, the largest portion of the Authority's net assets (86.7%) consists of the Authority's investment in capital assets, as compared to 83.8% and 77.7% at December 31, 2009 and 2008, respectively. This amount is presented net of any outstanding debt which was used to acquire such capital assets. The second largest portion of net assets, 9.3% at December 31, 2010, as compared to 12.1% and 18.1%, at December 31, 2009, and 2008, respectively consists of unrestricted net assets. These assets are not limited in any way with regards to how and what they may be used for. The remainder of net assets (4.0%, 4.1% and 4.2% at December 31, 2010, 2009 and 2008, respectively) is restricted for various purposes.




The Authority's liabilities totaled $118,637,362, $124,030,879, and $127,684,209, at December 31, 2010, 2009 and 2008 respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority had current ratios of 1.67, 1.74, and 1.65, at December 31, 2010, 2009 and 2008, respectively. Such a ratio implies that the Authority has sufficient assets on hand to cover its liabilities that will come due in the ensuing year.

A comparison of current assets as compared to current liabilities of the Authority at December 31, 2010, 2009, and 2008 follows:

**Table 2 - Comparison of current assets and current liabilities**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current assets | $ 32,428,335 | $ 34,091,966 | $ 34,305,092 |
| Current liabilities | 19,422,202 | 19,575,321 | 20,760,295 |
| Ratio of current assets to current liabilities | 1.67 | 1.74 | 1.65 |

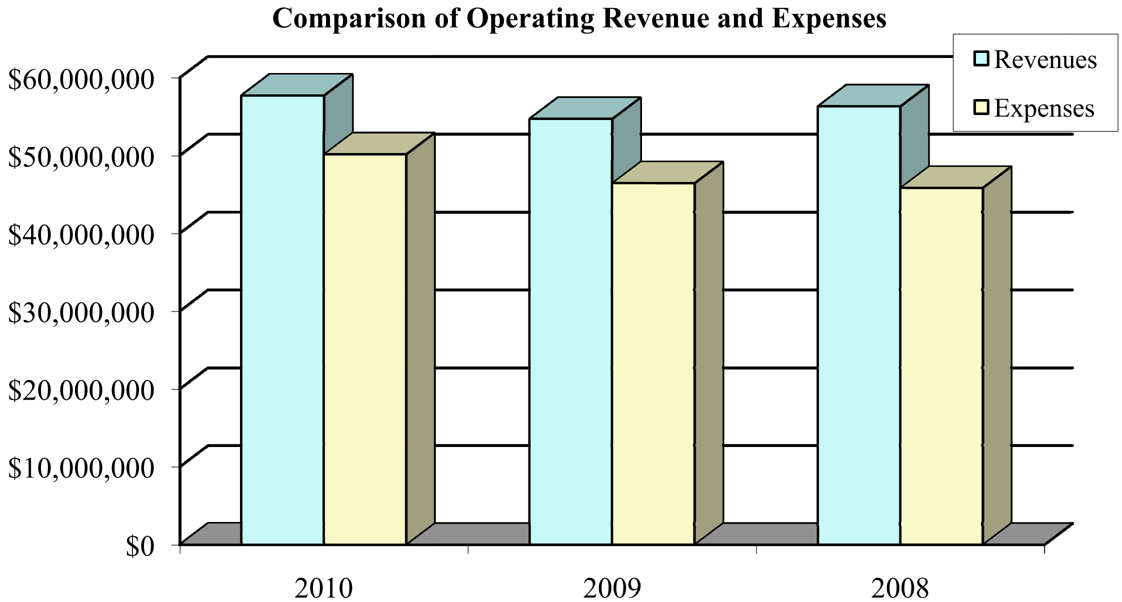
Table 3 shows the changes in net assets for the years ended December 31, 2010, 2009, and 2008:

**Table 3 – Erie County Water Authority's Changes in Net Assets**

| | 2010 | 2009 |
|---|---|---|
| Operating revenue | $ 57,701,068 | $ 54,688,581 |
| Operating expenses: | | |
| Operation and administration | 24,338,869 | 21,592,955 |
| Maintenance | 10,214,890 | 10,261,401 |
| Depreciation and amortization | 11,697,572 | 11,104,642 |
| Other postemployment benefits | 3,881,063 | 3,469,409 |
| Total operating expenses | 50,132,394 | 46,428,407 |
| Operating income | 7,568,674 | 8,260,174 |
| Nonoperating revenues (expenses): | | |
| Interest income | 467,408 | 871,878 |
| Gain on sale of investments | 150,107 | - |
| Interest capitalization during construction | 45,125 | 643,393 |
| Interest expense | (4,265,531) | (4,606,955) |
| Total nonoperating revenues (expenses) | (3,602,891) | (3,091,684) |
| Net income before contributions in aid of construction & special item | 3,965,783 | 5,168,490 |
| Contributions in aid of construction | 1,088,835 | 623,387 |
| Special item from change in estimated fair value of acquired assets | (17,604,796) | - |
| Change in net assets | (12,550,178) | 5,791,877 |
| Total net assets - beginning of year | 295,347,229 | 289,555,352 |
| Total net assets - end of year | $ 282,797,051 | $ 295,347,229 |

| | 2009 | 2008 |
|---|---|---|
| Operating revenue | $ 54,688,581 | $56,284,871 |
| Operating expenses: | | |
| Operation and administration | 21,592,955 | 22,892,786 |
| Maintenance | 10,261,401 | 9,148,964 |
| Depreciation and amortization | 11,104,642 | 10,383,433 |
| Other postemployment benefits | 3,469,409 | 3,405,184 |
| Total operating expenses | 46,428,407 | 45,830,367 |
| Operating income | 8,260,174 | 10,454,504 |
| Nonoperating revenues (expenses): | | |
| Interest income | 871,878 | 2,353,043 |
| Interest capitalization during construction | 643,393 | 273,651 |
| Interest expense | (4,606,955) | (5,074,771) |
| Total nonoperating revenues (expenses) | (3,091,684) | (2,448,077) |
| Net income before contributions in aid of construction | 5,168,490 | 8,006,427 |
| Contributions in aid of construction | 623,387 | 755,542 |
| Change in net assets | 5,791,877 | 8,761,969 |
| Total net assets - beginning of year | 289,555,352 | 280,793,383 |
| Total net assets - end of year | $ 295,347,229 | $ 289,555,352 |

The following chart depicts a 5.5% increase in operating revenue from $54,688,581 in 2009 to $57,701,068 in 2010, compared to a 2.8% operating revenue decline from $56,284,871 in 2008 to $54,688,581 in 2009. Operating expenses increased 8.0% from $46,428,407 in 2009 to $50,132,394 in 2010 compared to a 1.3% increase from $45,830,367 in 2008 to $46,428,407 in 2009.




A summary of operating revenue for the years ended December 31, 2010, 2009 and 2008 is presented below in Table 4:

**Table 4 - Summary of Operating Revenue**

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Dollars | Percent |
| Water sales: | | | | |
| Residential | $ 35,224,872 | $ 33,301,075 | $ 1,923,797 | 5.8 |
| Commercial | 6,973,293 | 6,859,468 | 113,825 | 1.7 |
| Industrial | 1,604,491 | 1,664,086 | (59,595) | (3.6) |
| Public authorities | 2,170,750 | 1,988,592 | 182,158 | 9.2 |
| Fire protection | 3,816,992 | 3,783,547 | 33,445 | 0.9 |
| Sales to other utilities | 5,322,260 | 4,966,093 | 356,167 | 7.2 |
| Other water sales | 1,861,997 | 1,598,547 | 263,450 | 16.5 |
| Total water sales | $ 56,974,655 | $ 54,161,408 | $ 2,813,247 | 5.2 |
| Other operating income: | | | | |
| Rents from water towers | 490,467 | 504,254 | (13,787) | (2.7) |
| Miscellaneous | 235,946 | 22,919 | 213,027 | 929.5 |
| Operating revenue | $ 57,701,068 | $ 54,688,581 | $ 3,012,487 | 5.5 |

| | 2009 | 2008 | Increase/(Decrease) Dollars | Percent |
|---|---|---|---|---|
| Water sales: | | | | |
| Residential | $ 33,301,075 | $ 34,520,149 | $ (1,219,074) | (3.5) |
| Commercial | 6,859,468 | 7,003,921 | (144,453) | (2.1) |
| Industrial | 1,664,086 | 1,901,354 | (237,268) | (12.5) |
| Public authorities | 1,988,592 | 2,052,689 | (64,097) | (3.1) |
| Fire protection | 3,783,547 | 3,799,498 | (15,951) | (0.4) |
| Sales to other utilities | 4,966,093 | 4,920,668 | 45,425 | 0.9 |
| Other water sales | 1,598,547 | 1,584,878 | 13,669 | 0.9 |
| Total water sales | $ 54,161,408 | $ 55,783,157 | $ (1,621,749) | (2.9) |
| Other operating income: | | | | |
| Rents from water towers | 504,254 | 492,929 | 11,325 | 2.3 |
| Miscellaneous | 22,919 | 8,785 | 14,134 | 160.9 |
| Operating revenue | $ 54,688,581 | $ 56,284,871 | $ (1,596,290) | (2.8) |

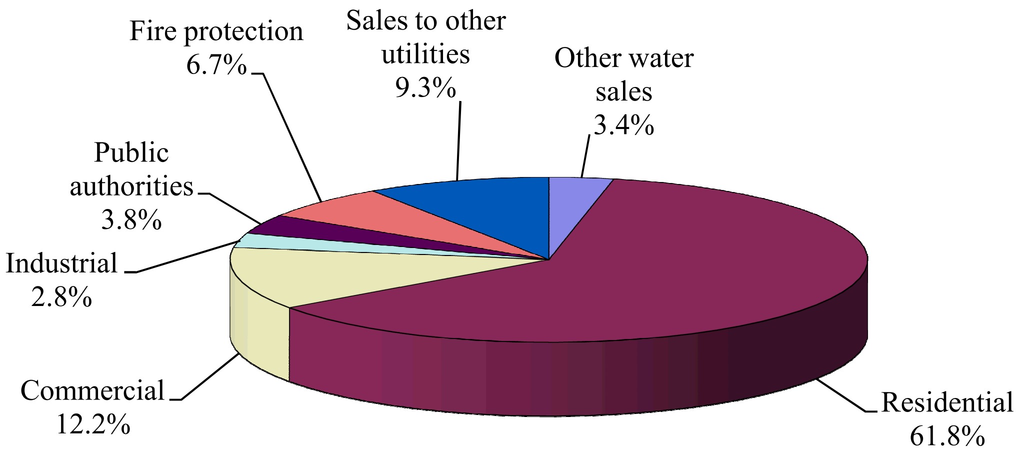
Water sales represent the vast majority of revenue for the Authority, 98.7%, for the year ended December 31, 2010, 99.0% for the year ended December 31, 2009, and 99.1% for the year ended December 31, 2008.

The 5.2% increase in total water sales from $54,161,408 in 2009 to $56,974,655 in 2010 is attributed to a 3.5% general rate increase and a 19.7% increase in the summer surcharge rate from .61¢/1,000 gallons to .73¢/1,000 gallons. The summer surcharge is applied to summer usage in excess of 120% of winter usage. Other water sales increased 16.5% which reflects the summer surcharge increase of $250,437 over 2009. These increases were somewhat offset by decreases in industrial sales and rents from water towers. Water tower rents decreased as a result of expiring lease agreements where wireless company consolidations resulted in duplication of leased space. Industrial sales continue to decrease with the overall decline of industry in the community. Miscellaneous revenues increased due to the receipt of an incentive payment from New York State Energy Research and Development Authority (NYSERDA) based on power savings realized from the installation of variable frequency drives at major pump stations.

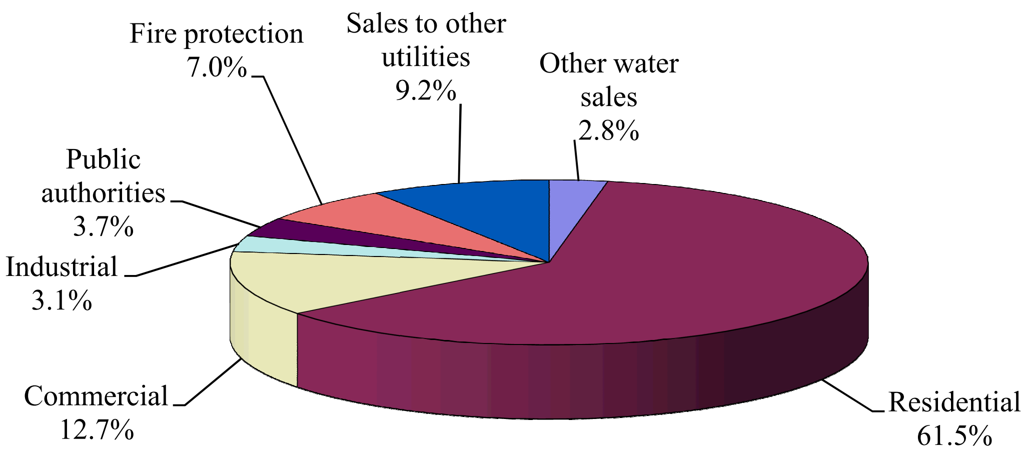
The 3.5 % decrease in residential water sales from $34,520,149 in 2008 to $33,301,075 in 2009 resulted from a decrease in billed consumption of 2.1%, or $870,870. Industrial sales decreased 12.5%, or $237,268 almost entirely due to the closing of ArcelorMittal – a steel finishing company located in Lackawanna. The closing was announced in December of 2008, and water use declined throughout 2009. Rents from water towers continue a steady increase in revenue due to contractual escalation clauses at renewal.

As presented in the illustration on the following page, residential water sales represent the largest portion of water sales for the Authority, which was 61.8%, 61.5%, and 61.9% of total water sales for the years ended December 31, 2010, 2009 and 2008, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 12.2%, 12.7% and 12.6% of total water sales for the years ended December 31, 2010, 2009 and 2008, respectively.

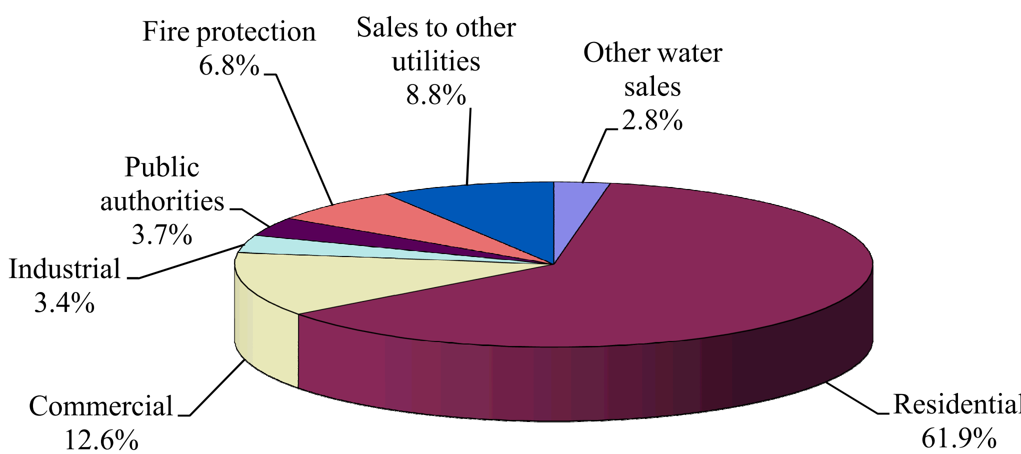
**2010 Water Sales Revenue**




**2009 Water Sales Revenue**




**2008 Water Sales Revenue**

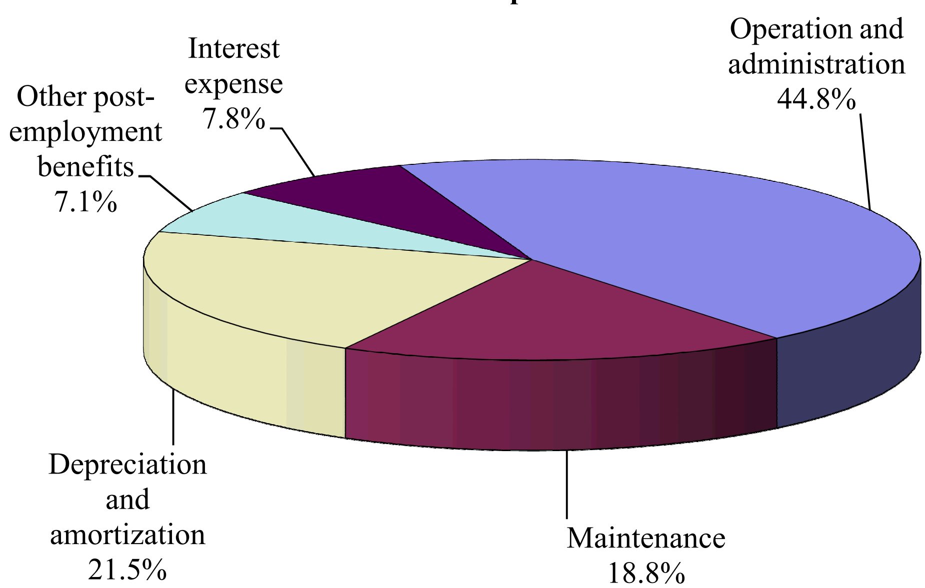


As illustrated below, operation and administration expenses are the largest expense and account for 44.8%, 42.3%, and 44.9%, of the Authority's expenses for the years ended December 31, 2010, 2009 and 2008, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were 21.5%, 21.8%, and 20.4%, for the years ended December 31, 2010, 2009 and 2008, respectively.

