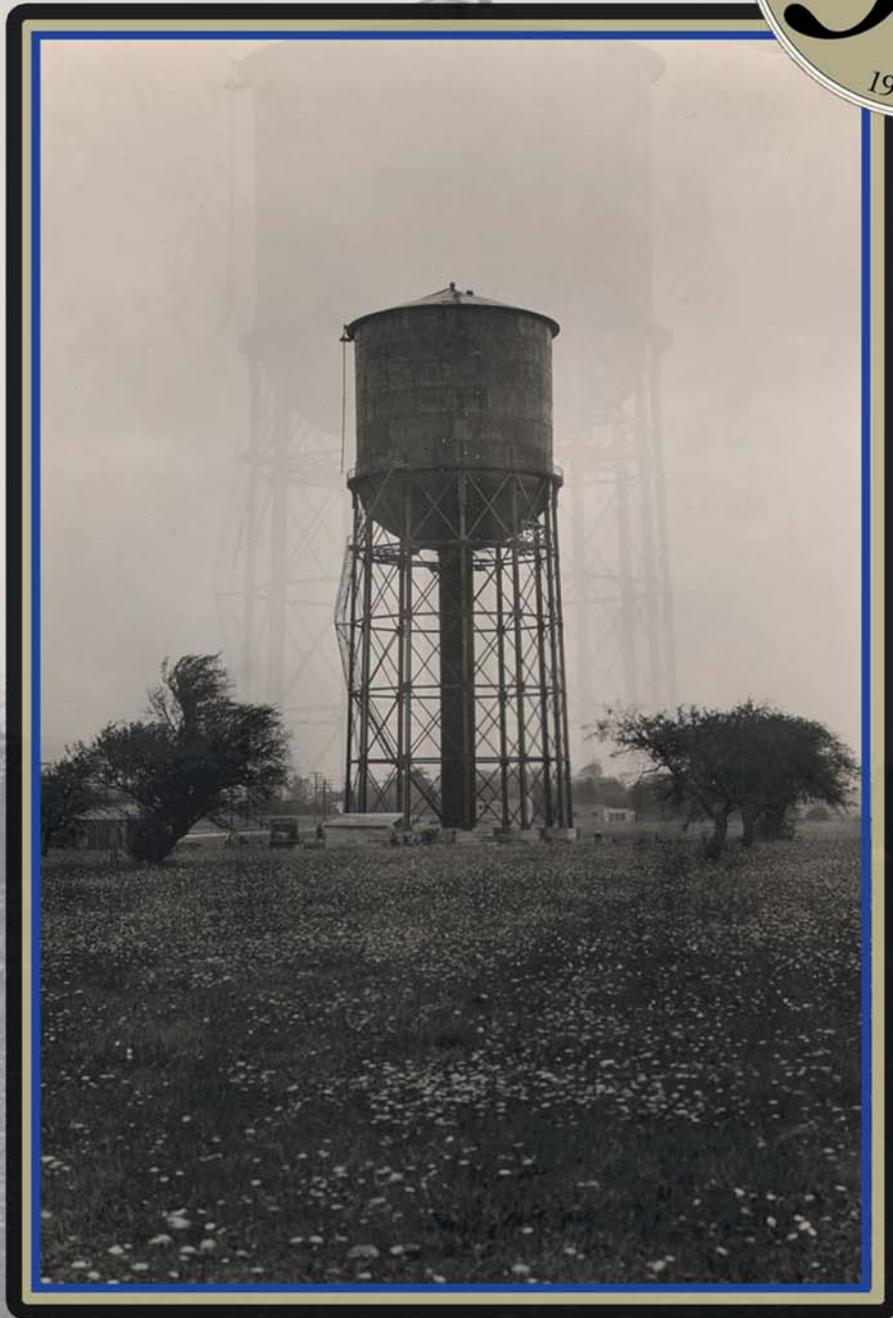


Celebrating



**Erie County Water Authority
2003 Annual Report**

Organization Profile

The Erie County Water Authority is an independent, public benefit corporation that was formed under the jurisdiction of the Public Authorities Law of the State of New York.

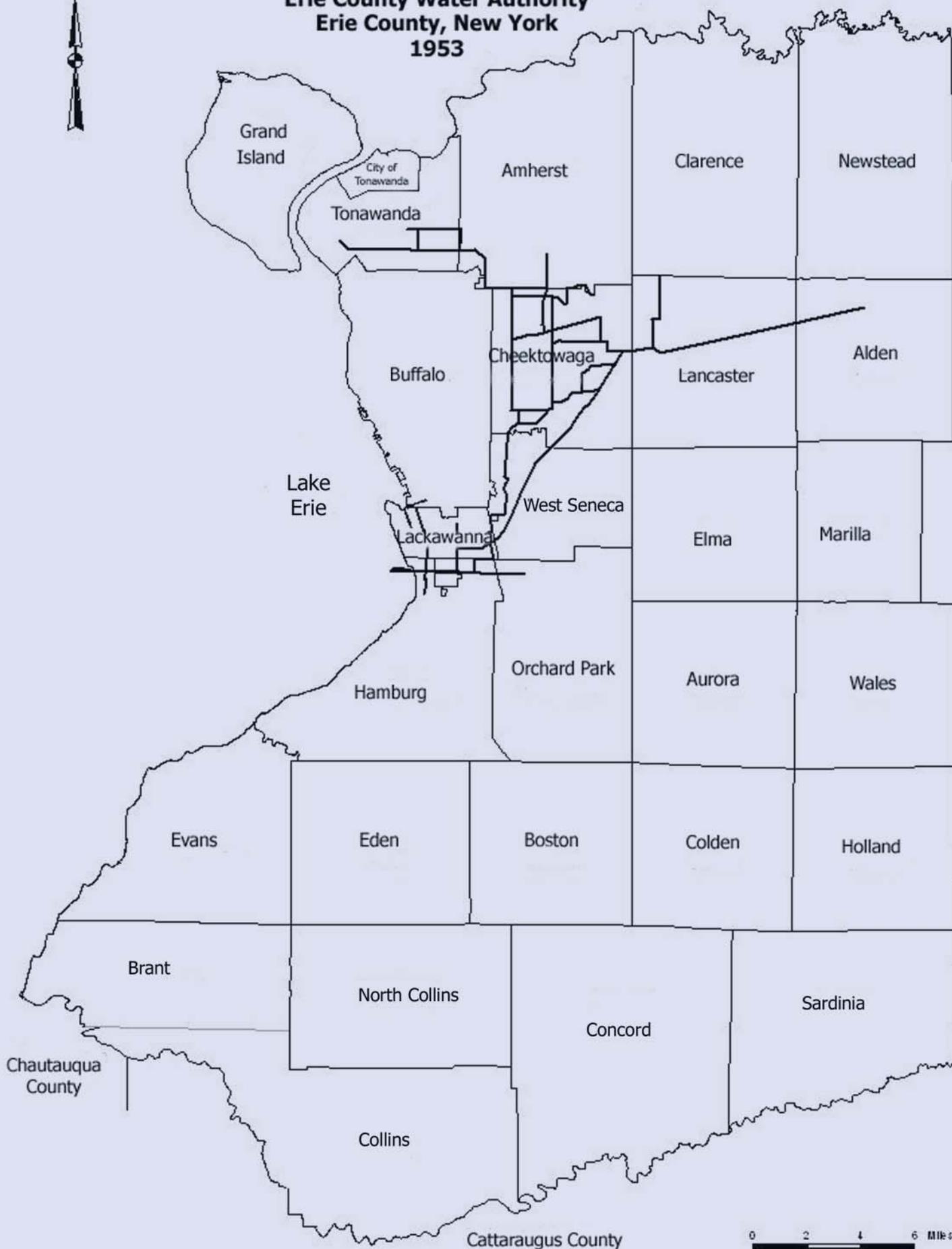
The ECWA is not an agency of New York State or Erie County government. It functions as a self-sustaining business enterprise and pays for all operating expenses out of revenues generated from the sale of water to its 145,000 customers. All revenues received must be used for operating costs, capital improvements and paying outstanding debts.