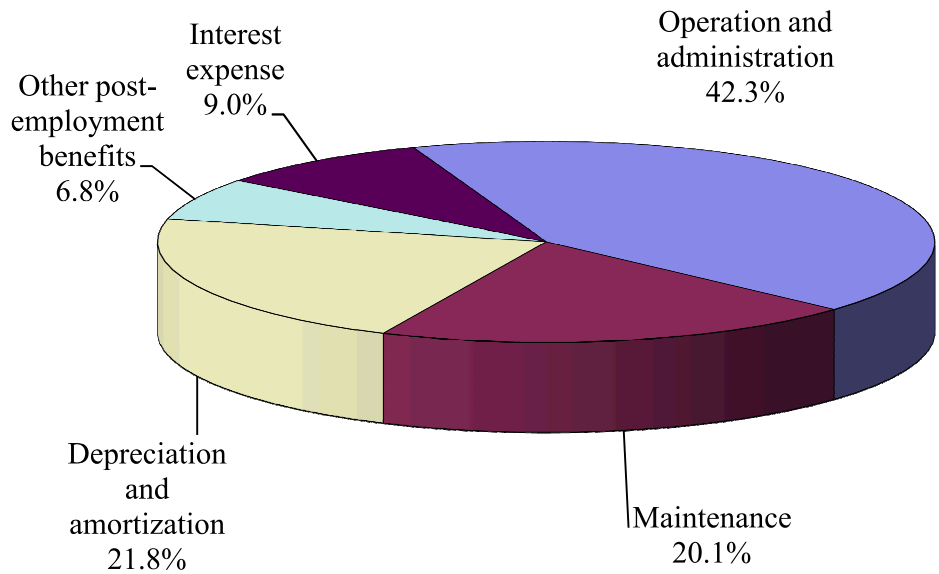
| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Dollars | Percent |
| Operation and administration | $ 24,338,869 | $ 21,592,955 | $ 2,745,914 | 12.7 |
| Maintenance | 10,214,890 | 10,261,401 | (46,511) | (0.5) |
| Depreciation and amortization | 11,697,572 | 11,104,642 | 592,930 | 5.3 |
| Interest expense | 4,265,531 | 4,606,955 | (341,424) | (7.4) |
| Other postemployment benefits | 3,881,063 | 3,469,409 | 411,654 | 11.9 |
| Total | $ 54,397,925 | $ 51,035,362 | $ 3,362,563 | 6.6 |

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2009 | 2008 | Dollars | Percent |
| Operation and administration | $ 21,592,955 | $22,892,786 | $ (1,299,831) | (5.7) |
| Maintenance | 10,261,401 | 9,148,964 | 1,112,437 | 12.2 |
| Depreciation and amortization | 11,104,642 | 10,383,433 | 721,209 | 6.9 |
| Interest expense | 4,606,955 | 5,074,771 | (467,816) | (9.2) |
| Other postemployment benefits | 3,469,409 | 3,405,184 | 64,225 | 1.9 |
| Total | $ 51,035,362 | $ 50,905,138 | $ 130,224 | 0.3 |

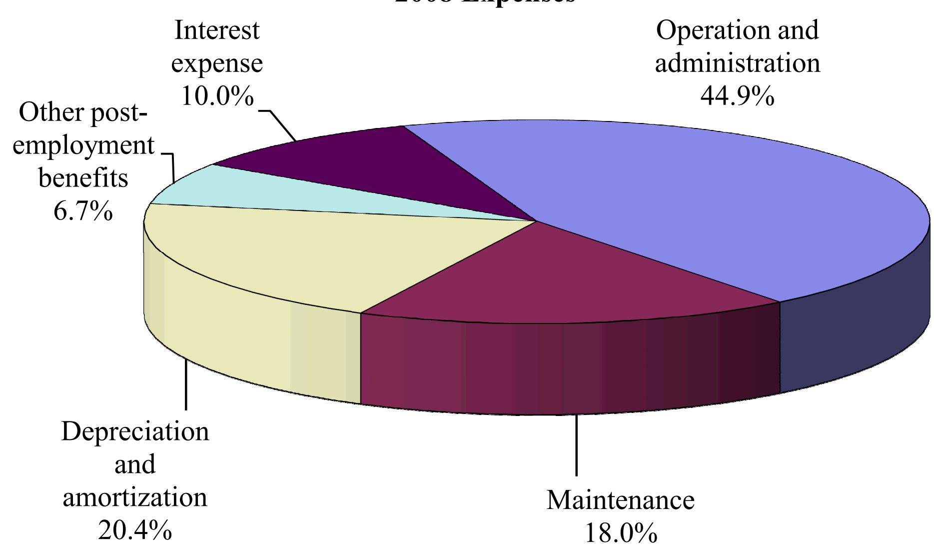
**2010 Expenses**



**2009 Expenses**




**2008 Expenses**




Operating and administrative expenses increased $2,745,914, or 12.7% due to a $2,443,528 decrease in applied overhead resulting from a 53% reduction in capital spending in 2010. A 16.9% increase in power costs contributed $659,083 to the overall increase. Increases were somewhat offset by decreases in service installation costs and generator lease payments. Increases in tariff fees for new service installations resulted in lower expenses for the Authority – a greater portion of the cost of installation was covered by fees paid by the applicant. Generator lease payments decreased by $985,320 due to the installation in 2009 of new permanent stand-by power at the water treatment plants and at several large pump stations.

Fringe benefit costs increased $455,420 for employees in both operating and maintenance areas due to a 48%, $481,432, increase in pension costs. Other maintenance costs remained somewhat flat resulting in a small .5% decrease in 2010.

Depreciation and amortization expense increased $592,930, or 5.3% from $11,104,642 in 2009 to $11,697,572 in 2010 due, in part, to the rehabilitation of the coagulation basins at the Sturgeon Point treatment plant, improvements to high voltage electrical substations and the installation of permanent stand-by power at various pump stations. In total, $41,924,323 in assets were added in 2009 and began depreciating in 2010.

Interest expense decreased $341,424, or 7.4%, due to the 2009 bond maturities, the refunding of the 1998D EFC bonds in June of 2010 and the redemption of series 1998B EFC bonds in December of 2010.

Operating and administrative expenses decreased $1,299,831 or 5.7%, from $22,892,786 in 2008 to $21,592,955 in 2009 due, almost entirely, to a $1,840,967, or 32%, decrease in power purchased. The average cost per kilowatt hour decreased 38% – from .07204¢ per hour in 2008 to .04668¢ in 2009. Transportation costs also contributed to the decrease. The decrease in the cost of gasoline and diesel in 2009 – an average of $1.18 and $1.29 per gallon respectively – lowered transportation costs a total of $122,058 or 29.4%. Corporate and fiscal expenses decreased $225,598 due to the redemption of the 1993A&B series bonds in 2008. These decreases were offset by a 30.7% increase in chemical costs and a 14.4% increase in fringe benefit costs. Chemical costs continued to increase in 2009 due to the cost of fluoride – $538 per ton in October of 2007; $599 per ton in October of 2008; $715 per ton in October of 2009. Fringe benefit costs were higher in 2009 due to an average 13.7% increase in health and prescription payments.

Maintenance expenses increased 12.2%, or $1,112,437 from $9,148,964 in 2008 to $10,261,401 in 2009 due primarily to increases in payments to contractors for repairs and restorations in 2009. The cost of repairs by contractors increased 11.8% from an average of $1,344 per repair in 2008 to $1,503 per repair in 2009. A new repair contract at increased unit costs was entered into in August of 2009. Similarly, a new restoration contract began in April of 2008 which contained an estimated 9% increase in costs. The overall increase in payments to contractors for repairs and restorations was $372,978.

Table 5 presents a summary of the Authority's cash flow activities for the years ended December 31, 2010, 2009 and 2008:

**Table 5 - Summary of Cash Flow Activities**

| | 2010 | 2009 | Increase/(Decrease) Dollars |
|---|---|---|---|
| Cash flows provided (used) by: | | | |
| Operating activities | $ 23,185,455 | $ 22,880,734 | $ 304,721 |
| Capital and related financing activities | (29,717,426) | (39,765,152) | 10,047,726 |
| Investing activities | (6,161,868) | (5,222,191) | (939,677) |
| Net decrease in cash and cash equivalents | (12,693,839) | (22,106,609) | 9,412,770 |
| Cash and cash equivalents, beginning of year | 50,467,474 | 72,574,083 | (22,106,609) |
| Cash and cash equivalents, end of year | $ 37,773,635 | $ 50,467,474 | $ (12,693,839) |

**Table 5 - Summary of Cash Flow Activities (cont'd)**

| | 2009 | 2008 | Increase/(Decrease) Dollars |
|---|---|---|---|
| Cash flows provided (used) by: | | | |
| Operating activities | $ 22,880,734 | $ 25,308,187 | $ (2,427,453) |
| Capital and related financing activities | (39,765,152) | (38,481,479) | (1,283,673) |
| Investing activities | (5,222,191) | 2,958,623 | (8,180,814) |
| Net decrease in cash and cash equivalents | (22,106,609) | (10,214,669) | (11,891,940) |
| Cash and cash equivalents, beginning of year | 72,574,083 | 82,788,752 | (10,214,669) |
| Cash and cash equivalents, end of year | $ 50,467,474 | $ 72,574,083 | $ (22,106,609) |

At December 31, 2010, 2009, and 2008, cash, cash equivalents, and investments were restricted for various purposes as presented below:

**Table 6 - Summary of Cash and Cash Equivalents**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Unrestricted | $ 18,892,001 | $ 15,545,811 | $ 18,620,470 |
| Restricted | 18,881,634 | 34,921,663 | 53,953,613 |
| Total | $ 37,773,635 | $ 50,467,474 | $ 72,574,083 |

Total cash and cash equivalents decreased $12,693,839 from $50,467,474 in 2009 to $37,773,635 in 2010 due, in part, to the redemption of series 1998B bonds in the amount of $3,290,000. This was offset by an increase of $6,914,096 in investments.

Total cash and cash equivalents decreased $22,106,609 from $72,574,083 in 2008 to $50,467,474 in 2009 due primarily to increased capital spending at the water treatment plants. The coagulation basins at the Sturgeon Point treatment plant represent a $29,000,000 investment over the prior two years. No long term capital financing was undertaken in 2009 – additions to water plant were made using money previously restricted for capital improvements.

**Capital Assets**

The Authority's investment in capital assets as of December 31, 2010 amounted to $339,622,802 (net of accumulated depreciation) as compared to $351,859,544 as of December 31, 2009, and $331,813,950 as of December 31, 2008. This investment includes land, buildings and structures, mains and hydrants, equipment, construction in progress and other (service installations, leasehold improvements, etc.). The Authority's greatest investment in capital assets is in mains and hydrants and buildings and structures.

Significant losses in capital assets were recognized in 2010 due to the change in estimated fair value of assets acquired as municipal water systems converted from bulk sale or lease managed service to direct service. It was determined that no additional revenue was generated from the conversions and the assets were contributions to capital with no marketable fair value.

Presented in Table 7 is a comparative summary of capital assets. Additional information on the Authority's capital assets can be found in Note 4 of the financial statements.

**Table 7 - Summary of Capital Assets (Net of Depreciation)**

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Dollars | Percent |
| Land | $ 2,218,274 | $ 2,218,274 | $ - | - |
| Construction work in progress | 4,826,542 | 1,950,305 | 2,876,237 | 147.5 |
| Total capital assets, not being depreciated | 7,044,816 | 4,168,579 | 2,876,237 | 69.0 |
| Buildings and structures | 241,896,893 | 242,896,817 | (999,924) | (0.4) |
| Mains and hydrants | 196,353,818 | 216,363,788 | (20,009,970) | (9.2) |
| Equipment | 45,900,451 | 43,377,501 | 2,522,950 | 5.8 |
| Other | 49,429,575 | 49,963,188 | (533,613) | (1.1) |
| Total capital assets, being depreciated | 533,580,737 | 552,601,294 | (19,020,557) | (3.4) |
| Less accumulated depreciation | 201,002,751 | 204,910,329 | (3,907,578) | (1.9) |
| Total capital assets, being depreciated, net | 332,577,986 | 347,690,965 | (15,112,979) | (4.3) |
| Total capital assets | $ 339,622,802 | $ 351,859,544 | $ (12,236,742) | (3.5) |

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2009 | 2008 | Dollars | Percent |
| Land | $ 2,218,274 | $ 2,218,274 | $ - | - |
| Construction work in progress | 1,950,305 | 13,135,714 | (11,185,409) | (85.2) |
| Total capital assets, not being depreciated | 4,168,579 | 15,353,988 | (11,185,409) | (72.9) |
| Buildings and structures | 242,896,817 | 209,058,723 | 33,838,094 | 16.2 |
| Mains and hydrants | 216,363,788 | 214,333,344 | 2,030,444 | 0.9 |
| Equipment | 43,377,501 | 40,137,616 | 3,239,885 | 8.1 |
| Other | 49,963,188 | 48,031,909 | 1,931,279 | 4.0 |
| Total capital assets, being depreciated | 552,601,294 | 511,561,592 | 41,039,702 | 8.0 |
| Less accumulated depreciation | 204,910,329 | 195,101,630 | 9,808,699 | 5.0 |
| Total capital assets, being depreciated, net | 347,690,965 | 316,459,962 | 31,231,003 | 9.9 |
| Total capital assets | $ 351,859,544 | $ 331,813,950 | $ 20,045,594 | 6.0 |

**Debt Administration**

At December 31, 2010 the Authority had $89,425,245 in water revenue bond principal outstanding, net of deferred amounts for bond premium and issuance costs, as compared to $98,638,446 and $104,415,361 at December 31, 2009 and 2008. Water revenue bonds outstanding, net of deferred amounts from bond premium and issuance costs, decreased $9,213,201 during the year ended December 31, 2010, compared to a $5,776,915 decrease during the year ended December 31, 2009, as a result of the redemption of the Series 1998B bonds, and making scheduled principal payments, as shown below.

| | 2010 | 2009 |
|---|---|---|
| Series 1998B | $ 3,695,000 | $ 395,000 |
| Series 1998D | 830,000 | 805,000 |
| Series 2003F | 635,000 | 625,000 |
| Series 2007 | 660,000 | 635,000 |
| Series 2008 | 3,870,000 | 3,755,000 |
| Total water revenue bond payments | 9,690,000 | 6,215,000 |
| Add (subtract) deferred amounts: | | |
| For bond premiums | 302,235 | 302,235 |
| For issuance costs | (779,034) | (740,320) |
| Total water revenue bond payments, net of deferred amounts | $ 9,213,201 | $ 5,776,915 |

The Authority's issuances of Series 1998B, Series 1998D and Series 2003F were through the New York State Environmental Facilities Corporation (EFC) and are rated based on the EFC's rating. In June 2010 EFC refunded the Series 1998D bonds with bonds in the same principal denomination. Interest rates were significantly reduced and resulted in a net present value savings of $764,897.

In December of 2010, the authority redeemed the remaining Series 1998B bonds at par. Cash on hand of $3,290,000 was used to pay the bondholders the principal outstanding. The present value savings for the redemption is $171,354.

In 2008 the Authority applied for, and received upgrades from all three rating agencies. Moody's assigned the 2008 bonds and parity debt a long-term underlying rating of Aa3. Standard & Poor's assigned the 2008 bonds and parity debt a long-term underlying rating of AA+. Fitch Ratings assigned the 2008 bonds and parity debt a long-term underlying rating of AA.

For additional information on long-term debt activity, see Note 5 to the basic financial statements.

**Economic Factors**

The local community has been experiencing the same economic difficulties that have impacted New York State and the nation. Concurrently, the Authority's customer base grew by less than one percent this past year. Additionally, there has been a steady decrease in overall consumption due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water. Although there was a small increase in consumption in 2010 of .63%, it follows a 2.1% decrease from 2008 to 2009. Significant increases in water sales other than those caused by extreme weather conditions are not expected.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge of $3.00 per quarter was implemented to maintain the Authority's aggressive investment program in very costly system-wide infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide a dependable, high quality water supply and fire protection services to all customers. Revenues generated from the charge will be used for infrastructure improvements only.