The ECWA was created and operates solely for the benefit of its customers that rely on its product and dependable service 24 hours a day, 365 days a year.

*Cover photo:
Harlem Road storage tank, 1957*

**Transmission Mains
Erie County Water Authority
Erie County, New York
1953**

N



0 2 4 6 Miles

Commsioners' Message



The Erie County Water Authority (ECWA) was created in 1949 by a special act of the New York State Legislature to form a unified, county-wide water district that would ensure an adequate supply of safe, affordable water for the rapidly growing suburban communities of Erie County.

After acquiring the Western New York Water Company, the region's largest privately owned water supplier, the ECWA became operational in 1953 and set forth to accomplish its major objective – to integrate all the existing heterogeneous systems into a modern water supply system. Remarkably, the transition from private ownership and operation to public ownership and operation was accomplished without any period of cessation or impairment of water distribution or service.

As the ECWA celebrated its 50th Anniversary in 2003, it has justifiable pride in its achievements, which are the direct result of the hard work and dedication of the members of the ECWA's Board of Commissioners and professional staff – past and present.

As it looks toward the future, the ECWA is well positioned to continue to efficiently meet the increasing demand for safe, clean drinking water in the communities we serve.

It is in celebration of our successful efforts at producing and reliably delivering high-quality, affordable drinking water, and the ECWA's contributions to the quality of life throughout Western New York, that the Board of Commissioners submits the 50th Annual Report of the Erie County Water Authority.



From left to right: Robert J. Lichtenthal Jr., Vice-Chairman; Mark G. Patton, Chairman; Acea Mosey-Pawlowski, Treasurer



Engineering

The Engineering Department is vital to the ECWA's ability to provide high quality water and efficient service to an ever-expanding customer base.

Engineering oversees the study, design and construction of all capital improvements to the ECWA's production and distribution systems. The department also manages the ECWA's Geographical Information System and property restoration resulting from maintenance and construction work.

In 2003, Engineering supervised the design and construction of a new pump station in the Town of Lancaster, a new transmission main and pump station in the Town of Clarence, a new 24-inch transmission main in the City of Tonawanda, the refurbishing and painting of the Eden IV storage tank and the Gartman storage tank in the Town of Orchard Park, and the installation of 27,160 linear feet of water lines in the cities of Lackawanna and Tonawanda and the towns of Clarence and Cheektowaga. The total cost for these projects was \$11,981,000.

Engineering also completed design work on several major projects slated for completion in 2004, including the 1.25 million gallon Colvin Boulevard storage tank and the Veteran's Park pump station and storage tank in the City of Tonawanda, the refurbishing of the East Aurora, Pine Hill and Ball storage tanks and water line replacements in Amherst, Lackawanna and Cheektowaga.

The ECWA's proactive, cost-effective capital investment program will allow its system to reliably meet the demands of an increasing customer base and will save its current customers from more costly improvements in the future.



Workers erect the bowl on the Colvin Boulevard storage tank in Tonawanda, 2003

Production

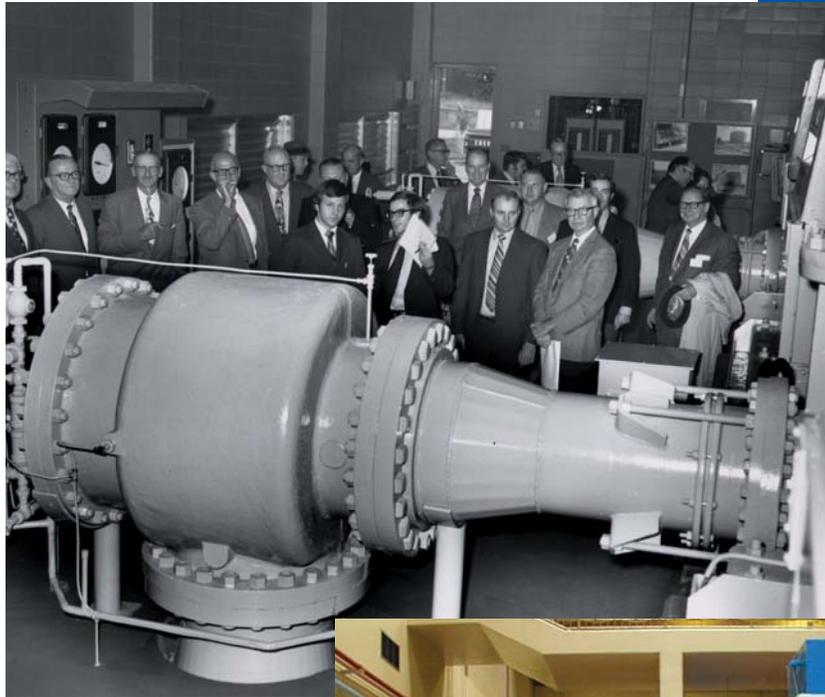


The Production Department oversees the operations of the ECWA's two water treatment plants, 37 storage tanks and 28 pump stations. In 2003, Production completed several major capital improvements at the ECWA's facilities to improve system efficiencies and service delivery.

In its effort to continue to implement state-of-the-art technology into the ECWA's operations, Production upgraded ECWA's Supervisory Control and Data Acquisition System to allow for more data storage, management capabilities and improved reliability and system monitoring, especially during power surges. Back-up and replacement power sources became a major focus of the ECWA during the northeast power failure of August 14, 2003. During the "blackout", the ECWA used a number of portable generators and implemented its emergency response plan to maintain water service to customers throughout its entire service district.

Production also began to operate an additional pump station and storage tank in the town of Eden through a lease-managed agreement between the town and the ECWA.

The department continued to enhance the ECWA's security systems by installing electronic intrusion alarms at its Sturgeon Point treatment plant and automated gates and control systems to contain access at its Van de Water treatment plant. The ECWA has significantly heightened its security systems over the last few years and will continue to remain vigilant in protecting its water supplies during these uncertain times facing our nation.