As noted earlier, the Authority's largest sources of operating revenues are water sales to customers. These revenues result from rates charged based on water usage by the individual customer. Rates can be adjusted accordingly in order to help meet the expenses of the Authority. Tariff rates are shown below:

| Meters read and billed quarterly (To Nearest 1,000 Gallons) | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| First 300,000 gallons per quarter | $ 2.96 | $ 2.96 | per 1,000 gallons |
| Next 1,950,000 | 2.63 | 2.63 | per 1,000 gallons |
| Next 5,250,000 | 2.41 | 2.41 | per 1,000 gallons |
| Over 7,500,000 | 2.12 | 2.12 | per 1,000 gallons |

| Meters read and billed monthly (To Nearest 1,000 Gallons) | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| First 100,000 gallons per month | $ 2.96 | $ 2.96 | per 1,000 gallons |
| Next 650,000 | 2.63 | 2.63 | per 1,000 gallons |
| Next 1,750,000 | 2.41 | 2.41 | per 1,000 gallons |
| Over 2,500,000 | 2.12 | 2.12 | per 1,000 gallons |

| Size of Meter | Quarterly Minimum Charge ($) | | Allowance per Quarter | Monthly Minimum Charge ($) | |
|---|---|---|---|---|---|
| (inches) | 2011 | 2010 | (gallons) | 2011 | 2010 |
| 5/8 | $ 26.64 | $ 26.64 | 9,000 | $ 8.88 | $ 8.88 |
| 3/4 | 35.52 | 35.52 | 12,000 | 11.84 | 11.84 |
| 1 | 62.16 | 62.16 | 21,000 | 20.72 | 20.72 |
| 1 1/4 | 79.92 | 79.92 | 27,000 | 26.64 | 26.64 |
| 1 1/2 | 115.44 | 115.44 | 39,000 | 38.48 | 38.48 |
| 2 | 186.48 | 186.48 | 63,000 | 62.16 | 62.16 |
| 3 | 355.20 | 355.20 | 120,000 | 118.40 | 118.40 |
| 4 | 586.08 | 586.08 | 198,000 | 195.36 | 195.36 |
| 6 | 1,124.70 | 1,124.70 | 390,000 | 374.90 | 374.90 |
| 8 | 1,755.90 | 1,755.90 | 630,000 | 585.30 | 585.30 |
| 10 | 2,466.00 | 2,466.00 | 900,000 | 822.00 | 822.00 |
| 12 | 3,333.90 | 3,333.90 | 1,230,000 | 1,111.30 | 1,111.30 |
| 20 | 7,390.20 | 7,390.20 | 2,820,000 | 2,463.40 | 2,463.40 |
| 24 | 9,848.40 | 9,848.40 | 3,840,000 | 3,282.80 | 3,282.80 |

For 2011, the Authority will impose a minimum charge of $160.80 per hydrant per annum for lease managed districts and $229.08 per hydrant per annum for direct service areas - the same amounts as 2010.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robert J. Lichtenthal, Jr., Deputy Director, Erie County Water Authority, 295 Main Street, Rm. 350, Buffalo, New York 14203-2494.

# BASIC FINANCIAL STATEMENTS

# ERIE COUNTY WATER AUTHORITY

## Statements of Net Assets

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Unrestricted cash and cash equivalents | $ 18,892,001 | $ 15,545,811 |
| Investments | - | 5,000,000 |
| Restricted cash, cash equivalents, and investments | 2,672,770 | 2,755,381 |
| Customer accounts receivable, net of allowance for doubtful accounts | 4,320,565 | 4,275,871 |
| Materials and supplies | 2,117,214 | 2,146,065 |
| Accrued revenue | 2,940,658 | 2,995,171 |
| Prepaid expenses and other assets | 1,485,127 | 1,373,667 |
| Total current assets | 32,428,335 | 34,091,966 |
| Noncurrent assets: | | |
| Investments | 549,983 | - |
| Restricted cash, cash equivalents, and investments | 28,833,293 | 33,426,598 |
| Capital assets, not being depreciated | 7,044,816 | 4,168,579 |
| Capital assets, being depreciated, net of accumulated depreciation | 332,577,986 | 347,690,965 |
| Total noncurrent assets | 369,006,078 | 385,286,142 |
| Total assets | 401,434,413 | 419,378,108 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 5,399,170 | 5,502,686 |
| Advances for construction | 466,527 | 307,556 |
| Construction retention | 1,174,197 | 1,549,594 |
| Accrued interest on water revenue bonds | 533,549 | 624,150 |
| Accrued liabilities | 4,963,148 | 4,503,878 |
| Compensated absences | 1,103,132 | 1,125,542 |
| Water revenue bonds - current portion | 5,782,479 | 5,961,915 |
| Total current liabilities | 19,422,202 | 19,575,321 |
| Noncurrent liabilities: | | |
| Compensated absences | 1,762,667 | 1,850,363 |
| Other postemployment benefits | 13,809,727 | 9,928,664 |
| Water revenue bonds - long term | 83,642,766 | 92,676,531 |
| Total noncurrent liabilities | 99,215,160 | 104,455,558 |
| Total liabilities | 118,637,362 | 124,030,879 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 245,207,926 | 247,452,433 |
| Restricted | | |
| Debt service reserve account | 9,594,860 | 10,249,263 |
| Debt service account | 1,647,816 | 1,882,922 |
| Unrestricted | 26,346,449 | 35,762,611 |
| Total net assets | $ 282,797,051 | $ 295,347,229 |

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

# ERIE COUNTY WATER AUTHORITY

## Statements of Revenue, Expenses and Changes in Net Assets

| | Year Ended December 31, 2010 | 2009 |
|---|---|---|
| Operating revenue | $ 57,701,068 | $ 54,688,581 |
| Operating expenses: | | |
| Operation and administration | 24,338,869 | 21,592,955 |
| Maintenance | 10,214,890 | 10,261,401 |
| Depreciation and amortization | 11,697,572 | 11,104,642 |
| Other postemployment benefits | 3,881,063 | 3,469,409 |
| Total operating expenses | 50,132,394 | 46,428,407 |
| Operating income | 7,568,674 | 8,260,174 |
| Nonoperating revenues (expenses): | | |
| Interest income | 467,408 | 871,878 |
| Gain on sale of investments | 150,107 | - |
| Interest capitalization during construction | 45,125 | 643,393 |
| Interest expense | (4,265,531) | (4,606,955) |
| Total nonoperating expenses | (3,602,891) | (3,091,684) |
| Income before contributions in aid of construction and special item | 3,965,783 | 5,168,490 |
| Contributions in aid of construction | 1,088,835 | 623,387 |
| Special item resulting from a change in estimated fair value of acquired assets | (17,604,796) | - |
| Change in net assets | (12,550,178) | 5,791,877 |
| Total net assets - beginning of year | 295,347,229 | 289,555,352 |
| Total net assets - end of year | $ 282,797,051 | $ 295,347,229 |

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

# ERIE COUNTY WATER AUTHORITY

## Statements of Cash Flows

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 58,008,184 | $ 56,190,096 |
| Payments to contractors | (13,900,228) | (12,195,852) |
| Payments to employees including fringe benefits | (20,922,501) | (21,113,510) |
| Net cash provided by operating activities | 23,185,455 | 22,880,734 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquistion and construction of capital assets, net | (16,964,225) | (30,046,829) |
| Principal repayments | (9,690,000) | (6,215,000) |
| Interest paid on revenue bonds, net of amount capitalized | (4,311,007) | (3,993,722) |
| Advances for construction | 158,971 | (132,988) |
| Contribution in aid of construction | 1,088,835 | 623,387 |
| Net cash used by capital and related financing activities | (29,717,426) | (39,765,152) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (9,907,296) | (11,260,316) |
| Proceeds from sale or maturity of investments | 3,143,307 | 5,160,223 |
| Interest and other investment income received | 602,121 | 877,902 |
| Net cash used by investing activities | (6,161,868) | (5,222,191) |
| Net decrease in cash and cash equivalents | (12,693,839) | (22,106,609) |
| Cash and cash equivalents - beginning of year | 50,467,474 | 72,574,083 |
| (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits) | | |
| Cash and cash equivalents - end of year | $ 37,773,635 | $ 50,467,474 |
| (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits) | | |

(continued)

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

# ERIE COUNTY WATER AUTHORITY

## Statements of Cash Flows

(concluded)

| | Year Ended December 31, 2010 | 2009 |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ 7,568,674 | $ 8,260,174 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 11,220,773 | 10,666,557 |
| Amortization expense | 476,799 | 438,085 |
| Other postemployment benefits expense | 3,881,063 | 3,469,409 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (44,694) | 1,140,135 |
| (Increase) decrease in material and supplies | 28,851 | (239,099) |
| (Increase) decrease in other assets | (191,659) | 993,474 |
| Increase (decrease) in accounts payable | (103,516) | (1,995,683) |
| Increase (decrease) in other accrued liabilities | 459,270 | 123,532 |
| Increase (decrease) in compensated absences | (110,106) | 24,150 |
| Total adjustments | 15,616,781 | 14,620,560 |
| Net cash provided by operating activities | $ 23,185,455 | $ 22,880,734 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Reporting entity***—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. The rates established by the Authority do not require PSC approval.

The 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 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.

***Basis of accounting*—**The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies all GASB pronouncements as well as applicable accounting and financial reporting guidance previously residing only in Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The activities of the Authority are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from providing water services are reported as 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.

Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the system are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

***Budgets***—The Authority is not required to have a legally adopted budget.

***Vacation accruals and compensated absences***—Authority employees are granted vacation and sick leave in varying amounts. In the event of termination or upon retirement, union employees are entitled to payment for accrued vacation and sick time limited to amounts defined under their respective collectively bargained agreements. All non-union employees are entitled to benefits as defined by Authority policy.

***Retirement plan***—The Authority provides retirement benefits for all of its regular, full-time employees through contributions to the New York State and Local Employees' Retirement System. The system provides various plans and options, some of which require employee contributions.

***Cash and cash equivalents***—For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to be all unrestricted and restricted cash accounts and short-term investments purchased with an original maturity of three months or less. Cash equivalents are comprised entirely of U.S. Treasury bills.

***Current investments***—The Authority considers investments that mature in more than three months but less than a year as current investments.

***Investment securities***—Investments are carried at market value based on quoted market prices. 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 statements of revenue, expenses, and changes in net assets.

***Customer accounts receivable***—All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Authority has adopted a policy of recognizing water revenues in the period in which the service is provided. Billings to customers generally consist of revenues earned from the prior three months for quarterly billed customers and revenues earned from the prior month for monthly-billed customers.

***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 revenue***—This account represents earned water revenues as of the end of the year that have not yet been billed to customers.

***Prepaid expenses and other assets***—These consist primarily of certain payments reflecting costs applicable to future accounting periods and interest earned from securities and investments but not yet received.

***Capital assets***—Capital assets are defined by the Authority as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of two years. The cost of additions to capital assets, 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 advanced for construction purposes. Overhead is added proportionately to the cost of a project on a monthly basis. The cost of retirements of capital assets is charged against accumulated depreciation. Maintenance and repairs are charged to expenses as incurred, and major betterments are capitalized.

Depreciation of capital assets is computed using the straight-line method based upon annual rates established in accordance with PSC guidelines: buildings and structures, 15 to 76 years; mains and hydrants, 64 to 100 years; equipment, 5 to 43 years; and other, 4 to 50 years. Depreciation expense approximated 2.0% of the original cost of average depreciable property for the years ended December 31, 2010 and 2009.

***Long-term obligations***—In the financial statements long-term debt is reported as a liability in the statement of net assets. Bond premiums and bond discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

***Debt issuance costs***—Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method. This cost has been amortized over the term of the bonds issued. During 2010 and 2009, $779,034 and $740,320, respectively, was amortized as an expense.

***Advances for construction***—Advances for construction primarily represent amounts received from contractors for water system expansions. Upon completion of the expansion, the cost of the construction is transferred to contributions in aid of construction, with any remaining advance being refunded.

***Accrued liabilities***—These include customer billings collected for subsequent periods and therefore unearned as of year end as well as a provision for estimated losses.

***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 certain water plant systems conveyed to the Authority by municipalities and others. Only those water plant systems resulting in increased revenue generation are assigned any value and, therefore, recorded as a contribution in aid of construction.

***Risk management***—The Authority limits its risk exposure to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters through various insurance policies. Insurance coverage and deductibles have remained relatively stable from the previous year. Insurance expense for the years ended December 31, 2010 and 2009 totaled $620,977 and $558,517, respectively. There were no settlements that significantly exceeded insurance coverage for each of the last three years. Any unpaid claims outstanding as of December 31, 2010 and 2009 have been adequately reserved for.

***Reclassifications***—Certain amounts relating to the financial statements as of and for the year ended December 31, 2009 have been reclassified in order to be consistent with the current year's presentation.

***Use of estimates***—The preparation of the financial statements in conformity with generally accepted accounting principles required 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Impacts of accounting pronouncements***—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 59 *Financial Instruments Omnibus* effective for the year ending December 31, 2011; GASB Statements No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* No. 60 *Accounting and Financial Reporting for Service Concession Arrangements,* and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* effective for the year ending December 31, 2012; and GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No 14 and No. 34* effective for the year ending December 31, 2013. The Authority is therefore unable to disclose the impact that adopting these Statements will have on its financial position and results of operations when such Statements are adopted.

During the year ended December 31, 2010, the Authority implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments,* and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* effective for the year ending December 31, 2010 which had no impact on the Authority's financial position or results of operations.

## 2. CASH AND INVESTMENTS

***Deposits***—All uninsured bank deposits are fully collateralized.

***Investments***—The Authority's bond resolutions and investment guidelines 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.

***Restricted cash, cash equivalents, and investments***—Cash has been deposited into various trust accounts with a fiscal agent to satisfy certain legal covenants, or restricted internally through Board resolution. Further, the amounts are invested in compliance with the Authority's investment guidelines. The following is a brief synopsis of restricted cash:

***Restricted for future construction***—Cash restricted for future construction was established to maintain a construction account, which has been committed for future capital expenditures.

***Restricted for debt service reserve***—The Authority restricts investments in the debt service reserve account as required by various bond resolutions to maintain a specified amount to meet future debt service requirements.

***Restricted for debt service***—Cash restricted for debt service was established to fulfill the debt service requirements on the outstanding water revenue bonds as they become due and payable.

***Restricted for sick pay reserve***—Cash restricted for sick pay was established to set funds aside to pay employee sick pay benefits as eligible employees retire or otherwise terminate their employment.

***Restricted for customer deposits***—Cash restricted for customer deposits was established to keep customer deposits for future work to be performed and deposits taken from customers to guarantee their water bills segregated from the Authority's operating cash.

As of December 31, 2010 and 2009, the Authority had the following restricted cash, cash equivalents, and investments:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| Restricted for debt service: | | | | |
| Cash | $ 345,146 | $ 345,146 | $ 622,606 | $ 622,606 |
| Cash equivalents - U.S. Treasury bills | 272,976 | 273,000 | - | - |
| Investments - U.S. Treasury bills | 1,029,612 | 1,029,670 | 1,260,280 | 1,260,316 |
| Total restricted for debt service | 1,647,734 | 1,647,816 | 1,882,886 | 1,882,922 |
| Restricted for sick pay reserve, current | | | | |
| Cash | 92,772 | 92,772 | 97,388 | 97,388 |
| Restricted for customer deposits: | | | | |
| Cash | 932,182 | 932,182 | 775,071 | 775,071 |
| Current restricted cash, cash equivalents, and investments | $ 2,672,688 | $ 2,672,770 | $ 2,755,345 | $ 2,755,381 |
| Restricted for future construction: | | | | |
| Cash and cash equivalents | $ 15,475,766 | $ 15,475,766 | $ 21,326,972 | $ 21,326,972 |
| Certificates of deposit | 2,000,000 | 2,000,000 | - | - |
| Total restricted for future construction | 17,475,766 | 17,475,766 | 21,326,972 | 21,326,972 |
| Restricted for debt service reserve: | | | | |
| Cash | 101 | 101 | 27,652 | 27,652 |
| State and Local Government Series Treasury bonds | 9,594,759 | 9,594,759 | 3,267,116 | 3,267,116 |
| Discounted commercial paper | - | - | 6,943,086 | 6,954,495 |
| Total restricted for debt service reserve | 9,594,860 | 9,594,860 | 10,237,854 | 10,249,263 |
| Restricted for sick pay reserve, long term: | | | | |
| Cash | 1,762,667 | 1,762,667 | 1,850,363 | 1,850,363 |
| Noncurrent restricted cash, cash equivalents, and investments | $ 28,833,293 | $ 28,833,293 | $ 33,415,189 | $ 33,426,598 |
| Total restricted cash, cash equivalents and investments | $ 31,505,981 | $ 31,506,063 | $ 36,170,534 | $ 36,181,979 |

***Custodial credit risk*—**In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned. For cash equivalents and investments, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2010 and 2009, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institutions' trust departments or agents in the Authority's name and all of the Authority's cash equivalents and investments were registered in the Authority's name.

***Interest rate risk***—In the case of investments, this is the risk that potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. There is the prospect of a loss should those securities be sold prior to maturity. The Authority follows a policy to specifically identify the maturity for each individual investment and evaluate risk accordingly.

***Current investments***—Investments outstanding at December 31, 2009 totaled $5,000,000. There were no investments outstanding at December 31, 2010.

***Credit risk***—As of December 31, 2010 the Authority did not have any commercial paper investments. At December 31, 2009 the Authority had commercial paper investments with Ford Credit Auto Receivables Trust I maturing March 4, 2010. This investment was purchased on November 4, 2009 with an S&P credit rating of A-1+ and a Moody's credit rating of P-1. The Authority's investment policy limits investments in commercial paper to the top rating issued by NRSROs.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable primarily represents amounts due from customers for current and delinquent water services provided, including penalties, unpaid bill charges, collection fees and shut-off charges.

Customers are billed either on a monthly or quarterly basis depending on the type of customer (industrial or residential), and the level of water usage. Customers are provided a fifteen day (15) payment period from the billing date to pay their current water charges. A late penalty of 10% is assessed on any unpaid balance 10 days after the due date. An account will receive a collection letter if the account is active, has a receivable balance greater than $75, has a receivable that is 90 days or greater in arrears and has no current collections activity. The collection letter indicates that the customer could be subject to the discontinuance of their water service and additional delinquent charges.

Following fifteen (15) days from the collection letter date, an unpaid account is sent to a collector who schedules a visit to the customer with an unpaid bill notice. At the visit, the account is "posted", and the customer has three (3) working days to either pay the bill in full, or submit a partial payment (25%-33%) with a signed promissory agreement for the remaining balance. The agreement is normally kept to a term of 90 days, with some exceptions to 180 days. A final bill that remains unpaid in a direct service area is referred to an outside collection agency. The collection agency keeps a predetermined portion of any collected monies. In agreements with lease managed water districts, unpaid water bills are referred to municipalities for payment per the terms of a lease management agreement. The outstanding balances of an unpaid final bill in a lease managed area are not referred to an outside agency, instead they are sent to the proper town for payment. Allowances for doubtful accounts at December 31, 2010 and 2009 total $432,784 and $708,721, respectively.

## 4. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2010, and December 31, 2009 was as follows:

| | Balance 1/1/2010 | Additions | Deletions | Balance 12/31/2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,218,274 | $ - | $ - | $ 2,218,274 |
| Construction work in progress | 1,950,305 | 15,311,315 | (12,435,078) | 4,826,542 |
| Total capital assets, not being depreciated | 4,168,579 | 15,311,315 | (12,435,078) | 7,044,816 |
| Capital assets in service, being depreciated: | | | | |
| Buildings and structures | 242,896,817 | 1,866,799 | (2,866,723) | 241,896,893 |
| Mains and hydrants | 216,363,788 | 6,397,866 | (26,407,836) | 196,353,818 |
| Equipment | 43,377,501 | 3,267,918 | (744,968) | 45,900,451 |
| Other | 49,963,188 | 2,092,515 | (2,626,128) | 49,429,575 |
| Total capital assets, being depreciated | 552,601,294 | 13,625,098 | (32,645,655) | 533,580,737 |
| Less accumulated depreciation: | | | | |
| Buildings and structures | 103,287,631 | 6,127,597 | (1,721,144) | 107,694,084 |
| Mains and hydrants | 48,476,743 | 1,892,488 | (9,999,730) | 40,369,501 |
| Equipment | 23,422,707 | 2,159,764 | (493,522) | 25,088,949 |
| Other | 29,723,248 | 1,040,924 | (2,913,955) | 27,850,217 |
| Total accumulated depreciation | 204,910,329 | 11,220,773 | (15,128,351) | 201,002,751 |
| Total capital assets being depreciated, net | 347,690,965 | 2,404,325 | (17,517,304) | 332,577,986 |
| Total capital assets, net | $ 351,859,544 | $ 17,715,640 | $ (29,952,382) | $ 339,622,802 |

| | Balance 1/1/2009 | Additions | Deletions | Balance 12/31/2009 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,218,274 | $ - | $ - | $ 2,218,274 |
| Construction work in progress | 13,135,714 | 29,670,976 | (40,856,385) | 1,950,305 |
| Total capital assets, not being depreciated | 15,353,988 | 29,670,976 | (40,856,385) | 4,168,579 |
| Capital assets in service, being depreciated: | | | | |
| Buildings and structures | 209,058,723 | 33,838,094 | - | 242,896,817 |
| Mains and hydrants | 214,333,344 | 2,279,022 | (248,578) | 216,363,788 |
| Equipment | 40,137,616 | 3,875,928 | (636,043) | 43,377,501 |
| Other | 48,031,909 | 1,931,279 | - | 49,963,188 |
| Total capital assets, being depreciated | 511,561,592 | 41,924,323 | (884,621) | 552,601,294 |
| Less accumulated depreciation: | | | | |
| Buildings and structures | 97,891,487 | 5,396,144 | - | 103,287,631 |
| Mains and hydrants | 46,643,778 | 2,138,798 | (305,833) | 48,476,743 |
| Equipment | 21,992,402 | 1,982,330 | (552,025) | 23,422,707 |
| Other | 28,573,963 | 1,149,285 | - | 29,723,248 |
| Total accumulated depreciation | 195,101,630 | 10,666,557 | (857,858) | 204,910,329 |
| Total capital assets being depreciated, net | 316,459,962 | 31,257,766 | (26,763) | 347,690,965 |
| Total capital assets, net | $ 331,813,950 | $ 60,928,742 | $ (40,883,148) | $ 351,859,544 |

During 2010, a review of assets acquired in converting municipal water plant systems from bulk or lease managed systems to direct service areas was conducted and it was determined that no additional value or revenue was realized as a result of the conversion. In fact, additional operating and maintenance expense and increased capital costs resulted from the acquisition of the systems. As a result of the review, the fair value of the assets was estimated to be zero. A special accounting item was recorded in the financial statements to recognize the change in the estimated fair value of acquired assets below.

| Year | Municipality | Original Estimated Acquired Value | Accumulated Depreciation | Net Book Value as of January 1, 2010 |
|---|---|---|---|---|
| 2000 | Village of Depew | $ 790,500 | $ 545,860 | $ 244,640 |
| 2000 | Town of Clarence | 16,842,960 | 8,011,111 | 8,831,849 |
| 2002 | Orchard Park WD #17 | 2,038,734 | 1,043,629 | 995,105 |
| 2002 | Village of Lancaster | 8,642,237 | 2,713,638 | 5,928,599 |
| 2003 | Town of Cheektowaga | 1,684,427 | 441,647 | 1,242,780 |
| 2004 | Town of Concord | 400,162 | 38,339 | 361,823 |
| | | $ 30,399,020 | $ 12,794,224 | $ 17,604,796 |

## 5. LONG-TERM DEBT

***Summary of long-term debt***—the following is a summary of the Authority's water revenue bonds at December 31, 2010:

| Series | Final Annual Installment Payment Due | Year of Earliest Principal Payment | Interest Rate | | Original Issue | Principal Outstanding 12/31/2010 |
|---|---|---|---|---|---|---|
| Series 1998D | 10/15/2019 | 2000 | .845-5.15% | (*) | $ 16,859,700 | $ 9,050,000 |
| Series 2003F | 7/15/2023 | 2004 | .79-4.50% | (*) | 15,544,443 | 11,295,000 |
| Series 2007 | 12/1/2037 | 2008 | 4.50-5.00% | | 35,000,000 | 33,410,000 |
| Series 2008 | 12/1/2018 | 2009 | 4.00-5.00% | | 45,770,000 | 38,145,000 |
| | | | | | | 91,900,000 |
| Less portion due within one year | | | | | | (6,215,000) |
| | | | | | | $ 85,685,000 |

(*) Gross rates subject to subsidy from the New York State Environmental Facilities Corporation (EFC)

The Current Interest Series 1998B and 1998D Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bonds Series 1998B and Series 1998D 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:

| Issue | 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 5.15% over their respective installment payment dates scheduled to end on December 15, 2017 and October 15, 2019, respectively.

In June 2010 EFC refunded the Series 1998D Bonds. New bonds in the same principal denomination were issued on June 24, 2010. The call date for the original bonds was June 25, 2010. The Authority did not issue new bonds to EFC. The interest rates on the outstanding bonds were significantly reduced. The net present value savings as calculated by EFC is $764,897.

On December 15, 2010 the Authority redeemed the remaining Series 1998B Bonds. Cash on hand of $3,290,000 was used to pay the bondholders the principal outstanding. The bonds were redeemed at par. The last interest payment date was also December 15, 2010. Therefore, there is no accrued interest on the bonds. The present value savings for the redemption as calculated by our financial advisors, Public Financial Management, Inc. is $171,354.

On July 24, 2003 the 2003F Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bonds Series 2003F. The 2003F bonds in the amount of $15,544,443 representing the Authority's portion of this financing were issued to cover the following:

| Description | Amount |
|---|---|
| Town of Lancaster pump station | $ 2,005,360 |
| Harris Hill pump station & main construction | 4,826,239 |
| City of Tonawanda - meters, transmission main, pump station & tank | 7,158,404 |
| Debt service reserve account | 1,554,440 |
| | $ 15,544,443 |

Interest on the 2003F bonds ranges from .79% to 4.50% and is payable semi-annually on January 15 and July 15. Principal is payable on July 15. The final maturity of the bonds is July 15, 2023.

The terms of the EFC 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 the EFC invests and credits the borrower with the earnings on the invested funds as an offset to the interest payable on the bonds.

On September 13, 2007, the 2007 Series Bonds were issued for $35,194,288, which includes a premium of $194,288 that is amortized over the life of the bonds. The purpose of these bonds is to provide funds for the costs of acquisition and construction of various projects undertaken by the Authority as part of it capital improvement program. This includes the replacement of various water mains and valves in the distribution system, construction of new pump stations, and upgrades to the coagulation basins and the replacement of electrical equipment and installation of standby emergency generators at the Authority's Sturgeon Point and Van de Water Treatment Plants.

Interest on the 2007 Series Bonds ranges from 4.50% to 5.00% and is payable semi-annually on June 1 and December 1. The principal is payable on December 1. The final maturity of the bonds is December 1, 2037.

On June 25, 2008 the Authority issued $45,770,000 of Water Revenue Refunding Bonds, Series 2008 ("Series 2008 Bonds"). The Series 2008 Bonds carry an interest rate of 4.0% and 5.0% and mature December 1, of each year through December 1, 2018. The proceeds of the issue, including a $3,081,304 premium which is amortized over the life of the Series 2008 Bonds, were used to refund principal of the Series 1993A and Series 1993B Bonds, $27,500,000 and $15,000,000, respectively. A portion of the proceeds from the issuance covered the costs resulting from a fee in connection with the termination of the swap agreement related to the Series 1993A and Series 1993B Bonds. This cost of the swap termination, $5,058,208, and other costs of refunding of $391,137 are also amortized over the life of the redeemed bonds. Additional costs of $363,499 were a result of the issuance and are amortized over the life of the Series 2008 Bonds. The remaining portion of the proceeds, after the total $5,894,523 cost of refunding the bonds, including the final interest payment on the swap agreement of $81,679, were deposited into the Series 2008 Debt Service Reserve Account. The Series 1993A and Series 1993B Bonds were redeemed on July 25, 2008. The issuance of the Series 2008 refunding bonds reduces the debt service by $7,481,572 and has a net present value cash flow savings of $8,393,467.

As a result of the redemption of the Series 1993A and Series 1993B, all outstanding bonds have been issued under the Authority's Fourth Resolution. Therefore, all of the current bondholders have equal claims against the Authority's revenues.

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 $5,800,000 at December 31, 2010 with maturities ranging from the year 2011 to the year 2014.

***Long-term debt requirements***—Long-term debt requirements are summarized as follows:

| Year ending December 31, | Bond Principal | Interest on Bonded Debt |
|---|---|---|
| 2011 | $ 6,215,000 | $ 4,084,764 |
| 2012 | 6,485,000 | 3,825,728 |
| 2013 | 6,730,000 | 3,593,518 |
| 2014 | 7,035,000 | 3,304,198 |
| 2015 | 7,350,000 | 2,996,537 |
| 2016-2020 | 28,790,000 | 9,974,977 |
| 2021-2025 | 9,700,000 | 5,924,294 |
| 2026-2030 | 6,935,000 | 4,090,448 |
| 2031-2035 | 8,630,000 | 2,297,412 |
| 2036-2037 | 4,030,000 | 304,500 |
| | 91,900,000 | 40,396,376 |
| Less portion due within one year | 6,215,000 | 4,084,764 |
| | $ 85,685,000 | $ 36,311,612 |

***Summary of changes in long-term debt***—the following is a summary of changes in water revenue bonds and other long-term debt for the year ended December 31, 2010:

| | Balance 1/1/2010 | Additions and Appreciation | Deletions | Balance 12/31/2010 | Due Within One Year |
|---|---|---|---|---|---|
| Series 1998B | $ 3,695,000 | $ - | $ (3,695,000) | $ - | $ - |
| Series 1998D | 9,880,000 | - | (830,000) | 9,050,000 | 860,000 |
| Series 2003F | 11,930,000 | - | (635,000) | 11,295,000 | 645,000 |
| Series 2007 | 34,070,000 | - | (660,000) | 33,410,000 | 685,000 |
| Series 2008 | 42,015,000 | - | (3,870,000) | 38,145,000 | 4,025,000 |
| Bonds payable | $ 101,590,000 | $ - | $ (9,690,000) | $ 91,900,000 | $ 6,215,000 |
| Add (subtract) deferrals: | | | | | |
| For bond premiums | 2,817,111 | - | (302,235) | 2,514,876 | 302,236 |
| For issuance costs | (5,768,665) | - | 779,034 | (4,989,631) | (734,757) |
| Total bonds payable | $ 98,638,446 | $ - | $ (9,213,201) | $ 89,425,245 | $ 5,782,479 |
| | | | | | |
| Compensated absences | $ 2,975,905 | $ 229,517 | $ (339,623) | $ 2,865,799 | $ 1,103,132 |

## 6. PENSION PLAN

***Plan Description***—The Authority participates in the New York State and Local Employees' Retirement System ("State Plan"), which is a cost-sharing, multiple-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. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as the sole trustee and administrative head of the State Plan. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the State Plan and for the custody and control of their funds. The State Plan issues publicly available financial reports that contain financial statements and required supplementary information. 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 or on the Internet at www.osc.state.ny.us.

***Funding Policy***—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. For members hired after January 1, 2010, an additional tier was added which requires a 3% contribution for the duration of their membership. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service, subject to certain limitations. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority's required contributions and rates over the past three years were:

| Year | Amount | Rate |
|---|---|---|
| 2010 | $ 1,657,556 | 11.3% - 15.3% |
| 2009 | 961,939 | 7.0% - 9.3% |
| 2008 | 1,123,063 | 8.0% - 10.8% |

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the State Plan: requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible, and changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1$^{st}$ (e.g., billings due February 2010 would be based on the pension value as of March 31, 2009).

The Employer Contribution Stabilization Program was signed into law on August 11, 2010 as Part TT of Chapter 57 of the Laws 2010 of the State of New York. The statue gives employers the option to amortize a portion of their annual pension cost over a ten year period at an interest rate that is set annually. The interest rate is five percent (5%) for any 2011 invoice amounts that are amortized. Decisions to participate in the program and to amortize the allowable amount are irrevocable.

The Authority has contributed 100% of the required contributions each year, and has not amortized any of the allowable amounts.

## 7. OTHER POSTEMPLOYMENT BENEFITS

***Plan Description***—The Authority provides retiree health plans through Labor Management Healthcare Fund ("LMHF"). Retirees must meet age and years of service requirements to qualify for health benefits under this single-employer defined benefit healthcare plan (the Plan). Retiree benefits continue for the lifetime of the retiree and spousal benefits continue for their lifetime unless they remarry. There were 131 and 129 retirees receiving health care benefits, at December 31, 2010 and December 31, 2009 respectively.

***Funding Policy***—Authorization for the Authority to pay a portion, or all, of retiree health insurance premiums was enacted by resolution of the Authority's Board of Commissioners or through union contracts, which are ratified by the Board of Commissioners. Retired employees that met the age and years of service requirements and were enrolled in any healthcare plan prior to June 1, 2004 are required to make no contribution. Retirees enrolling in the Traditional Blue PPO 812 plan after June 1, 2004 are required to pay contributions equal to the difference between the Traditional Blue PPO 812 plan premium and the highest premium of any other plan offered to that retiree. No current retirees contribute to their healthcare coverage.

The Authority's annual post employment benefit ("OPEB") cost is calculated based on the annual required contributions ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation for 2010 and 2009.

| | 2010 | 2009 |
|---|---|---|
| Annual required contribution | $5,260,201 | $4,829,105 |
| Interest on net OPEB obligation | 496,433 | 290,667 |
| Adjustment to annual required contribution | (645,874) | (396,544) |
| Annual OPEB costs (expense) | 5,110,760 | 4,723,228 |
| Contributions made | (1,229,697) | (1,253,819) |
| Increase in net OPEB obligation | 3,881,063 | 3,469,409 |
| Net OPEB obligation - beginning of year | 9,928,664 | 6,459,255 |
| Net OPEB obligation - end of year | $13,809,727 | $ 9,928,664 |

***Funding Status and Funding Progress***—As of January 1, 2010, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was $49,748,261.