*Above: Dedication of Guenther pump station, 1972.
Right: Vertical turbine pumps at Van de Water treatment plant, 2003*



Water Quality

The ECWA's Water Quality department is recognized nationally as an industry leader for innovative water treatment strategies and analysis. Water Quality uses the latest technology and maintains a staff of highly trained scientists with expertise in the disciplines of microbiology, chemistry, laboratory quality assurance, treatment methods and toxicology to assure that customers receive water that is safe, clean and pure.

In 2003, the ECWA conducted more than 70,000 tests for roughly 200 contaminants. Testing for all contaminants exceeded the most stringent governmental standards mandated by the Environmental Protection Agency and the New York State Department of Health.

The ECWA's Water Quality laboratory is certified by the National Environmental Laboratory Accreditation Program (NELAP) and New York State's Environmental Laboratory Approval Program (ELAP) for the analysis of potable and non-potable water. The ECWA's laboratory is one of only 13 environmental laboratories in the United States that is approved by the EPA for Cryptosporidium testing. As a result of the ECWA's Cryptosporidium detection initiatives, Water Quality assisted the EPA with its evaluation of a new and secure web-based data acquisition system. The system will be used to collect data on Cryptosporidium occurrence in water systems throughout the country.

Turbulent world events have enhanced the potential for acts of sabotage or contamination of our drinking water supplies by terrorists. The ECWA takes this issue and its customers' perception of the safety of their drinking water very seriously. Last year, the ECWA expanded its aggressive Water Quality Surveillance Program by adding a Microtox Toxicity Testing System to screen its source, distribution and stored water for biological contamination. The ECWA was the first water utility in the United States to

integrate this level of biotoxicity analysis into a distribution system monitoring program.

Biotoxicity monitoring is now being used by several water utilities in the United States, Hawaii and Puerto Rico. This highly advanced level of water quality surveillance demonstrates the ECWA's industry leadership and its commitment to providing customers a high quality product they can trust.



Installation of Sturgeon Point treatment plant transmission main, 1960

Distribution



The Distribution Department is responsible for maintaining the ECWA's extensive delivery system, which includes 2,460 miles of water lines, 14,702 hydrants, 22,688 valves and numerous appurtenances. Distribution also manages the ECWA's metering program and its vehicle fleet.

In 2003, line maintenance crews completed 1,883 water line, valve and hydrant repairs and performed 14,648 work orders. The ECWA's mechanics efficiently handled 1,827 repairs and preventative maintenance orders for the vehicle fleet and construction equipment.

The ECWA continued to install remote read meters that can be read with a hand held computer from outside a home or business without inconveniencing customers. Currently, the ECWA has 150,897 residential meters and 813 large commercial meters in service. More than 68 percent of residential meters have been changed to remote read and 85 percent of large commercial meters have been replaced with more accurate production meters. The ECWA's conversion to remote read meters has drastically reduced the hours needed to determine a customer's service volume and has resulted in more accurate accounts management, more efficient service and greater customer satisfaction.

Distribution also continued to manage the ECWA's meter replacement program in the City of Tonawanda, which will transfer ownership of its water system to the ECWA in August of 2004.

ECWA's preventative maintenance program has significantly improved service delivery and dependability of the distribution network.



Above: Ball pump station transmission main installation, 1974; Right: Meter shop, 1959



Customer Service

The ECWA's number one priority is its customers, and it continues to implement programs and policies to improve services on their behalf.

Highly trained Customer Service Representatives provide first-rate, professional service that is prompt and courteous. Last year, Customer Service responded to 76,012 phone calls, processed 24,524 work orders, serviced 1,627 walk-in customers and issued thousands of letters and e-mails responding to customer inquiries.

Customer Service is also responsible for preparing and mailing bills, read-by-mail postcards, processing payments and administering collection procedures for 144,827 active accounts. Throughout the year, Customer Service Representatives distributed 626,482 water bills and 434,397 read-by-mail postcards. The ECWA collected 99.5 percent of its \$47,639,000 in billings and had a 67 percent return rate for its read-by-mail postcards. These respective collection and postcard return rates are among the highest of any local utility.

The Public Affairs Office continued its efforts to educate customers about the ECWA's operations and water quality issues. Public Affairs mailed thousands of informational brochures, visited several area schools, and responded to hundreds of inquiries from students, teachers, customers, civic organizations, public officials and the media. Public Affairs also participated in several community events, local government meetings and began redesigning the ECWA's web site, which will allow for more customer interaction in 2004.

Public Affairs also managed the successful public referendum campaign to transfer ownership of the City of Tonawanda's water system to the ECWA. The office developed a strategic public relations plan to educate the voters of Tonawanda about the benefits of transferring the city's antiquated water system to the ECWA. The plan was implemented with the assistance of city officials and the referendum was supported by an overwhelming 83 percent of voters. The transfer will be completed by August of 2004 and will result in more efficient, affordable service for city customers.



Crews braved the elements to repair main breaks, 2003



Administration



The Administration Department's refinement of the ECWA's procurement process, storage procedures and information services continues to enhance the organization's overall business operations.

Effective management of the ECWA's purchasing practices ensures all purchases are reviewed multiple times by trained buyers to ensure that all competitive bidding rules are followed and that the ECWA is getting the lowest responsible price for goods and services.

In 2003, Administration completed 7,969 purchase orders totaling \$37,366,942 in payments, an increase of \$5.8 million from the previous fiscal year. The ECWA's fully computerized document-imaging program processed and archived all purchases. This system identifies all aspects of the procurement process for all goods and services. Contracts used to acquire the purchase agreements, including bid specification sheets, detail sheets, warranties and maintenance schedules, are optically scanned and stored for easy document retrieval and auditing purposes.

Administration's Information Services unit is the primary support for all ECWA operations. Last year, the unit processed and tracked through completion 25,738 work orders and optically scanned and archived 16,745 pages of documents into the ECWA's imaging system. Information Services also efficiently handled ECWA's general office operations, including records management, new service applications, secretarial services and supplies.

The Stores and Inventory unit manages the ECWA's physical inventory of materials and supplies. Total inventory increased 2.5 percent in 2003 as a result of the acquisition of the Village of Lancaster water system and increased year-end purchases in order to hedge rising prices on certain goods and services.



Operations Control and Service Center, 1957



Human Resources

The ECWA is committed to providing its employees a safe and rewarding work environment.

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

For the ninth consecutive year, ECWA employees completed more than 4,000 hours of safety training in areas such as hazardous materials handling, backhoe safety, heavy equipment operation, shoring protection and confined space. Employees also continued to participate in educational development programs, licensing training and certification and professional associations to develop their skills to the highest possible levels and stay ahead of the latest industry trends.

The ECWA's ongoing commitment to advanced training, higher education and professional development has not only benefited employees, but has also benefited customers through reduced operating costs and improved employee performance.



Harlem Road pump station construction , 1956

Municipal Liaison



The ECWA continued to pursue opportunities for regional cooperation to help provide its current and future customers more efficient, affordable water service.

The Municipal Liaison assisted this effort by working with state, county and local government officials and their land use and engineering personnel to develop strategies concerning Western New York's water supply needs.