The schedule of the Authority's annual OPEB cost, amount and percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations were as follows:

| | Annual OPEB Cost | Contributions Made | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| January 1, 2010 | $ 5,110,760 | $ 1,229,697 | 24.1% | $ 13,809,727 |
| January 1, 2009 | 4,723,228 | 1,253,819 | 26.5% | 9,928,664 |
| January 1, 2008 | 4,529,101 | 1,123,917 | 24.8% | 6,459,255 |

***Actuarial Methods and Assumptions***—Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress for the past two actuarial valuations immediately follows the notes to the financial statements and presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members at the time of the valuation, and on the pattern of cost sharing between the employer and plan members. The projection of benefits does not incorporate the potential effect of a change in the pattern of cost sharing between the employer and plan members in the future. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2010 actuarial valuation, the following actuarial methods and assumption were used:

*Actuarial cost method* – Projected Unit Credit
*Investment rate of return* – 5%
*Change in consumer price index for medical care* – 3.4%
*Healthcare cost trend rate* – Health insurance – 9.0% initially, reduced to a rate of 5.0% in 2018 and beyond for pre-65 retirees; 7.0% initially rising to 30.0% for fiscal years 2011, 2012 and 2013 and returning to 6.0% in 2014 and declining to 5.0% by 2018 and beyond for post-65 retirees. Prescription drug coverage has an assumed increase of 10.0% initially, declining to 5.0% for 2018 and beyond.
*Amortization of actuarial accrued liability* – Actuarial accrued liability is being amortized over thirty years using the level dollar method, on an open basis.
*Mortality* – The RP-2000 Mortality Table for annuitants and non-annuitants with projected mortality improvements; specifically as outlined in IRC Regulation 1.430(h)(3)-1 for 2010 valuations.
*Turnover* – Rates of turnover are based on experience under the New York State Employees' Retirement System (State Plan).
*Retirement incidence* – Rates of retirement are based on the experience under the State Plan.
*Election percentage* – It was assumed 100% of future retirees eligible for coverage will elect postretirement healthcare coverage.
*Spousal coverage* – 80% of future retirees are assumed to elect spousal coverage upon retirement.
*Per capita costs* – All retiree health plans are offered through LMHF. Actual claims experience from LMHF was used to develop retiree claim costs.

## 8. LABOR RELATIONS

Certain Authority employees are represented by two bargaining units, American Federation of State, County and Municipal Employees ("AFSCME") and Civil Service Employees Association, Inc. ("CSEA"). Both the CSEA and AFSCME contracts expired on March 31, 2008 and are currently under negotiation.

## 9. NET ASSETS, RESERVES AND DESIGNATIONS

The Authority financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

***Investment in capital assets, net of related debt***—This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Capital assets, net of accumulated depreciation | $339,622,802 | $351,859,544 |
| Related debt: | | |
| Water revenue bonds issued for capital assets | (91,900,000) | (101,590,000) |
| Bond premium | (2,514,876) | (2,817,111) |
| Investment in capital assets, net of related debt | $245,207,926 | $247,452,433 |

***Restricted net assets***—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

For the years ended December 31, 2010 and 2009, net assets were restricted for the following purposes:

- ***Debt Service Reserve Account*** — During 1998, the Authority established a Debt Service Reserve Account as required by the Series 1998B and 1998D bond resolutions. During 2003, per the 2003F bond resolution the Authority established a Debt Service Reserve Account from a portion of the 2003F bond proceeds. For the Series 1998B and Series 1998D bonds, the Authority established the debt service reserve as the average of the annual installments of debt service per the bond resolutions. For the Series 2003F bonds, the Authority established the debt service reserve based on ten percent of the total principal of the loan. The required amount was determined by EFC and must remain on deposit until the bonds mature.

  In June 2010 EFC refunded the Series 1998D Bonds. The interest rates were reduced significantly. As a result, the Debt Service Reserve requirement was lowered. The original investment was sold and a new investment was purchased to ensure the account was properly funded.

  On December 15, 2010 the Authority redeemed the Series 1998B Bonds. Cash on hand was used to fund the redemption. The funds and investments in the Debt Service Reserve Account were transferred into the Authority's operating accounts, since the Debt Service Reserve Account is no longer required.

During 2007, the Authority established a Debt Service Reserve Account as required by the Series 2007 bond resolution to maintain a specified amount of funds to meet future debt service requirements. The Authority established the Debt Service Reserve Account based on the maximum amount of principal and interest coming due in any succeeding calendar year on the outstanding Series 2007 bonds.

During 2008, the Authority established a Debt Service Reserve Account as required by the Series 2008 bond resolution to maintain a specified amount of funds to meet future debt service requirements. The Authority established the Debt Service Reserve Account based on ten percent of the total principal of the loan.

- ***Debt Service Account*** — The 1992 Fourth Resolution, 1998B, 1998D, 2003F, 2007 and 2008 Supplemental Fourth Resolution bond resolutions require that a specified amount of funds be maintained in the Debt Service Account. The requirements of the Debt Service Account 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.

***Unrestricted net assets***—This category represents net assets of the Authority not restricted for any project or other purpose. Management intends to utilize unrestricted net assets to partially finance the Authority's projected five-year capital spending, which will require future financing in excess of $75 million.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy concerning which to apply first varies with the intended use and associated legal requirements. Management typically makes this decision on a transactional basis.

## 10. COMMITMENTS AND CONTINGENCIES

The Authority maintains and operates certain facilities employed in the sale and distribution of water which it leases from various local municipal water districts pursuant to lease management agreements. No financial consideration is afforded the municipalities in conjunction with these lease agreements. Such agreements generally are for at least ten-year terms and automatically renew for additional ten-year terms unless terminated by either party one year prior to expiration of the term. The agreements provide that the municipalities obtain water exclusively from the Authority. 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 establish uniform minimum national water 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 2010 and 2009 aggregated $322,855 and $320,269. Future minimum annual rentals to be paid under such leases are not significant.

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, the Authority has obtained various liability, property, and workers' compensation insurance policies which would reduce exposure to loss on the part of the Authority. Management has made provisions for anticipated losses in the accompanying financial statements as advised by legal counsel. 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.

# ERIE COUNTY WATER AUTHORITY
## Required Supplementary Information (Unaudited)
## Schedule of Funding Progress
## Postemployment Benefit Plan
## For the Year Ended December 31, 2010

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Budgeted Covered Payroll | Ratio of UAAL To Budgeted Covered Payroll |
|---|---|---|---|---|---|---|
| January 1, 2010 | $ - | $ 49,748,261 | $ 49,748,261 | - | $ 15,102,780 | 3.29 |
| January 1, 2008 | - | 44,227,440 | 44,227,440 | - | 15,340,957 | 2.88 |

See independent auditors' report.

# STATISTICAL SECTION

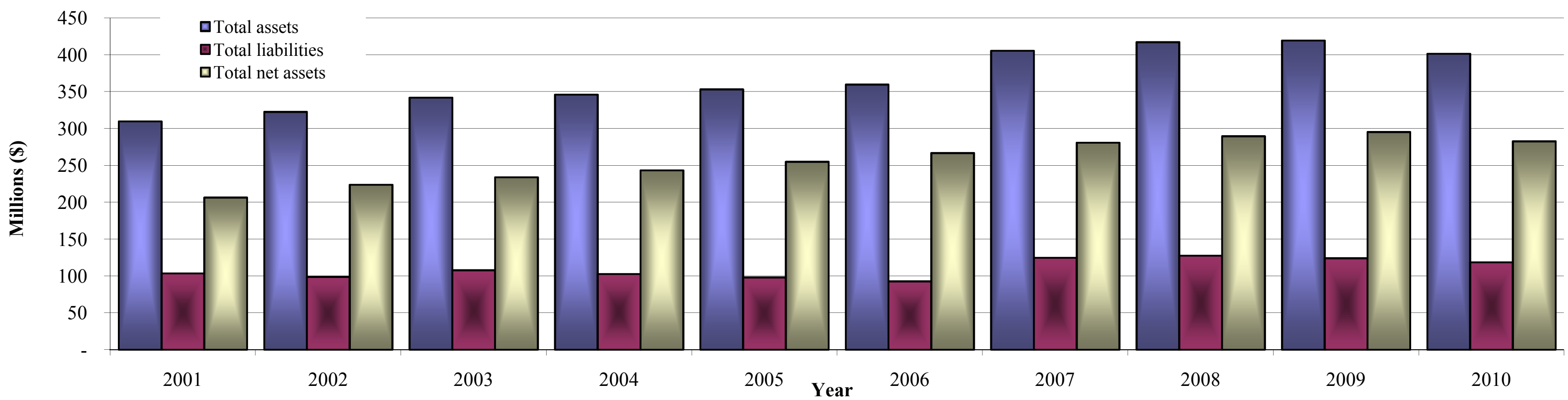
## (UNAUDITED)

This section of the Erie County Water Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

**Contents** **Page**

## ERIE COUNTY WATER AUTHORITY
Summary Comparison of the Statements of Net Assets
Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets | $ 34,101,790 | $ 37,770,731 | $ 33,704,255 | $ 37,231,424 | $ 39,318,337 | $ 41,073,115 | $ 29,800,725 | $ 34,305,092 | $ 34,091,966 | $ 32,428,335 |
| Noncurrent assets | 275,773,688 | 284,872,862 | 308,317,224 | 308,849,860 | 313,858,623 | 318,546,124 | 375,686,541 | 382,934,469 | 385,286,142 | 369,006,078 |
| Total assets | 309,875,478 | 322,643,593 | 342,021,479 | 346,081,284 | 353,176,960 | 359,619,239 | 405,487,266 | 417,239,561 | 419,378,108 | 401,434,413 |
| Current liabilities | 14,640,158 | 15,007,426 | 14,940,648 | 17,638,491 | 18,809,409 | 20,013,673 | 16,547,767 | 20,760,295 | 19,575,321 | 19,422,202 |
| Noncurrent liabilities | 88,843,783 | 83,817,621 | 93,016,537 | 85,048,501 | 79,331,568 | 72,803,311 | 108,146,116 | 106,923,914 | 104,455,558 | 99,215,160 |
| Total liabilities | 103,483,941 | 98,825,047 | 107,957,185 | 102,686,992 | 98,140,977 | 92,816,984 | 124,693,883 | 127,684,209 | 124,030,879 | 118,637,362 |
| Invested in capital assets, net of related debt | 168,492,470 | 176,744,270 | 177,687,304 | 191,922,943 | 208,606,705 | 224,456,645 | 227,552,045 | 224,964,824 | 247,452,433 | 245,207,926 |
| Restricted | 13,768,476 | 14,551,908 | 24,758,568 | 19,892,507 | 16,644,478 | 15,516,546 | 22,874,616 | 12,137,312 | 12,132,185 | 11,242,676 |
| Unrestricted | 24,130,591 | 32,522,368 | 31,618,422 | 31,578,842 | 29,784,800 | 26,829,064 | 30,366,722 | 52,453,216 | 35,762,611 | 26,346,449 |
| Total net assets | $ 206,391,537 | $ 223,818,546 | $ 234,064,294 | $ 243,394,292 | $ 255,035,983 | $ 266,802,255 | $ 280,793,383 | $ 289,555,352 | $ 295,347,229 | $ 282,797,051 |



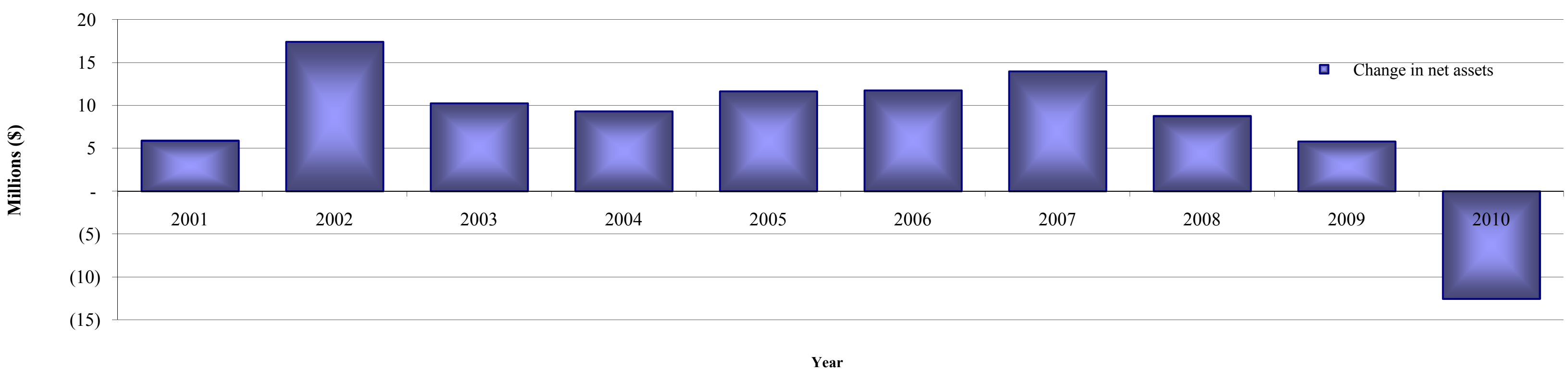

(Source: Annual Audited Financial Statements)

**ERIE COUNTY WATER AUTHORITY**

Comparison of Statements of Revenues, Expenses and Changes in Net Assets

Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | $ 45,633,628 | $ 48,362,387 | $ 47,073,542 | $ 48,982,522 | $ 54,238,666 | $ 55,744,905 | $ 61,227,617 | $ 56,284,871 | $ 54,688,581 | $ 57,701,068 |
| Operating expenses | 37,954,241 | 37,318,985 | 37,204,461 | 39,654,104 | 41,831,636 | 43,929,734 | 47,491,290 | 45,830,367 | 46,428,407 | 50,132,394 |
| Operating income | 7,679,387 | 11,043,402 | 9,869,081 | 9,328,418 | 12,407,030 | 11,815,171 | 13,736,327 | 10,454,504 | 8,260,174 | 7,568,674 |
| Nonoperating revenue (expenses) | (2,825,164) | (2,791,602) | (3,047,463) | (3,169,326) | (2,254,436) | (1,224,085) | (737,286) | (2,448,077) | (3,091,684) | (3,602,891) |
| Net income before contributions in aid of construction and special item | 4,854,223 | 8,251,800 | 6,821,618 | 6,159,092 | 10,152,594 | 10,591,086 | 12,999,041 | 8,006,427 | 5,168,490 | 3,965,783 |
| Contributions in aid of construction | 1,039,319 | 9,175,209 | 3,424,130 | 3,170,906 | 1,489,097 | 1,175,186 | 992,087 | 755,542 | 623,387 | 1,088,835 |
| Special item | | | | | | | | | | |
| Change in estimated fair value of acquired assets | - | - | - | - | - | - | - | - | - | (17,604,796) |
| Change in net assets | 5,893,542 | 17,427,009 | 10,245,748 | 9,329,998 | 11,641,691 | 11,766,272 | 13,991,128 | 8,761,969 | 5,791,877 | (12,550,178) |
| Total net assets - beginning of year | 200,497,995 | 206,391,537 | 223,818,546 | 234,064,294 | 243,394,292 | 255,035,983 | 266,802,255 | 280,793,383 | 289,555,352 | 295,347,229 |
| Total net assets - end of year | $ 206,391,537 | $ 223,818,546 | $ 234,064,294 | $ 243,394,292 | $ 255,035,983 | $ 266,802,255 | $ 280,793,383 | $ 289,555,352 | $ 295,347,229 | $ 282,797,051 |



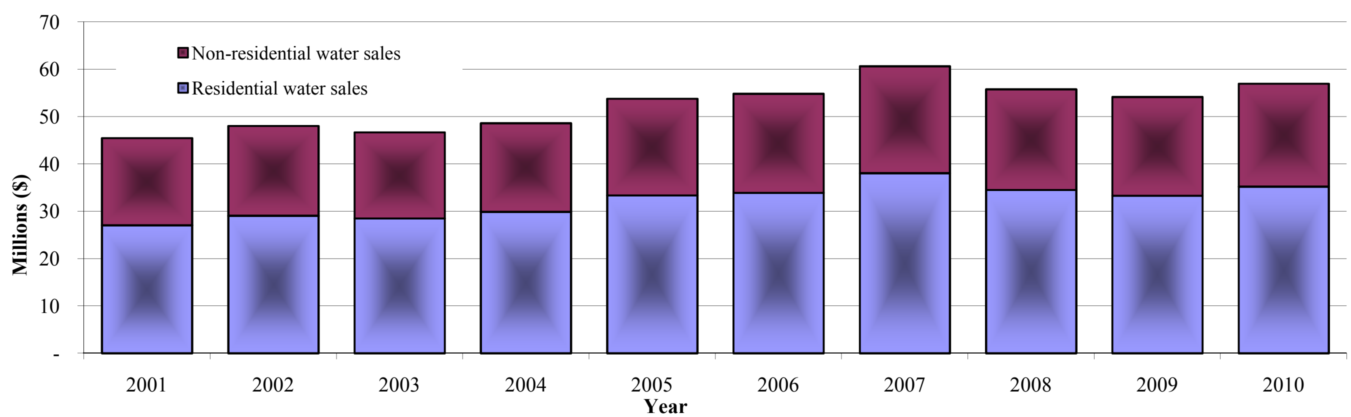

(Source: Annual Audited Financial Statements)

## ERIE COUNTY WATER AUTHORITY

Operating Revenue by Source

Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Water sales | | | | | | | | | | |
| Residential | $ 27,042,922 | $ 29,052,911 | $ 28,482,355 | $ 29,894,743 | $ 33,370,134 | $ 33,915,574 | $ 38,059,827 | $ 34,520,149 | $ 33,301,075 | $ 35,224,872 |
| Commercial | 5,963,131 | 5,918,519 | 5,757,113 | 6,096,444 | 6,589,277 | 6,845,706 | 7,402,558 | 7,003,921 | 6,859,468 | 6,973,293 |
| Industrial | 1,472,354 | 1,577,883 | 1,490,969 | 1,639,787 | 1,847,582 | 1,825,446 | 1,917,907 | 1,901,354 | 1,664,086 | 1,604,491 |
| Public authorities | 1,710,179 | 1,829,221 | 1,673,422 | 1,708,476 | 1,980,744 | 2,033,007 | 2,170,407 | 2,052,689 | 1,988,592 | 2,170,750 |
| Fire protection | 2,912,188 | 3,038,519 | 3,172,430 | 3,348,559 | 3,560,805 | 3,718,934 | 3,774,006 | 3,799,498 | 3,783,547 | 3,816,992 |
| Sales to other utilities | 4,871,991 | 5,072,600 | 4,681,735 | 4,674,682 | 4,550,195 | 4,690,210 | 4,992,582 | 4,920,668 | 4,966,093 | 5,322,260 |
| Other water revenue | 1,488,505 | 1,542,886 | 1,419,298 | 1,251,430 | 1,906,305 | 1,801,691 | 2,353,620 | 1,584,878 | 1,598,547 | 1,861,997 |
| Total water sales | 45,461,270 | 48,032,539 | 46,677,322 | 48,614,121 | 53,805,042 | 54,830,568 | 60,670,907 | 55,783,157 | 54,161,408 | 56,974,655 |
| Rents from water towers | 159,614 | 299,550 | 326,573 | 353,887 | 419,872 | 446,806 | 547,075 | 492,929 | 504,254 | 490,467 |
| Other operating revenue | 12,744 | 30,298 | 69,647 | 14,514 | 13,752 | 467,531 | 9,635 | 8,785 | 22,919 | 235,946 |
| Total operating revenue | $ 45,633,628 | $ 48,362,387 | $ 47,073,542 | $ 48,982,522 | $ 54,238,666 | $ 55,744,905 | $ 61,227,617 | $ 56,284,871 | $ 54,688,581 | $ 57,701,068 |
| Water sales as a percent of total operating revenue | 99.6% | 99.3% | 99.2% | 99.2% | 99.2% | 98.4% | 99.1% | 99.1% | 99.0% | 98.7% |
| Non-residenital water sales | 18,418,348 | 18,979,628 | 18,194,967 | 18,719,378 | 20,434,908 | 20,914,994 | 22,611,080 | 21,263,008 | 20,860,333 | 21,749,783 |



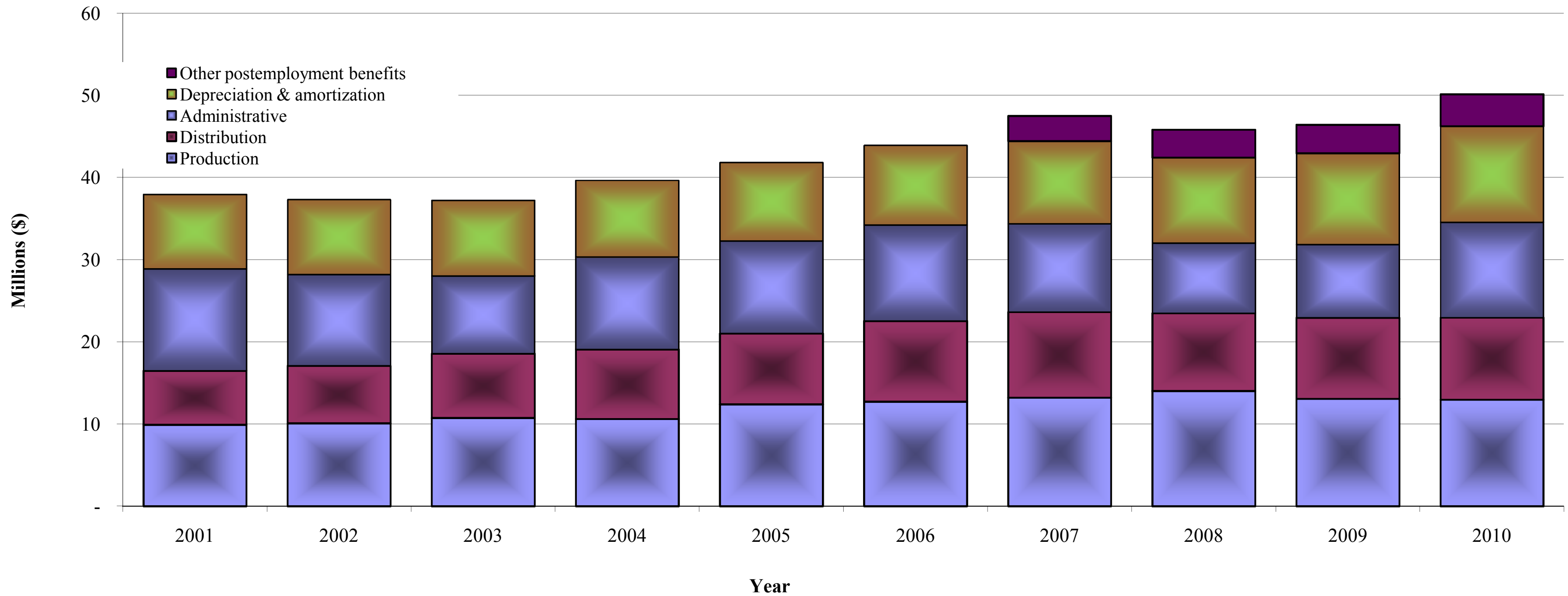

(Source: Annual Audited Financial Statements)

## ERIE COUNTY WATER AUTHORITY

Operating Expenses

Last Ten Fiscal Years

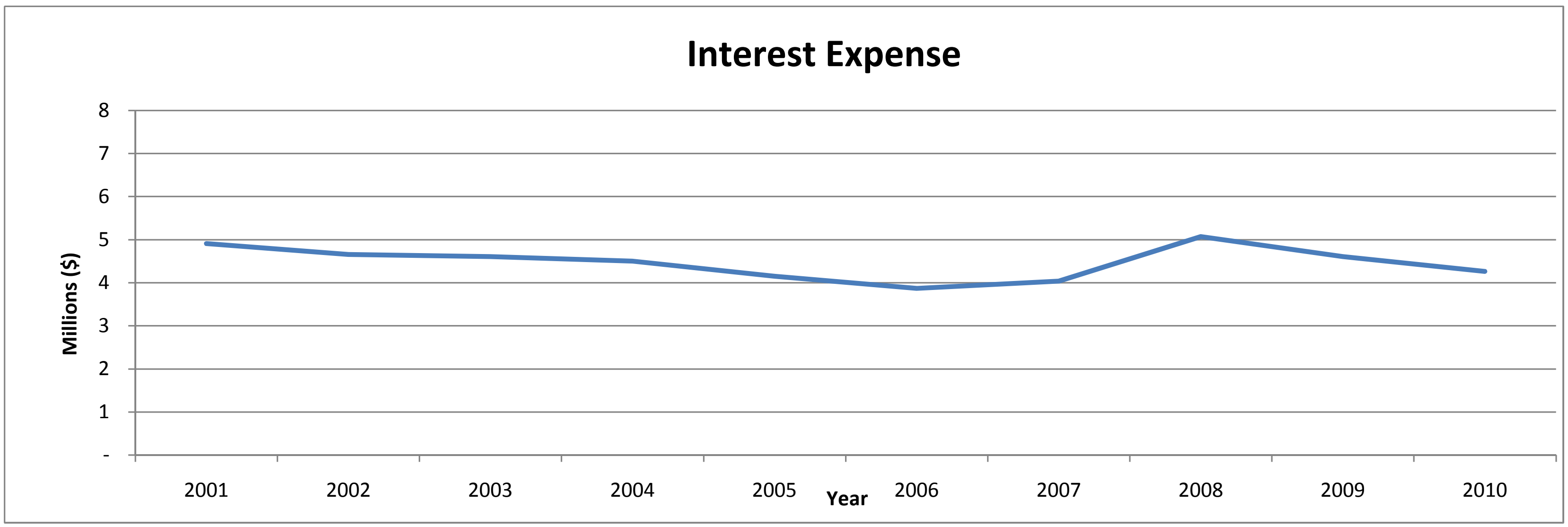
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Production | $ 9,915,731 | $ 10,088,719 | $ 10,732,803 | $ 10,619,126 | $ 12,393,279 | $ 12,721,482 | $ 13,215,672 | $ 14,020,769 | $ 13,069,199 | $ 12,953,657 |
| Distribution | 6,568,349 | 6,999,349 | 7,825,476 | 8,462,789 | 8,629,594 | 9,822,375 | 10,418,967 | 9,471,675 | 9,866,044 | 9,999,395 |
| Administrative | 12,408,260 | 11,118,955 | 9,478,095 | 11,240,637 | 11,260,014 | 11,676,905 | 10,727,002 | 8,549,306 | 8,919,113 | 11,600,707 |
| Depreciation & amortization | 9,061,901 | 9,111,962 | 9,168,087 | 9,331,552 | 9,548,749 | 9,708,972 | 10,075,578 | 10,383,433 | 11,104,642 | 11,697,572 |
| Other postemployment benefits | - | - | - | - | - | - | 3,054,071 | 3,405,184 | 3,469,409 | 3,881,063 |
| Total operating expenses | $ 37,954,241 | $ 37,318,985 | $ 37,204,461 | $ 39,654,104 | $ 41,831,636 | $ 43,929,734 | $ 47,491,290 | $ 45,830,367 | $ 46,428,407 | $ 50,132,394 |




(Source: Annual Audited Financial Statements)

**ERIE COUNTY WATER AUTHORITY**
Nonoperating Revenues and Expenses
Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Nonoperating revenues and expenses | | | | | | | | | | |
| Interest expense | $ 4,911,337 | $ 4,657,045 | $ 4,605,235 | $ 4,501,527 | $ 4,149,699 | $ 3,868,064 | $ 4,035,419 | $ 5,074,771 | $ 4,606,955 | $ 4,265,531 |
| Gain on sale of investments | - | - | - | - | - | - | - | - | - | 150,107 |
| Interest income | 2,046,764 | 1,803,904 | 1,191,949 | 1,188,823 | 1,796,187 | 2,498,889 | 3,138,936 | 2,353,043 | 871,878 | 467,408 |
| Interest capitalized during construction | 39,409 | 61,539 | 365,823 | 143,378 | 99,076 | 145,090 | 159,196 | 273,651 | 643,393 | 45,125 |
| Net nonoperating expenses | $ 2,825,164 | $ 2,791,602 | $ 3,047,463 | $ 3,169,326 | $ 2,254,436 | $ 1,224,085 | $ 737,287 | $ 2,448,077 | $ 3,091,684 | $ 3,602,891 |




(Source: Annual Audited Financial Statements)

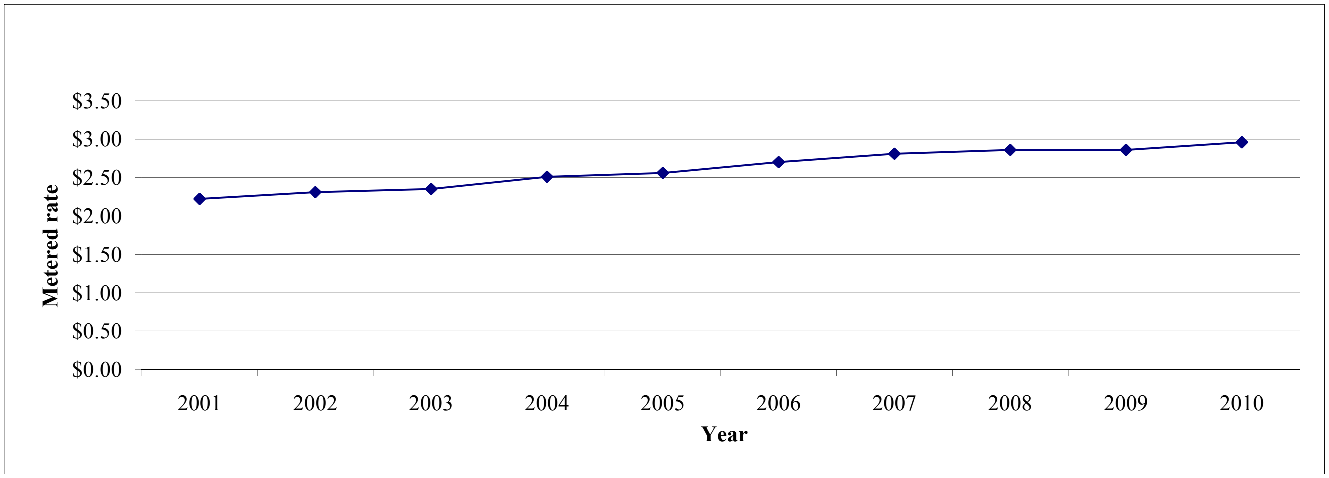
## ERIE COUNTY WATER AUTHORITY

Metered Water Rate History

Last Ten Fiscal Years

| | 2000 (Base Year) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Metered water rates[1] | $2.22 | $2.22 | $2.31 | $2.35 | $2.51 | $2.56 | $2.70 | $2.81 | $2.86 | $2.86 | $2.96 |
| Percentage increase (%) | | 0.00% | 4.05% | 1.73% | 6.81% | 1.99% | 5.47% | 4.07% | 1.78% | 0.00% | 3.50% |

[1]Metered water rates represent the cost per 1,000 gallons for the first 300,000 gallons per quarter




(Source: Erie County Water Authority Tariff)

## ERIE COUNTY WATER AUTHORITY

Largest Customers

Current Year and Nine Years Ago

| Year End December 31, 2010 | | Year End December 31, 2001 | |
|---|---|---|---|
| **Non-Municipal Customers** | | **Non-Municipal Customers** | |
| State University of NY at Buffalo | $ 423,803 | Bethlehem Steel Corporation | $643,015 |
| Seneca Nation of Indians | 303,814 | State University of NY at Buffalo | 473,660 |
| Upstate Farms Cooperative | 262,577 | Benderson Development Co. | 260,954 |
| Benderson Development Co. | 262,342 | Seneca Nation of Indians | 159,227 |
| Mayer Bros. Apple Products, Inc. | 193,079 | Republic Technologies International | 124,258 |
| Republic Engineered Products | 177,717 | West Seneca Developmental Center | 115,680 |
| Rosina Food Products, Inc. | 160,709 | Delta Sonic | 100,339 |
| Developers Diversified | 137,113 | New York State Department of Corrections | 100,048 |
| Niagara Frontier Transportation Authority | 134,826 | Uniland Development | 94,201 |
| Buffalo Bills | 117,831 | Niagara Frontier Transportation Authority | 91,533 |
| Total of Largest Non-Municipal Customers | $ 2,173,811 | Total of Largest Non-Municipal Customers | $ 2,162,915 |
| Percent of total billings | 3.8% | Percent of total billings | 4.7% |
| **Municipal Customers** | | **Municipal Customers** | |
| Town of Elma | $ 1,250,499 | Town of Elma | $964,601 |
| Town of Evans | 1,119,981 | Town of Evans | 772,086 |
| Village of East Aurora | 530,875 | Village of Lancaster* | 751,536 |
| Village of Williamsville | 494,348 | Village of East Aurora | 460,981 |
| Village of Angola | 367,118 | Village of Williamsville | 397,563 |
| Village of Blasdell | 341,121 | Village of Orchard Park | 348,107 |
| Monroe County Water Authority | 310,126 | Village of Angola | 299,398 |
| Village of Orchard Park | 256,702 | Village of Blasdell | 220,747 |
| Village of Silver Creek | 194,598 | Town of Orchard Park* | 198,373 |
| Town of Hanover | 140,663 | Village of Silver Creek | 194,216 |
| Total of Largest Municipal Customers | $ 5,006,031 | Total of Largest Municipal Customers | $ 4,607,608 |
| Percent of total billings | 8.7% | Percent of total billings | 10.0% |

* These municipalities converted from bulk sale to direct service customers in 2002 and 2004 respectively.