Last year, the ECWA again actively participated in the the Southtowns Water Consortium and the Inter-Community Water Board to study the potential of serving additional communities in southern Erie County and Cattaraugus and Chautauqua counties.

The ECWA also coordinated the planning, design and construction of water main projects to serve new residential and commercial developments in Amherst, Clarence, Eden, Hamburg, Lancaster, Newstead, Orchard Park and West Seneca.



*Above: Main installation at 18 Mile Creek, 1957;
Right: Van de Water pump station construction, 1975*



Executive Director

This year the ECWA celebrated its 50th anniversary.

When the ECWA began operations in 1953, it had a single treatment facility, 33,324 customers and 405 miles of water mains. Today, the ECWA has two modern treatment facilities, a state-of-the-art water quality laboratory, 37 water storage tanks, 28 pump stations, 2,500 miles of water mains and serves an average of 70 million gallons of water to more than 550,000 Western New Yorkers everyday.

As you can see through the pages of this report, the ECWA has come a long way over the last 50 years. It has evolved into one of the best-managed public utilities in New York State – an evolution that has greatly benefited our customers.

The ECWA's tremendous growth has played a major role in the public health and economic development of our community. Best of all, this growth was accomplished without using tax dollars, but has been funded by revenues generated from the sale of water to ECWA's customers.

The benefits of this growth and the contributions that the ECWA has made to the quality of life throughout Western New York are all around us – all here because the organization has never wavered from its mission of providing customers safe, clean drinking water at an affordable rate.

On behalf of the ECWA, I would like to thank you for your continued support of our efforts and we look forward to serving Western New York for another 50 years.



Robert A. Mendez

Robert A. Mendez

ERIE COUNTY WATER AUTHORITY

Financial Statements — December 31, 2003

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ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Management provides the following discussion and analysis (MD&A) of the Erie County Water Authority (ECWA) financial activities and statements for its fiscal year ended December 31, 2003. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements all of which follow this narrative on the subsequent pages. ECWA is not legally required to adopt a budget; therefore comparative budgetary information is not included in this report.

With this report, the Authority adopts Government Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus," and GASB Statement No. 38, "Certain Financial Note Disclosures."

The Authority's complete annual financial report consists of this MD&A, required supplemental information, and our audited financial statements and the accompanying notes.

Financial Highlights

Condensed Statements of Net Assets (In Millions)

	2003	2002	Increase/(Decrease)	
			Dollars	Percent
Current and Other Assets	\$ 64.8	\$ 55.7	\$ 9.1	16.3
Capital Assets	275.6	265.5	10.1	3.8
Total Assets	340.4	321.2	19.2	6.0
Long Term Debt Outstanding,				
Net of Bond Discount and Expense	85.2	76.4	8.8	11.5
Other Liabilities	21.1	21.0	.1	.5
Total Liabilities	106.3	97.4	8.9	9.1
Invested in Capital Assets,				
Net of Related Debt	183.9	183.3	.6	.3
Unrestricted Assets	50.2	40.5	9.7	24.0
Total Net Assets	\$ 234.1	\$ 223.8	\$ 10.3	4.6

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

- Net income decreased by \$1,430,182 from 2002 due primarily to a reduction in revenues.
- Total assets exceeded total liabilities by \$234,064,294 (net assets) for the year ending 12/31/2003.
- Of that amount, \$50,192,304 are unrestricted assets and may be used to meet the Authority's ongoing obligations.
- Current and other assets increased \$9,090,301 due primarily to a \$7,445,824 increase in the future construction reserve fund. Additions to the account in 2003 include \$4,622,344 in remaining bond proceeds, a \$1,948,435 payment from our long term investment contract with AIG, and \$1,061,870 receipt from the Town of Lancaster for its share of the cost of building a new pump station.
- Long term debt outstanding increased by \$8,792,055 due to the net impact of issuing New York State Environmental Facilities Corporation series 2003F bonds in the amount of \$15,544,443 and the transfer of \$6,500,000 to the current portion of water revenue bonds payable.
- Major construction projects completed in 2003 and assets received during the year increased the Authority's capital assets as follows:

Water main replacement & additions	\$ 9,500,816
Pump stations and tank improvements	5,938,804
Capital improvements at water plants	742,654
Data processing hardware and software	165,650
Meter installations	669,570
New service installations	904,914
Hydrant installations	332,863
Other additions	1,049,392
Total Additions	<u>\$ 19,304,663</u>

- In December of 2003, the Authority received water system assets from Water Districts 8, 9, and 10 in the Town of Cheektowaga. The total addition of \$1,684,427 in water mains is included in the summary above.

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Condensed Statement of Net Income and Earnings Reinvested in the Business and Changes in Net Assets (In Millions)

	2003	2002	Increase/(Decrease)	
			Dollars	Percent
Operating revenue	\$ 47.0	\$ 48.3	\$ (1.3)	(2.7)
Operating expense	37.2	37.3	(0.1)	(0.2)
Operating Income	9.8	11.0	(1.2)	(10.9)
Non-operating expenses, net	3.0	2.8	0.2	7.1
Income before capital contributions	6.8	8.2	(1.4)	(17.0)
Capital Contributions	3.5	9.2	(5.7)	(61.9)
Change in net assets	10.3	17.4	(7.1)	(40.8)
Beginning net assets	223.8	206.4	17.4	8.4
Ending net assets	\$ 234.1	\$ 223.8	\$ 10.3	4.6

- Capital contributions have decreased \$5,751,079 from \$9,175,209 in 2002 to \$3,424,130 in 2003 due to fewer and smaller acquisitions in 2003. The Village of Lancaster and the Town of Orchard Park contributed a total of \$7.8 million in capital contributions in 2002.
- Operating revenues decreased \$1,288,846 due primarily to a decrease in consumption of water by 998,716,000 gallons, or 5.1% from 2002, partly offset by a 1.73% rate increase.
- An increase in administrative credits of \$2,266,430 more than offset an overall increase in operating expenses of \$2,097,995. Some of the more significant increases were:
 - increases in fringe benefit costs of \$548,550 due to increases in health and workers' compensation insurance costs,
 - labor costs increased \$370,079 largely due to the contract settlement with AFSCME which provided for retroactive wage increases, and a retroactive pay increase accrual for non-represented employees,
 - overtime, restoration expense, stone and cold patch costs, and payments to our emergency repair contractor increased a total of \$677,139 due to an increase of 244 leaks during January and February 2003 compared to the same period in 2002, and
 - sludge removal studies totaling \$396,967 were expensed, as no depreciable asset will result.

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

ECWA Rate History

The Authority is mandated by its General Bond Resolution to maintain rates and fees sufficient to operate and maintain the waterworks system, pay principal and interest on its revenue bonds and maintain reserves for capital improvements. As such, the Authority reviews and raises rates as necessary. A summary of rate activity for most residential customers per 1,000 gallons follows:

	2003	2002	2001	2000	1999
Residential Rate	\$ 2.35	\$ 2.31	\$ 2.22	\$ 2.22	\$ 2.22
Percentage Increase	1.73%	4.05%	N/A	N/A	N/A

Summary of Operating Revenues

	2003	2002	Increase/(Decrease)	
			Dollars	Percent
Water Sales:				
Residential	\$ 28,482,355	\$ 29,052,911	\$ (570,556)	(2.0)
Commercial	5,757,113	5,918,519	(161,406)	(2.7)
Industrial	1,490,969	1,577,883	(86,914)	(5.5)
Public Authorities	1,673,422	1,829,221	(155,799)	(8.5)
Fire Protection	3,172,430	3,038,519	133,911	4.4
Sales to Other Utilities	4,681,735	5,072,600	(390,865)	(7.7)
Other Water Revenues	1,419,298	1,542,886	(123,588)	(8.0)
Total Water Sales	46,677,322	48,032,539	(1,355,217)	(2.8)
Other Operating Income:				
Lease income from water towers	326,573	299,550	27,023	9.0
Miscellaneous	69,647	30,299	39,348	129.9
Total Operating Revenue	\$ 47,073,542	\$ 48,362,388	\$ (1,288,846)	(2.6)

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Liquidity, Capital Resources and Credit Ratings

The Authority's principal and interest payments are detailed in note 3 to the financial statements. The Authority has swapped \$42,500,000 of the 1993 A & B debt to a fixed rate ranging from 5.24% to 5.89%. Capital expenditures for the next five years are projected to be \$15,000,000 annually which will be funded from internally generated funds.

All of the Erie County Water Authority's bonds are fully insured and are, therefore, AAA rated by both Standard & Poor's and Moody's Investors Service.

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Summary Comparison of Balance Sheet

	2003	December 31,		2000	1999
		2002	2001		
Assets					
Water plant, net	\$ 275,574,009	\$ 265,538,812	\$ 256,408,116	\$ 256,040,594	\$ 245,742,951
Invested reserve funds	20,105,673	10,586,634	9,626,140	9,770,246	7,918,221
Other assets	38,357,150	37,770,731	34,101,790	32,291,609	32,167,665
Unamortized bond discount & expense	1,645,254	1,392,866	1,585,304	1,777,742	1,974,699
Long term investment	6,339,393	7,354,550	8,154,128	8,673,074	8,088,150
Total Assets	\$ 342,021,479	\$ 322,643,593	\$ 309,875,478	\$ 308,553,265	\$ 295,891,686
Capitalization and Liabilities					
Earnings reinvested in the business	\$ 183,565,888	\$ 176,744,270	\$ 168,492,470	\$ 163,638,247	\$ 157,601,747
Contributions in aid of construction	50,498,406	47,074,276	37,899,067	36,859,748	24,676,582
Water revenue bonds	93,347,273	83,607,830	87,333,747	91,244,219	98,749,809
Other liabilities	14,609,912	15,217,217	16,150,194	16,811,051	14,863,548
Total Capitalization And Liabilities	\$ 342,021,479	\$ 322,643,593	\$ 309,875,478	\$ 308,553,265	\$ 295,891,686

Summary Comparison of Net Income and Earnings Reinvested in the Business

	Year ended December 31,				
	2003	2002	2001	2000	1999
Operating Revenues	\$ 47,073,542	\$48,362,387	\$45,633,628	\$43,013,977	\$45,788,920
Less Operating Expenses	37,204,461	37,318,985	37,954,241	34,554,244	34,039,368
Net Operating Income	9,869,081	11,043,402	7,679,387	8,459,733	11,749,552
Less Net Interest Charges	3,047,463	2,791,602	2,825,164	2,423,233	2,770,080
Net Income	\$ 6,821,618	\$ 8,251,800	\$ 4,854,223	\$ 6,036,500	\$ 8,979,472
Earnings Reinvested in the business:					
Beginning of Year	\$176,744,270	\$168,492,470	\$163,638,247	\$157,601,747	\$148,622,275
End of Year	\$183,565,888	\$176,744,270	\$168,492,470	\$163,638,247	\$157,601,747

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Operating Statistics

	2003	2002	2001	2000	1999
Total Water Output (Million Gallons)					
Lake Erie Production	18,606.2	18,555.4	18,355.0	17,805.4	17,313.9
Niagara River Production	6,883.1	7,300.3	7,200.2	6,402.7	6,884.5
<i>Total</i>	25,489.3	25,855.7	25,555.2	24,208.1	24,198.4
Active Customers					
Direct Service and Bulk Sales	77,766	72,413	72,124	71,944	62,878
Lease Managed Districts	65,767	65,436	64,387	63,541	70,952
<i>Total</i>	143,533	137,849	136,511	135,485	133,830
Water Sales (Million Gallons)					
Residential & Commercial	14,218.6	14,742.2	14,760.3	13,739.1	14,226.5
Industrial	747.6	807.0	774.0	854.1	888.3
Public Authorities	780.0	870.5	851.3	781.3	723.5
Fire Protection	0.0	0.0	0.0	0.0	0.0
Other Operating Revenue	2,694.0	3,019.1	3,009.5	3,049.8	4,071.7
<i>Total</i>	18,440.2	19,438.8	19,395.1	18,424.3	19,910.0
Customer Billing (000's omitted)					
Residential & Commercial	\$34,640	\$34,971	\$33,006	\$31,111	\$31,848
Industrial	1,498	1,578	1,472	1,597	1,641
Public Authorities	1,674	5,073	4,872	4,621	6,407
Fire Protection	3,172	3,039	2,912	2,844	2,543
Other Operating Revenue	6,055	3,372	3,199	2,639	3,024
<i>Total</i>	\$47,039	\$48,033	\$45,461	\$42,812	\$45,463
Operating Expense (000's omitted)					
Production	\$10,733	\$10,089	\$9,916	\$8,647	\$9,579
Distribution	7,825	6,999	6,568	6,231	6,405
Administration	9,478	11,117	12,408	10,881	9,802
<i>Total</i>	\$28,036	\$28,205	\$28,892	\$25,759	\$25,786

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Largest Customers

Non-Municipal Customers	Total Amount Billed in 2003	Municipal Customers	Total Amount Billed in 2003
State University at Buffalo	\$ 458,054	Town of Elma	\$ 938,296
International Steel	271,317	Town of Evans	874,927
Benderson Development Co.	265,634	Village of East Aurora	560,887
Seneca Nation of Indians	212,933	Village of Williamsville	394,229
Bethlehem Steel Corp	149,300	Village of Orchard Park	344,025
Delta Sonic	143,942	Village of Angola	284,429
Republic Engineered Products	137,337	Village of Blasdell	261,638

Number of Installed Services 12/31/2003

(Includes 2,905 inactive services)

Municipality	Number of Services
Town of Amherst	34,247
Town of Alden	1,293
Town of Aurora	679
Town of Boston	2,062
Town of Cheektowaga	28,013
Town of Clarence	9,842
Village of Depew	5,957
Town of Eden	2,021
Town of Hamburg	13,693
Village of Hamburg	4,044
City of Lackawanna	5,979
Town of Lancaster	7,772
Village of Lancaster	4,359
Town of Marilla	1,248
Town of Newstead	976
Town of Orchard Park	6,439
Village of Sloan	1,493
Town of West Seneca	15,938
Miscellaneous & Bulk Services	383
<i>Total Services</i>	146,438

ERIE COUNTY WATER AUTHORITY

Management Discussion and Analysis

Request for Information

This financial report is designed to provide a general overview of the Erie County Water Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed, in writing, to the Deputy Director, Erie County Water Authority, 350 Ellicott Square Building, 295 Main Street, Buffalo, NY 14203-2494 or by email to ekasprzak@ecwa.org.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Edward J. Kasprzak", with a long horizontal flourish extending to the right.