(Source: Authority Business Office Records)

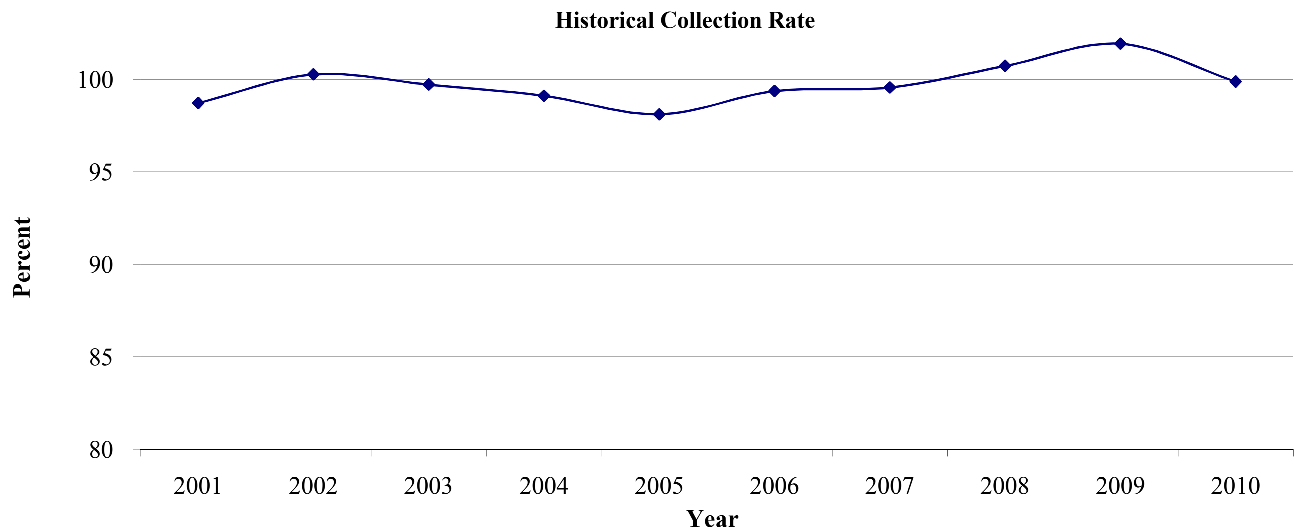
## ERIE COUNTY WATER AUTHORITY

Collection Rates

Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total billings | $ 45,899,993 | $ 48,056,813 | $ 47,039,093 | $ 49,015,948 | $ 54,078,921 | $ 55,170,872 | $ 60,437,396 | $ 55,914,021 | $ 55,043,152 | $ 57,341,150 |
| Collections* | $ 45,310,705 | $ 48,183,792 | $ 46,905,832 | $ 48,577,905 | $ 53,053,993 | $ 54,821,020 | $ 60,170,133 | $ 56,320,787 | $ 56,103,083 | $ 57,270,063 |
| Collection rate (%) | 98.72 | 100.26 | 99.72 | 99.11 | 98.10 | 99.37 | 99.56 | 100.73 | 101.93 | 99.88 |

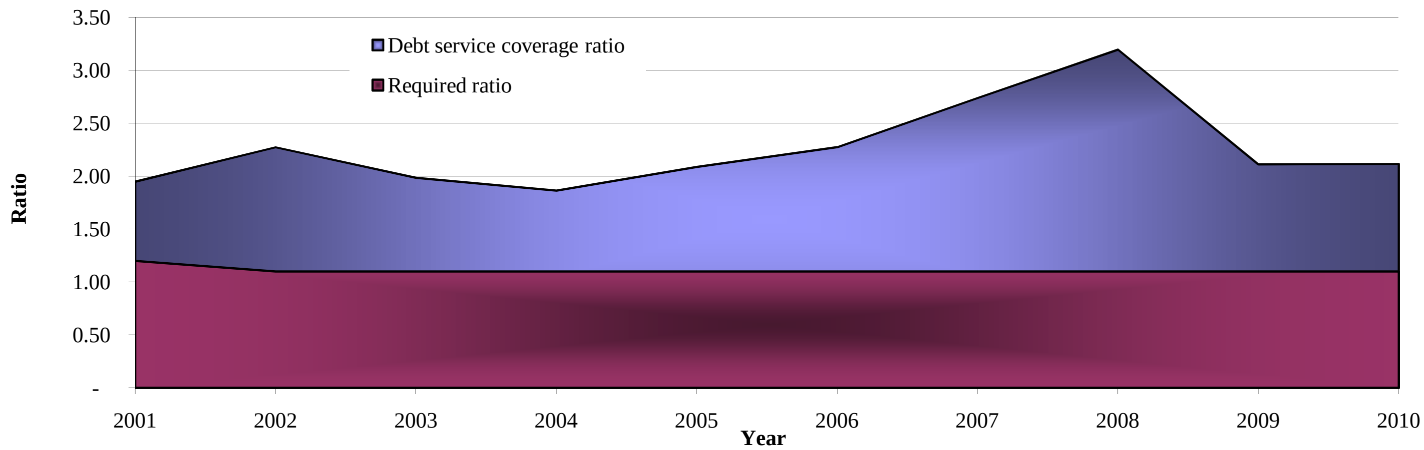
*collections include collections of current year billings and prior year billings




(Source: Authority Finanical and Business Office Records)

**ERIE COUNTY WATER AUTHORITY**
Debt Service Coverage Ratio
Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | $ 45,633,628 | $ 48,362,387 | $ 47,073,542 | $ 48,982,522 | $ 54,238,666 | $ 55,744,905 | $ 61,227,617 | $ 56,284,871 | $ 54,688,581 | $ 57,701,068 |
| Interest income | 2,054,934 | 1,810,853 | 1,191,949 | 1,188,823 | 1,796,186 | 2,498,889 | 3,138,936 | 2,353,043 | 871,878 | 467,408 |
| Operating expense less non-cash expenses | (28,892,340) | (28,207,023) | (28,036,374) | (30,322,552) | (32,282,887) | (34,220,762) | (34,361,641) | (32,041,750) | (31,854,356) | (34,553,759) |
| Net revenue | $ 18,796,222 | $ 21,966,217 | $ 20,229,117 | $ 19,848,793 | $ 23,751,965 | $ 24,023,032 | $ 30,004,912 | $ 26,596,164 | $ 23,706,103 | $ 23,614,717 |
| Debt service | $ 9,644,694 | $ 9,661,533 | $ 10,190,804 | $ 10,642,769 | $ 11,379,335 | $ 10,563,883 | $ 10,958,058 | $ 8,320,776 | $ 11,223,798 | $ 11,159,540 |
| Debt service coverage ratio | 1.95 | 2.27 | 1.99 | 1.87 | 2.09 | 2.27 | 2.74 | 3.20 | 2.11 | 2.12 |
| Required ratio | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |




(Source: Authority Finanical Records)

**ERIE COUNTY WATER AUTHORITY**

Debt Service Maturity Schedule

| | Issued Directly by the Authority | | | | EFC Financings | | |
|---|---|---|---|---|---|---|---|
| | 2007 Fourth Resolution Bonds | | 2008 Fourth Resolution Bonds | | Serial Bonds | | Total |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal & Interest |
| 2011 | 685,000 | 1,563,289 | 4,025,000 | 1,865,000 | 1,505,000 | 656,475 | 10,299,764 |
| 2012 | 710,000 | 1,532,464 | 4,225,000 | 1,663,750 | 1,550,000 | 629,514 | 10,310,728 |
| 2013 | 740,000 | 1,500,514 | 4,395,000 | 1,494,750 | 1,595,000 | 598,254 | 10,323,518 |
| 2014 | 770,000 | 1,467,214 | 4,615,000 | 1,275,000 | 1,650,000 | 561,984 | 10,339,198 |
| 2015 | 800,000 | 1,432,564 | 4,845,000 | 1,044,250 | 1,705,000 | 519,723 | 10,346,537 |
| 2016 | 835,000 | 1,396,564 | 5,090,000 | 802,000 | 1,765,000 | 471,482 | 10,360,046 |
| 2017 | 865,000 | 1,358,989 | 5,340,000 | 547,500 | 1,820,000 | 416,438 | 10,347,927 |
| 2018 | 905,000 | 1,320,064 | 5,610,000 | 280,500 | 1,885,000 | 355,872 | 10,356,436 |
| 2019 | 940,000 | 1,279,339 | - | - | 1,950,000 | 290,586 | 4,459,925 |
| 2020 | 980,000 | 1,237,039 | - | - | 805,000 | 218,604 | 3,240,643 |
| 2021 | 1,025,000 | 1,192,939 | - | - | 830,000 | 183,868 | 3,231,807 |
| 2022 | 1,065,000 | 1,146,814 | - | - | 855,000 | 147,431 | 3,214,245 |
| 2023 | 1,115,000 | 1,098,889 | - | - | 2,430,000 | 109,350 | 4,753,239 |
| 2024 | 1,165,000 | 1,048,714 | - | - | - | - | 2,213,714 |
| 2025 | 1,215,000 | 996,289 | - | - | - | - | 2,211,289 |
| 2026 | 1,270,000 | 941,614 | - | - | - | - | 2,211,614 |
| 2027 | 1,325,000 | 882,876 | - | - | - | - | 2,207,876 |
| 2028 | 1,385,000 | 821,595 | - | - | - | - | 2,206,595 |
| 2029 | 1,445,000 | 756,500 | - | - | - | - | 2,201,500 |
| 2030 | 1,510,000 | 687,863 | - | - | - | - | 2,197,863 |
| 2031-2035 | 8,630,000 | 2,297,412 | - | - | - | - | 10,927,412 |
| 2036-2037 | 4,030,000 | 304,500 | - | - | - | - | 4,334,500 |
| Total | $ 33,410,000 | $ 26,264,045 | $ 38,145,000 | $ 8,972,750 | $ 20,345,000 | $ 5,159,581 | $ 132,296,376 |

(Source: Official Statements from Bond Issues and Authority Business Office Records)

**ERIE COUNTY WATER AUTHORITY**
Principal Debt Outstanding by Issue

| | Principal Outstanding by Issue | | | | |
|---|---|---|---|---|---|
| | Series 1998B | Series 2003F | Series 2007 | Series 2008 | Total |
| 2011 | 860,000 | 645,000 | 685,000 | 4,025,000 | 6,215,000 |
| 2012 | 890,000 | 660,000 | 710,000 | 4,225,000 | 6,485,000 |
| 2013 | 925,000 | 670,000 | 740,000 | 4,395,000 | 6,730,000 |
| 2014 | 960,000 | 690,000 | 770,000 | 4,615,000 | 7,035,000 |
| 2015 | 1,000,000 | 705,000 | 800,000 | 4,845,000 | 7,350,000 |
| 2016 | 1,040,000 | 725,000 | 835,000 | 5,090,000 | 7,690,000 |
| 2017 | 1,080,000 | 740,000 | 865,000 | 5,340,000 | 8,025,000 |
| 2018 | 1,125,000 | 760,000 | 905,000 | 5,610,000 | 8,400,000 |
| 2019 | 1,170,000 | 780,000 | 940,000 | - | 2,890,000 |
| 2020 | - | 805,000 | 980,000 | - | 1,785,000 |
| 2021 | - | 830,000 | 1,025,000 | - | 1,855,000 |
| 2022 | - | 855,000 | 1,065,000 | - | 1,920,000 |
| 2023 | - | 2,430,000 | 1,115,000 | - | 3,545,000 |
| 2024 | - | - | 1,165,000 | - | 1,165,000 |
| 2025 | - | - | 1,215,000 | - | 1,215,000 |
| 2026 | - | - | 1,270,000 | - | 1,270,000 |
| 2027 | - | - | 1,325,000 | - | 1,325,000 |
| 2028 | - | - | 1,385,000 | - | 1,385,000 |
| 2029 | - | - | 1,445,000 | - | 1,445,000 |
| 2030 | - | - | 1,510,000 | - | 1,510,000 |
| 2031 | - | - | 1,575,000 | - | 1,575,000 |
| 2032 | - | - | 1,650,000 | - | 1,650,000 |
| 2033 | - | - | 1,720,000 | - | 1,720,000 |
| 2034 | - | - | 1,800,000 | - | 1,800,000 |
| 2035 | - | - | 1,885,000 | - | 1,885,000 |
| 2036 | - | - | 1,970,000 | - | 1,970,000 |
| 2037 | - | - | 2,060,000 | - | 2,060,000 |
| Total | $ 9,050,000 | $ 11,295,000 | $ 33,410,000 | $ 38,145,000 | $ 91,900,000 |

| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|---|---|---|
| Total principal debt outstanding | $ 87,333,747 | $ 83,607,830 | $ 93,347,273 | $ 86,847,273 | $ 79,507,273 | $ 75,664,253 | $ 106,759,756 | $ 107,805,000 | $ 101,590,000 | $ 91,900,000 |
| Outstanding debt per customer | $ 636 | $ 603 | $ 646 | $ 566 | $ 515 | $ 483 | $ 679 | $ 684 | $ 643 | $ 579 |

(Source: Official Statements from Bond Issues and Authority Business Office Records)

# ERIE COUNTY WATER AUTHORITY
Demographic and Economic Statistics
Last Ten Years

| | Erie County | | | Unemployment Rate[1] | | |
|---|---|---|---|---|---|---|
| | Population[2] | Per Capita Income[3] | Aggregate Income[4] | Erie County | New York State | Labor Force[1] |
| 2001 | 945,165 | 28,506 | 19,459,796,053 | 5.7% | 6.0% | 572,861 |
| 2002 | 940,645 | 29,053 | 19,348,895,930 | 5.6% | 6.3% | 579,977 |
| 2003 | 936,931 | 30,299 | 20,807,948,091 | 5.8% | 6.0% | 581,781 |
| 2004 | 932,002 | 31,827 | 20,743,073,400 | 5.5% | 5.2% | 586,080 |
| 2005 | 923,820 | 32,631 | 21,396,921,200 | 5.1% | 4.8% | 584,680 |
| 2006 | 916,292 | 34,631 | 21,730,920,800 | 4.7% | 4.1% | 582,984 |
| 2007 | 911,784 | 37,231 | 23,742,483,500 | 5.4% | 4.7% | 584,786 |
| 2008 | 909,858 | 38,795 | 24,056,490,100 | 6.8% | 6.6% | 589,157 |
| 2009 | 909,247 | n/a | 24,210,326,900 | 8.3% | 8.8% | 579,107 |
| 2010 | 919,040 | n/a | n/a | 8.2% | 8.0% | 577,733 |

(n/a: not available)

Sources:

[1]US Department of Labor - Bureau of Labor Statistics

[2]US Bureau of the Census

[3]US Bureau of Economic Analysis

[4]US Bureau of the Census - American Community Survey

# ERIE COUNTY WATER AUTHORITY

Largest Employers in Western New York

Last Ten Years

| Employer | 2010 Employees | 2010 Percentage of Total Labor Force | 2010 Rank | 2001 Employees | 2001 Percentage of Total Labor Force | 2001 Rank |
|---|---|---|---|---|---|---|
| State of New York | 16,755 | 2.9% | 1 | 13,073 | 2.3% | 1 |
| University at Buffalo | 10,010 | 1.7% | 2 | 5,034 | 0.9% | 8 |
| Kaleida Health | 10,000 | 1.7% | 3 | 6,441 | 1.1% | 5 |
| United States of America | 10,000 | 1.7% | 4 | 11,716 | 2.0% | 2 |
| HSBC Bank USA N.A. | 5,848 | 1.0% | 5 | 5,300 | 0.9% | 7 |
| Buffalo City School District | 5,389 | 0.9% | 6 | 6,898 | 1.2% | 4 |
| Employer Services Corp. | 5,380 | 0.9% | 7 | - | - | |
| Catholic Health System | 5,191 | 0.9% | 8 | 4,258 | 0.7% | 10 |
| Erie County | 4,775 | 0.8% | 9 | 7,721 | 1.3% | 3 |
| M&T Bank | 4,640 | 0.8% | 10 | - | - | |
| Delphi Harrison Thermal Systems | - | - | | 6,100 | 1.1% | 6 |
| U.S. Post Office | - | - | | 4,637 | 0.8% | 9 |
| Total of Largest Employers | 77,988 | 13.5% | | 71,178 | 12.3% | |

(Source: Business First of Buffalo 2010 Book of Lists; Business First of Buffalo 2001 Book of Lists)