Edward J. Kasprzak

Deputy Director

Report of Independent Auditors

To the Members of the
Erie County Water Authority

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of the Erie County Water Authority (the “Authority”) at December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority’s management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 26, 2004

ERIE COUNTY WATER AUTHORITY

Balance Sheet

December 31, 2003

Assets

Water plant, net	\$ 275,574,009
Invested reserve funds	
Future construction	13,014,586
Debt service reserve fund	7,086,866
Net increase in the fair market value of investments	4,221
	<u>295,679,682</u>

Current Assets:

Cash and cash equivalents	26,132,936
Customers' accounts receivable, less allowance for doubtful accounts of \$355,518	4,326,506
Debt service fund (at amortized cost)	4,654,162
Investments	250,000
Interest receivable and other assets	1,481,770
Materials and supplies	1,511,776
<i>Total current assets</i>	<u>38,357,150</u>
Unamortized bond discount and expense	1,645,254
Long-term investment	6,339,393
<i>Total assets</i>	<u>\$ 342,021,479</u>

Capitalization and Liabilities

Capitalization:

Earnings reinvested in the business	\$ 183,565,888
Contributions in aid of construction	50,498,406
<i>Total capitalization</i>	<u>234,064,294</u>
Water revenue bonds – long term	86,847,273
<i>Total capitalization and long term debt</i>	<u>320,911,567</u>

Current Liabilities:

Accounts payable	4,575,048
Water revenue bonds – current	6,500,000
Interest and other accrued liabilities	2,891,544
Accrued retirement contributions	137,624
Construction retention	398,924
<i>Total current liabilities</i>	<u>14,503,140</u>
Accrued sick pay	1,629,834
Long-term interest payable	4,539,430
Advances for construction	437,508
<i>Total capitalization and liabilities</i>	<u>\$ 342,021,479</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Net Income and Earnings Reinvested in the Business

Year ended December 31, 2003

Operating revenues	\$ 47,073,542
Operating expenses:	
Operation and administration	20,559,926
Maintenance	7,476,448
Depreciation and amortization	<u>9,168,087</u>
Total operating expenses	<u>37,204,461</u>
Operating income before miscellaneous income and net interest charges	9,869,081
Net interest charges:	
Interest expense	4,605,235
Interest income	(1,191,949)
Interest capitalization during construction	<u>(365,823)</u>
Net interest charges	<u>3,047,463</u>
Net income	<u>6,821,618</u>
Earnings reinvested in the business:	
Beginning of year	<u>176,744,270</u>
End of year	<u>\$ 183,565,888</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Cash Flows

Year ended December 31, 2003

Cash flows from operating activities:	
Net income	\$ 6,821,618
Adjustments to reconcile net income to net cash provided by (used for) operating activities	
Depreciation and amortization	9,168,087
Interest expense, net	(34,041)
Interest capitalization during construction	(365,823)
Change in:	
Debt service fund	(688,888)
Customers' accounts receivable	(148,585)
Materials and supplies	39,414
Other assets	658,482
Accounts payable	(291,472)
Accrued retirement contributions	(781,964)
Construction retention	177,709
Other liabilities	(303,559)
Sick pay accrual	41,573
Net cash provided by operating activities	<u>14,292,551</u>
Cash flows from investing activities:	
Proceeds from the sale or maturity of investments	149,390,702
Purchase of investments	(157,480,296)
Net (increase) decrease in the fair value of investments	(6,324)
Cash transfer for investment	(87,826)
Additions to water plant, net of disposals	<u>(17,244,714)</u>
Net cash used for investing activities	<u>(25,428,458)</u>
Cash flows from capital and related financing activities:	
Issuance of water revenue bonds series 2003F	15,544,443
Repayment of water revenue bonds	(5,805,000)
Cost of bond issuance series 2003F	(444,572)
Increase in contributions in aid of construction	2,080,284
Increase (decrease) in advances for construction	<u>14,310</u>
Net cash used for capital and related financing activities	<u>11,389,465</u>
Net increase in cash and cash equivalents	253,558
Cash and cash equivalents:	
Beginning of year	<u>25,879,378</u>
End of year	<u>\$ 26,132,936</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Notes to Financial Statements

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

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

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

The Authority began with a mandate to provide potable water to all locations within Erie County, except Buffalo, City and Town of Tonawanda and Grand Island, and has fulfilled this mandate by providing water to over 540,000 residents of Erie County operating on one of the three bases set forth above – direct service, leased managed service or bulk service. The Authority has had a regional outlook for many years as evidenced by our service expansion throughout the county and by the Inter-Community Transmission main built in the early 1990's to expand water service to the Cattaraugus Indian Reservation and some Chautauqua County customers. During fiscal year 2003 the Authority converted the Water District 8, 9 and 10 in Cheektowaga from leased managed to direct service. In addition, the Authority will begin to provide direct service to the City of Tonawanda in 2004.

Basis of accounting

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

Water plant

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

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

Depreciation expense approximated 2.3% of the original cost of average depreciable property for the year ended December 31, 2003.

Investment securities

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

The Authority's deposits at December 31, 2003 were entirely covered by federal deposit insurance or by collateral held by the Authority's custodial banks in the Authority's name.

Materials and supplies

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

Accrued sick pay

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

Unamortized bond discount and expense

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

Long-term investment

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

Advances for construction and contributions in aid of construction

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

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

During 2003, the Authority recorded asset values and contributions in aid of construction from the Water Districts 8, 9 and 10 in the Town of Cheektowaga in the amount of \$1,684,427 and assumed responsibility for the operation, maintenance and improvements to these water districts now and in the future. The asset values were determined by current replacement cost discounted to original cost by application of construction costs indices based upon the average age of the assets acquired, and further adjusted for depreciation to date of acquisition, with the resulting asset net book value being recorded as contributions in aid of construction.

Budget

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

Operating revenues

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

Statement of cash flows

For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to be all unrestricted cash accounts and short-term investments purchased with an original maturity of generally three months or less. Cash paid for interest on the water revenue bonds amounted to \$4,196,668 for 2003.

Income taxes

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

2. Water plant

	December 31, 2003 (in thousands)
Buildings and structures	\$173,834
Mains and hydrants	175,154
Equipment	28,870
Land	2,194
Other	39,971
Water plant in service	420,023
Less accumulated depreciation	150,477
	269,546
Construction work in progress	6,028
	275,574

3. Water revenue bonds

Water revenue bonds are summarized as follows:

Series	Final annual installment payment due	Year of earliest principal payment	Interest rate	Original issue	Balance as of December 31, 2003 (in thousands)
Series 1992FR	06/01/08	2006	6.20-6.30%	\$ 50,270	\$ 4,473
Series 1993A	12/01/16	2009	Variable (*)	27,500	27,500
Series 1993B	12/01/16	2009	Variable (*)	15,000	15,000
Series 1993FR	12/01/05	1997	4.88-6.17%	43,886	10,625
Series 1998B	12/15/17	1998	3.65-5.20 %(**)	7,781	5,880
Series 1998D	10/15/19	2000	3.90-5.15 %(**)	16,860	14,325
Series 2003F	07/15/23	2004	.79-4.50 %(**)	15,544	15,544
					\$ 93,347
Less portion due within one year					6,500
					\$ 86,847

(*) The interest rate was 1.04% at December 31, 2003

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

FR Fourth Resolution

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

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

The Current Interest Serial 1998B and 1998D Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 1998B (EFC Project No. 15568) and Bond Series 1998D (EFC Project No. 16504) in 1998. The 1998B and 1998D bonds in the amounts of \$7,780,931 and \$16,859,700, respectively, representing the Authority's portion of these financings, were issued to cover the costs of the construction of two new clearwell water tanks and a new pumping station at the Authority's Sturgeon Point plant. Payments are made to the bondholders as follows:

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

The bonds bear different rates of interest ranging from 3.65% to 5.20% over their respective installment payment dates ending on December 15, 2017 and October 15, 2019, respectively.

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 Water Pollution Control Revolving Fund Revenue Bonds Series 2003F (EFC Project Nos. 17079, 17080, and 17081). The 2003F bonds in the amount of \$15,544,443 representing the Authority's portion of this financing were issued to cover the following:

Project Number	Description	Amount
17079	Town of Lancaster Pump Station	\$ 2,005,360
17080	Harris Hill Pump Station & Main Const.	4,826,239
17081	City of Tonawanda-Meters, Transmission Mains, Pump Station & Tank	7,158,404
—	Debt Service Reserve Fund	1,554,440
		<u>\$15,544,443</u>

Interest on the 2003F bonds is payable semi-annually on January 15 and July 15. Principal is payable on July 15. The interest rates range from .79% to 4.50%. 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 EFC invests and credit the borrower with the earnings on the invested funds as an offset to the interest payable on the bonds.

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

Year ending December 31,	Principal	CAB Interest	Current Interest	Total
2004	\$ 6,500,000	\$ —	\$ 4,377,142	\$10,877,142
2005	7,340,000	—	4,039,335	11,379,335
2006	3,843,020	2,996,423	3,724,440	10,563,883
2007	3,904,497	3,385,503	3,668,058	10,958,058
2008	1,929,756	250,244	3,607,215	5,787,215
2009-2023	69,830,000	—	20,501,075	90,331,075
	\$ 93,347,273	\$ 6,632,170	\$ 39,917,265	\$ 139,896,708
Less portion due within one year	6,500,000	—	4,377,142	10,877,142
	\$ 86,847,273	\$ 6,632,170	\$ 35,540,123	\$ 129,019,566

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

Prior to 1993, the Authority completed a plan of restructuring a significant portion of its debt through a series of bond issuances. The net proceeds from these issuances and certain existing funds were deposited with an escrow agent pursuant to refunding agreements, and invested in U.S. Government securities. The maturities of these invested funds and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased bonds as they mature. These advance refunding transactions effectively released the Authority from its obligation to repay these bonds and constituted in-substance defeasances. The principal outstanding on the bonds defeased prior to 1993 is \$51,533,067 at December 31, 2003 with maturities ranging from the year 2004 to the year 2014.

In November, 1999, the Authority defeased a portion of the 1993 Fourth Resolution Taxable Bonds. Available cash of \$13,684,547 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1993 Fourth Resolution Taxable Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. The principal outstanding is \$5,800,000 at December 31, 2003 with maturities ranging from the year 2004 to the year 2005.

In December 2000, the Authority defeased a portion of the 1992 Fourth Resolution Bonds and a portion of the 1993 Fourth Resolution Taxable Bonds. Securities and available cash of \$4,191,215 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1992 and 1993 Fourth Resolution Bonds as they mature.

This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1992 and 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. The principal outstanding is \$2,118,635 at December 31, 2003 with maturities ranging from the year 2004 to the year 2007.

4. Debt service reserve fund

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

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

During 1998, the Authority established a debt service reserve fund as required by the Series 1998B and 1998D bond resolutions. During 2003, per the 2003F bond resolution the Authority established a debt service reserve fund from a portion of the 2003F bond proceeds. The Series 1998B, 1998D and 2003F bond resolutions require a specified amount of funds be maintained to meet future debt service requirements. These requirements state that the Authority must deposit funds equal to the lesser of ten percent of the total principal of the loan, the maximum annual debt service or 125% of the average annual debt service for the Series 1998B, 1998D and 2003F Bonds.

At December 31, 2003 the debt service reserve fund was \$7,086,866.

5. Debt service fund

The 1992 Fourth Resolution, 1993A, 1993B, 1993 Fourth Resolution, 1998B, 1998D and 2003F bond resolutions require that a specified amount of funds be maintained in the debt service fund. The requirements of the debt service fund state that the Authority must deposit funds to provide for monthly interest and principal payments to start not later than six months prior to the payment of interest and twelve months prior to the payment of principal. Accordingly, the Authority had funds set aside in the debt service fund amounting to \$4,654,162 at December 31, 2003.

6. Future construction reserve fund

The future construction reserve fund is used for committed funding for future capital expenditures. The bond proceeds provided by the Series 2003F Bonds are required to be maintained in this fund to pay for future acquisition and construction costs. Receipts from the AIG Long Term Investment Contract are also included in the construction reserve fund since they are to be used for future capital expenditures. The Authority transfers funds into this reserve account monthly based upon the current year's budget.

At December 31, 2003, the balance in the future construction reserve fund was \$13,014,586.

7. Investment securities

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (the Statement), establishes standards of financial accounting and reporting for certain investments held by most governmental entities and all investments held by governmental external investment pools. Included in interest income in the Statement of Net Income and Earnings Reinvested in the Business were changes in the fair value of investments of a gain of \$6,324 in 2003.