## ERIE COUNTY WATER AUTHORITY
Operating Statistics
Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total number of customers | 137,403 | 138,752 | 144,464 | 153,418 | 154,505 | 156,579 | 157,163 | 157,571 | 158,069 | 158,650 |
| Number of employees | 280.9 | 276.0 | 272.0 | 270.8 | 269.4 | 261.8 | 262.8 | 267.0 | 264.8 | 258.9 |
| Customers per employee | 489.2 | 502.7 | 531.1 | 566.5 | 573.5 | 598.1 | 598.0 | 590.2 | 596.9 | 612.8 |
| Total water output (MG) | 25,555.2 | 25,855.7 | 25,489.3 | 24,189.9 | 26,401.9 | 25,096.4 | 27,291.5 | 25,174.7 | 24,676.8 | 24,503.2 |
| Output per customer (gallons) | 185,987.2 | 186,344.7 | 176,440.5 | 157,673.2 | 170,880.6 | 160,279.5 | 173,650.9 | 159,767.3 | 156,114.1 | 154,448.2 |
| Total water sales (MG) | 19,395.1 | 19,438.9 | 18,440.2 | 17,849.3 | 19,203.3 | 18,491.3 | 19,474.0 | 17,637.5 | 17,269.6 | 17,378.1 |
| Sales per customer (gallons) | 141,154.9 | 140,098.2 | 127,645.6 | 116,344.2 | 124,289.2 | 118,095.7 | 123,909.6 | 111,933.7 | 109,253.6 | 109,537.3 |
| Percentage of water sold | 75.9% | 75.2% | 72.3% | 73.8% | 72.7% | 73.7% | 71.4% | 70.1% | 70.0% | 70.9% |
| Total operating expenses | $ 37,954,241 | $ 37,318,985 | $ 37,204,461 | $ 39,654,104 | $ 41,831,636 | $ 43,929,734 | $ 47,491,290 | $ 45,830,367 | $ 46,428,407 | $ 50,132,394 |
| Operating expense per customer | $ 276 | $ 269 | $ 258 | $ 258 | $ 271 | $ 281 | $ 302 | $ 291 | $ 294 | $ 316 |
| Total operating revenue | $ 45,633,628 | $ 48,362,387 | $ 47,073,542 | $ 48,982,522 | $ 54,238,666 | $ 55,744,905 | $ 61,227,617 | $ 56,284,871 | $ 54,688,581 | $ 57,701,068 |
| Operating revenue per customer | $ 332 | $ 349 | $ 326 | $ 319 | $ 351 | $ 356 | $ 390 | $ 357 | $ 346 | $ 364 |

(Source: Authority Financial, Production and Business Office Records)

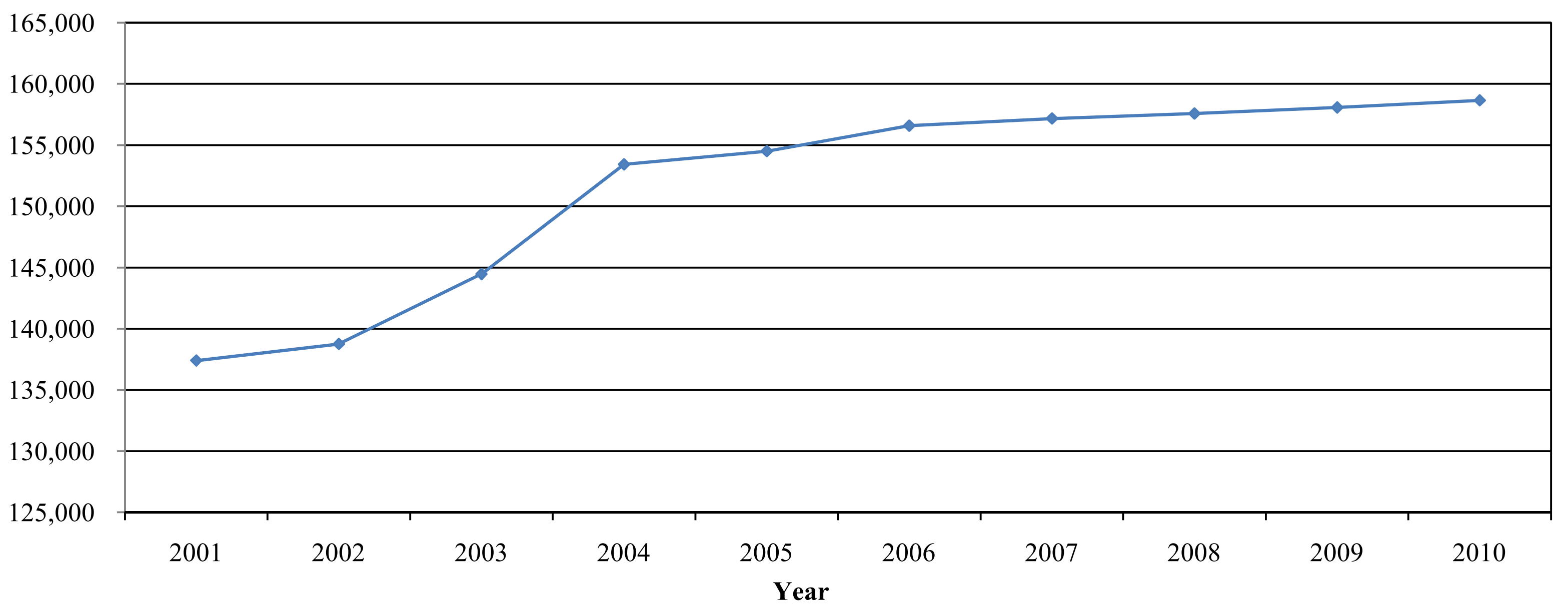
**ERIE COUNTY WATER AUTHORITY**

Number of Customers by Classification

Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of customers: | | | | | | | | | | |
| Residential | 129,202 | 130,743 | 136,122 | 144,252 | 145,312 | 147,326 | 147,850 | 148,218 | 148,697 | 149,255 |
| Commercial | 6,474 | 6,289 | 6,547 | 7,210 | 7,188 | 7,197 | 7,224 | 7,244 | 7,240 | 7,249 |
| Industrial | 252 | 247 | 268 | 327 | 328 | 333 | 327 | 333 | 322 | 322 |
| Public authorities | 550 | 539 | 563 | 601 | 596 | 605 | 609 | 595 | 593 | 595 |
| Fire protection | 904 | 916 | 946 | 1,010 | 1,062 | 1,098 | 1,133 | 1,161 | 1,197 | 1,209 |
| Bulk sales | 21 | 18 | 18 | 18 | 19 | 20 | 20 | 20 | 20 | 20 |
| Total number of customers | 137,403 | 138,752 | 144,464 | 153,418 | 154,505 | 156,579 | 157,163 | 157,571 | 158,069 | 158,650 |

**Total Number of Customers**




(Source: Authority Financial, and Business Office Records)

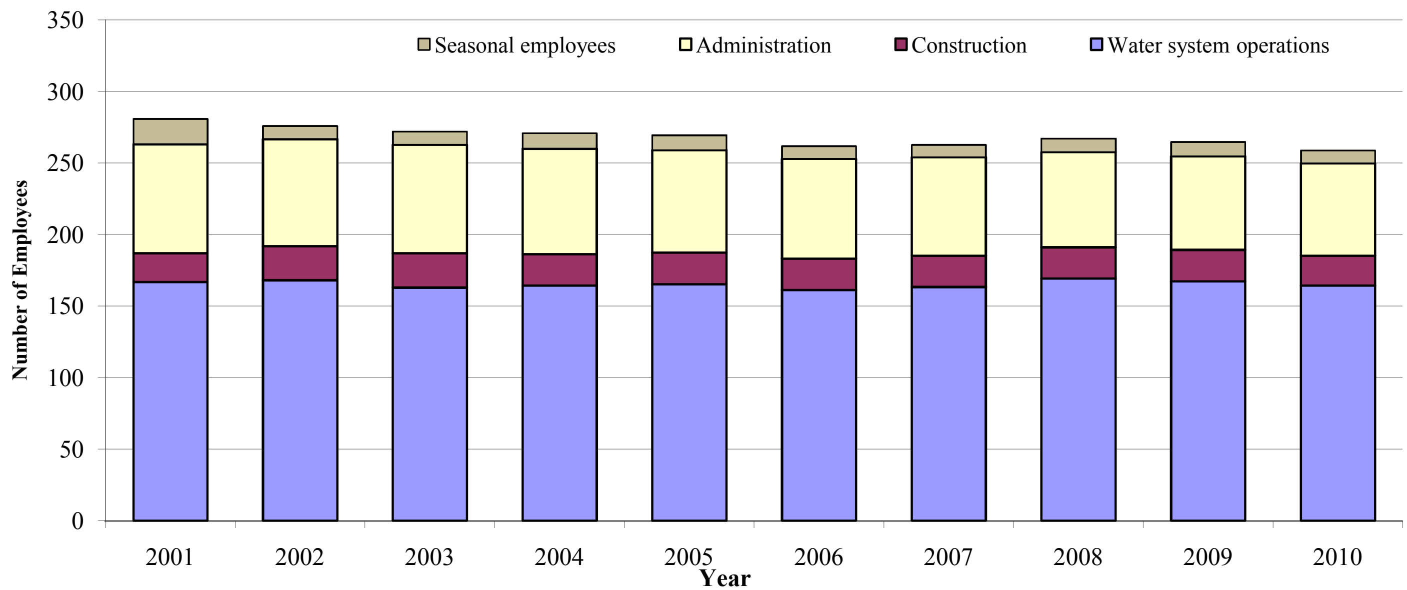
## ERIE COUNTY WATER AUTHORITY

Number of Employees[1] by Function

Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Water system operations | 167.0 | 168.0 | 163.0 | 164.3 | 165.3 | 161.3 | 163.3 | 169.2 | 167.3 | 164.3 |
| Construction | 20.0 | 24.0 | 24.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 21.0 |
| Administration | 76.1 | 74.6 | 75.8 | 73.7 | 71.7 | 69.7 | 68.7 | 66.4 | 65.4 | 64.4 |
| Seasonal employees | 17.8 | 9.4 | 9.2 | 10.8 | 10.4 | 8.8 | 8.8 | 9.4 | 10.1 | 9.2 |
| Total Number of employees | 280.9 | 276.0 | 272.0 | 270.8 | 269.4 | 261.8 | 262.8 | 267.0 | 264.8 | 258.9 |

[1]Number of employees represents the number of full time equivalents based on 2,080 hours.




(Source: Authority Internal Financial Records)

# ERIE COUNTY WATER AUTHORITY
Operating and Capital Indicators
Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total miles of distribution piping | 2,967 | 3,017 | 3,057 | 3,190 | 3,267 | 3,329 | 3,372 | 3,380 | 3,383 | 3,386 |
| Number of hydrants | 14,350 | 14,480 | 15,080 | 15,742 | 16,000 | 16,792 | 17,126 | 17,134 | 17,177 | 17,252 |
| Number of water tanks | 32 | 32 | 33 | 37 | 37 | 40 | 40 | 40 | 40 | 40 |
| Storage capacity of water tanks (million gallons) | 66.3 | 66.3 | 67.0 | 72.7 | 72.7 | 74.9 | 74.9 | 74.9 | 74.9 | 74.9 |
| Number of pump stations | 26 | 26 | 29 | 32 | 33 | 37 | 38 | 38 | 38 | 38 |
| Number of new service taps | 1,261 | 1,290 | 1,210 | 949 | 800 | 673 | 730 | 551 | 541 | 491 |

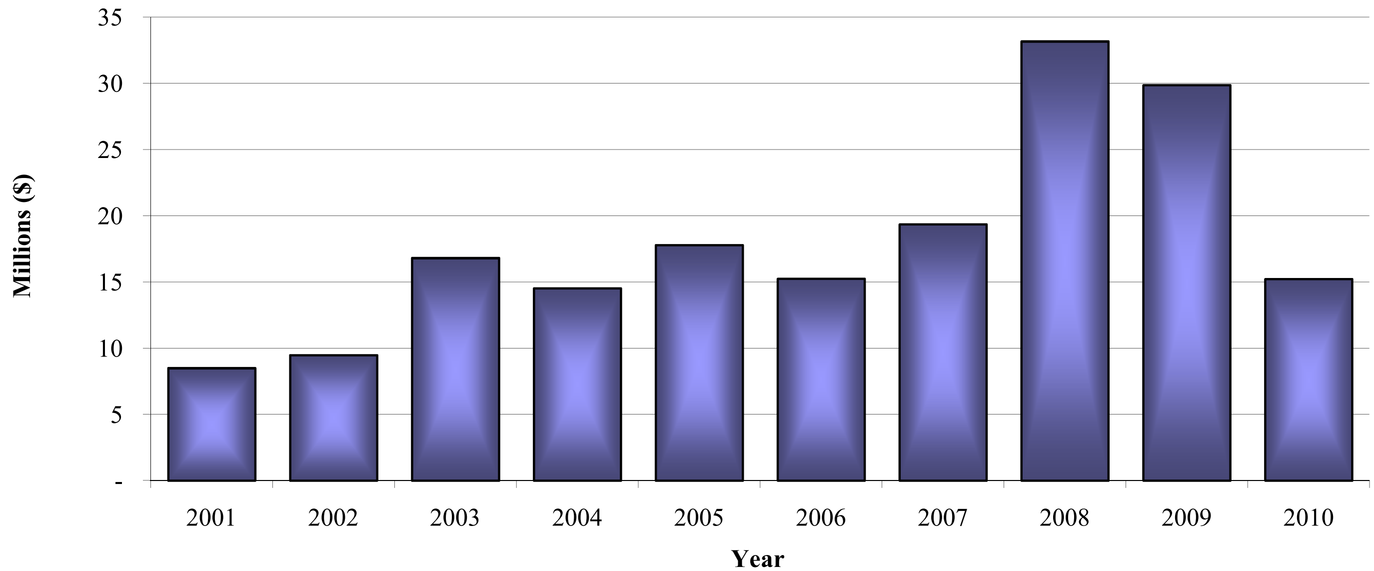
(Source: Authority Internal Financial Records)

# ERIE COUNTY WATER AUTHORITY

Annual Capital Project Expenditures

Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Capital project expenditures | $ 8,489,478 | $ 9,478,977 | $ 16,802,468 | $14,518,527 | $17,778,175 | $ 15,242,944 | $ 19,348,363 | $ 33,160,174 | $ 29,858,780 | $ 15,212,311 |
| Capital project expenditures per customer | $ 62 | $ 68 | $ 116 | $ 95 | $ 115 | $ 97 | $ 123 | $ 210 | $ 189 | $ 96 |



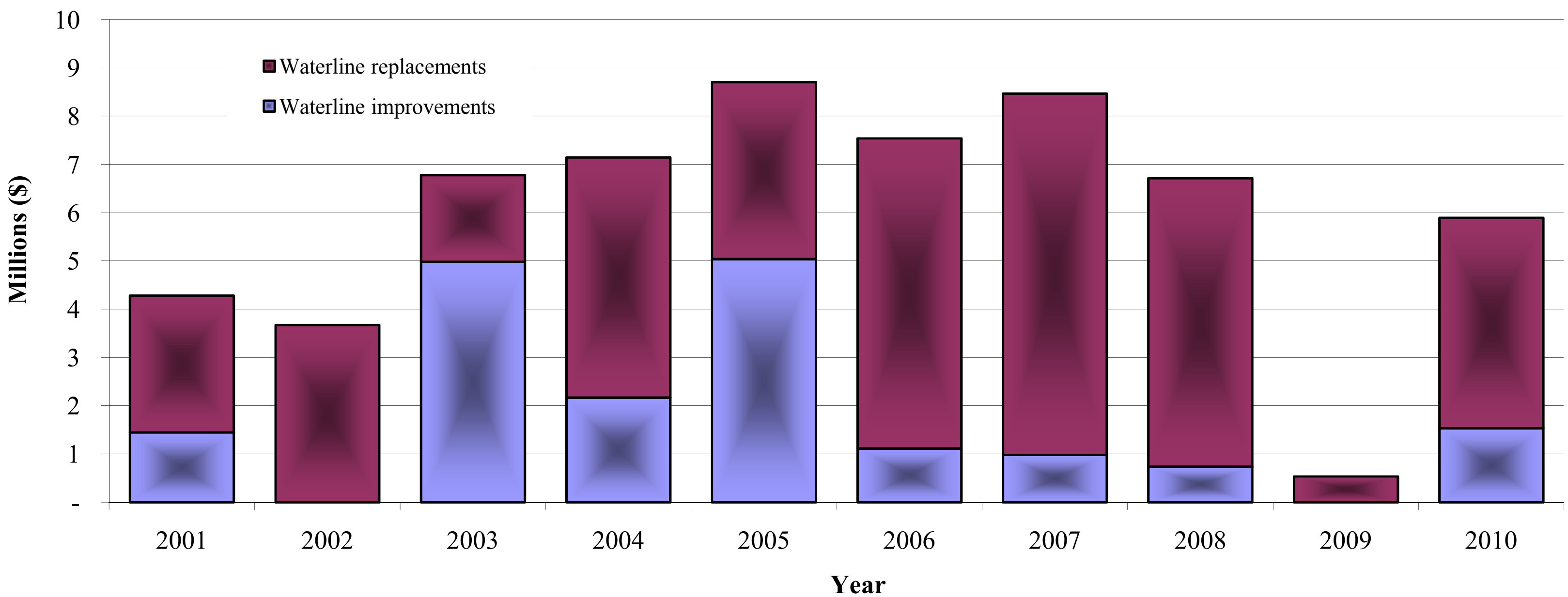

(Source: Authority Internal Financial Records)

**ERIE COUNTY WATER AUTHORITY**

Waterline Replacements and Improvements

Last Ten Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Waterline replacements | $2,838,000 | $3,672,000 | $1,793,000 | $4,979,000 | $3,671,787 | $6,424,712 | $7,485,895 | $5,980,572 | $ 534,380 | $4,364,872 |
| Waterline improvements | $1,446,000 | $ - | $4,986,000 | $2,168,000 | $5,038,033 | $1,117,537 | $ 984,638 | $ 737,481 | $ - | $1,531,771 |




(Source: Authority Geographic Information System and Construction Records)