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

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

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

	December 31, 2003	
	Amortized Cost	Market Value
Future construction fund		
Cash and equivalents	\$ 9,260,898	\$ 9,260,898
US Treasury securities	3,753,688	3,753,573
Mortgage-backed securities	—	—
Commerical Paper	—	—
<i>Total</i>	\$ 13,014,586	\$ 13,014,471
Debt service reserve fund		
Cash and equivalents	\$ 147,423	\$ 147,423
US Treasury securities	3,267,116	3,267,116
Mortgage-backed securities	3,672,327	3,674,129
Commerical Paper	—	—
<i>Total</i>	\$ 7,086,866	\$ 7,088,668
Debt service fund		
Cash and equivalents	\$ 1,601,429	\$ 1,601,429
US Treasury securities	3,052,733	3,054,000
<i>Total</i>	\$ 4,654,162	\$ 4,655,429
Operating and Maintenance Fund		
Cash and equivalents	\$ 23,884,778	\$ 23,884,778
Mortgage-backed securities	2,498,158	2,499,425
Commerical Paper	—	—
<i>Total</i>	\$ 26,382,936	\$ 26,384,203
<i>Total</i>	\$ 51,138,550	\$ 51,142,771
Market Value Less Amortized Cost		\$ 4,221

8. Long-term investment

During 1990, the Authority entered into a zero coupon bond agreement which requires the Authority to make monthly deposits into an investment account through December 2008. During 1997, the Board established a policy that all earnings and proceeds to be distributed in conformance with the agreement shall be deposited into the capital fund to be used solely for future capital expenses. At December 31, 2003, the zero coupon bond investment balance is \$6,339,393. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately \$277,000.

The second year will be approximately \$197,000, the third year will be approximately \$119,000, the fourth year will be approximately \$49,000, and the fifth and final year will be approximately \$21,000. On December 1, 2003 the Authority received \$1,948,435 as the fourth guaranteed annual payment from this investment. Varying amounts will be received each December 1 through 2008. The total amount to be received in future years is approximately \$8.3 million.

9. Pension plan and other post retirement benefits

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

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

The contribution requirements of the State Plan members and the Authority are established by the New York State Retirement and Social Security Law and may be amended by the State Legislature. The Authority's contribution to the State Plan amounted to \$1,309,653 in 2003. In May of 2003, the governor signed into law legislation which establishes a minimum employer contribution of 4.5% of reported wages each fiscal year.

In addition to providing pension benefits, the Authority provides certain health care benefits to retired employees. The Authority's employees covered by collective bargaining units may become eligible for these benefits if they reach normal retirement age while working for the Authority for at least 15 years. For exempt employees the Authority uses a formula based on years of service and age. The Authority recognizes the cost of providing health care benefits to retired employees by expensing the annual premiums, which totaled \$777,247 for 2003.

10. Deferred compensation plan

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

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

11. Commitments and contingencies

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

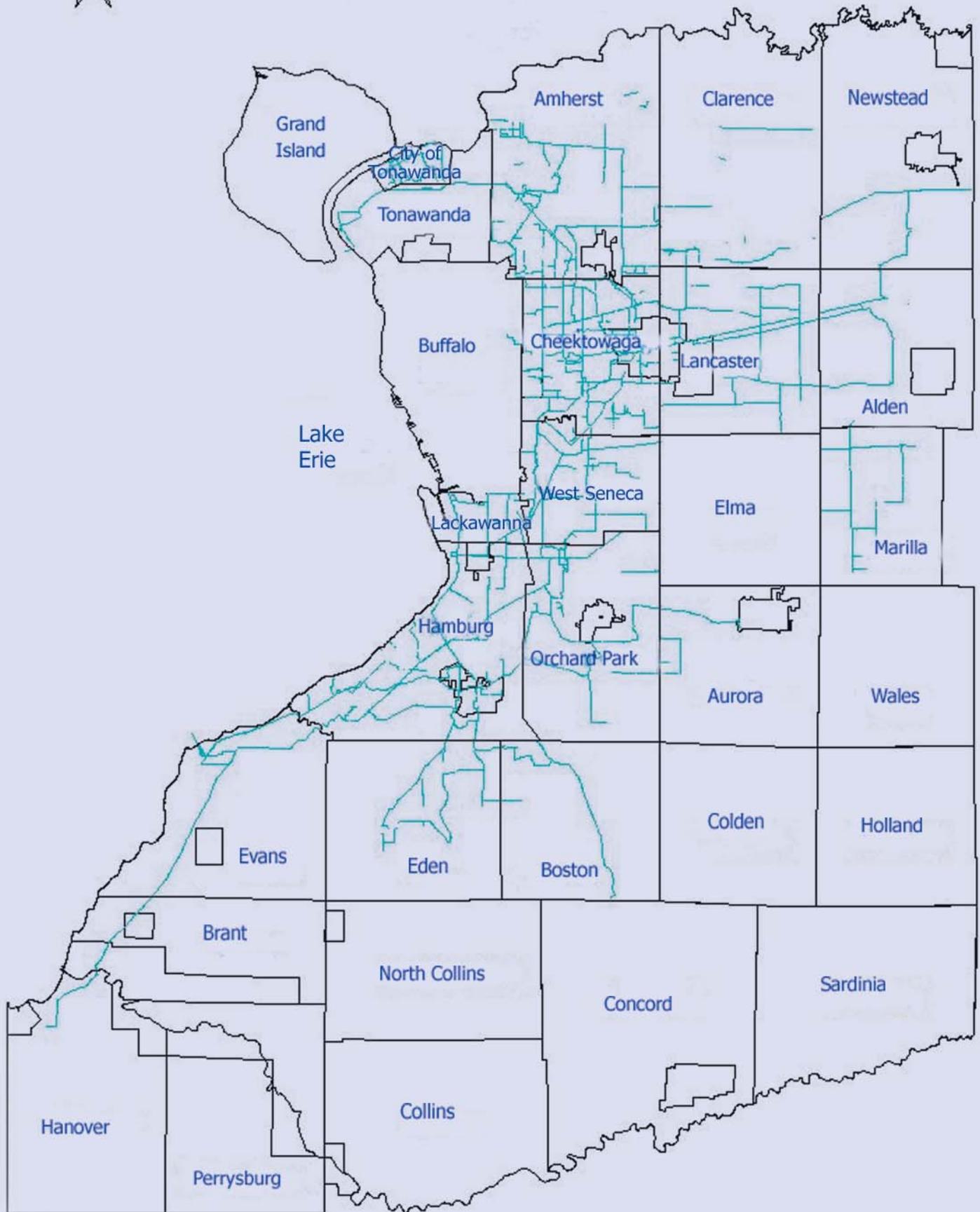
The Authority is subject to various laws and regulations, which primarily establishes uniform minimum national quality standards. The Authority has established procedures for the on-going evaluation of its operations to identify potential exposures and assure continued compliance with these regulatory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

The Authority is also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2003 aggregated \$261,185. Future minimum annual rentals to be paid under such leases are not significant.

The Erie County Water Authority and the City of Tonawanda entered into a Direct Service Agreement on January 10, 2002. Included in the agreement is a commitment to invest approximately \$7,700,000 in the City of Tonawanda water system infrastructure, which will revert to the beneficial ownership of the Authority at such time that both parties have met the conditions in the executory agreement. The residents approved a referendum on January 7, 2003 to transfer the water system assets to the Erie County Water Authority. As of December 31, 2003, the Authority has met \$5,128,961 of this obligation.

The Authority on March 25, 2004 issued a letter of intent and memorandum of understanding to the City of Buffalo and other related entities in connection with the acquisition of the City of Buffalo's water system. The letter and memorandum of understanding was signed by the principals on March 26, 2004. The acquisition will proceed through the various local and state approval required and is expected to be accomplished by mid to late 2005.

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





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