

MINUTES of the **ANNUAL MEETING** of the **ERIE COUNTY WATER AUTHORITY** held in the office, 295 Main Street, Room 350, Buffalo, New York, on the 17th day of May, 2012.

PRESENT: **Francis G. Warthling, Commissioner**
Earl L. Jann, Jr., Commissioner
John F. O'Donnell, Commissioner
Robert A. Mendez, Executive Director
Matthew J. Baudo, Secretary to the Authority/Personnel Director
Robert J. Lichtenthal, Jr., Deputy Director
Wesley C. Dust, Executive Engineer
Karen A. Prendergast, Comptroller
Mark J. Fuzak, Attorney
Ronald P. Bennett, Associate Attorney
Edward A. Betz, Associate Attorney
Steven V. D'Amico, Budget and Financial Analyst
Paul H. Riester, Director of Administration
Susan L. Rinaldo, Cash Manager

ATTENDEES: **Brian Gould**
Timothy Cashmore

CALL TO ORDER

PLEDGE TO THE FLAG

I. - ROLL CALL

ITEM 1- TEMPORARY SECRETARY

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to appoint Mr. Matthew J. Baudo Temporary Secretary for the Annual Meeting.

ITEM 2- TEMPORARY CHAIRMAN

Motion by Mr. Francis W. Warthling seconded by Mr. John F. O'Donnell and carried to appoint Mr. Earl L. Jann, Jr. Temporary Chairman for the Annual Meeting.

ITEM 3- CHAIRMAN

Nominations were opened for the office of Chairman.

Unanimous motion and second and carried to nominate Mr. Francis G. Warthling as Chairman of the Erie County Water Authority for the ensuing year.

Motion by Mr. Earl L. Jann, Jr. seconded by Mr. John F. O'Donnell and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell

Noes: None

Motion carried to elect Francis G. Warthling as Chairman.

ITEM 4 - VICE CHAIRMAN

Nominations were opened for the office of Vice Chairman.

Unanimous motion and second and carried to nominate Mr. Earl L. Jann, Jr. as Vice Chairman of the Erie County Water Authority for the ensuing year.

Motion by Mr. Francis G. Warthling seconded by Mr. John F. O'Donnell and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell

Noes: None

Motion carried to elect Earl L. Jann, Jr. as Vice Chairman.

ITEM 5 - TREASURER

Nominations were opened for the office of Treasurer.

Unanimous motion and second and carried to nominate Mr. John F. O'Donnell as Treasurer of the Erie County Water Authority for the ensuing year.

Motion by Mr. Francis G. Warthling seconded by Mr. Earl L. Jann, Jr., and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

Motion carried to elect Mr. John F. O'Donnell as Treasurer.

ITEM 6 - ASSISTANT TREASURER

Nominations were opened for the office of Assistant Treasurer.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to nominate Mr. Mark J. Fuzak as Assistant Treasurer of the Erie County Water Authority for the ensuing year.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

Motion carried to elect Mark J. Fuzak as Assistant Treasurer.

ITEM 7 - RENEWAL OF TREASURER'S AND EMPLOYEES' BONDS

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried that the Erie County Water Authority ratify the continuation of Public Employee Dishonesty coverage in the amount of \$250,000 for the scheduled positions of Treasurer and Bill Collector and \$500,000 for all other employees.

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 8 - SECRETARY

Nominations were opened for the office of Secretary.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to nominate Mr. Matthew J. Baudo as Secretary to the Erie County Water Authority for the ensuing year.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 9 - ASSISTANT SECRETARY

Nominations are open for the office of Assistant Secretary.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to nominate Mr. Robert J. Lichtenthal, Jr. as Assistant Secretary to the Erie County Water Authority for the ensuing year.

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to move that nominations be closed.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

Motion carried to elect Robert J. Lichtenthal, Jr. as Assistant Secretary to the Authority.

ITEM 10 - AUTHORIZATION TO DESIGNATE DEPOSITORIES FOR FUNDS

Motion by Mr. Francis G. Warthling seconded by Mr. Earl L. Jann, Jr., and carried that the Erie County Water Authority designate the financial institutions noted on the attached list as depositories for funds collected by Mr. John F. O'Donnell Treasurer:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 11 - AUTHORIZATION TO APPROVE THE FOLLOWING INDIVIDUALS TO EXECUTE ERIE COUNTY WATER AUTHORITY CHECKS ON BEHALF OF THE ERIE COUNTY WATER AUTHORITY

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr., and carried to authorize the following individuals to execute Erie County Water Authority checks on behalf of the Authority:

Robert A. Mendez, Executive Director
Matthew J. Baudo, Secretary to the Authority
John F. O'Donnell, Treasurer
Mark J. Fuzak, Assistant Treasurer

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 12 - AUTHORIZATION TO APPROVE THE FOLLOWING INDIVIDUALS TO MAKE WIRE TRANSFERS ON BEHALF OF THE ERIE COUNTY WATER AUTHORITY

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to authorize the following individuals to make wire transfers on behalf of the Erie County Water Authority:

Susan L. Rinaldo, Cash Manager
Joyce A. Tomaka, Assistant Manager of Accounting Services

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

**ITEM 13 - AUTHORIZATION TO APPROVE THE FOLLOWING INDIVIDUALS
APPROVE WIRE TRANSFERS VIA BANK CALL BACKS ON BEHALF
OF THE ERIE COUNTY WATER AUTHORITY**

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to authorize the following individuals to approve wire transfers via bank call backs on behalf of the Erie County Water Authority:

Karen A. Prendergast, Comptroller
Mario D. Caruso, Business Office Manager
Joseph Cukierski, Chief Account Clerk

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

**ITEM 14 - AUTHORIZATION TO APPROVE THE FOLLOWING
INDIVIDUALS TO MAKE AUTOMATED CLEARING HOUSE (ACH)
TRANSFERS ON BEHALF OF THE ERIE COUNTY WATER
AUTHORITY**

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to authorize the following individuals to make payroll direct deposit wire transfers on behalf of the Erie County Water Authority:

See attached list

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 15 - AUTHORIZATION TO APPROVE THE FOLLOWING INDIVIDUALS TO VIEW ALL DEPOSITORY, COLLATERAL AND INVESTMENT ACTIVITY ON THE INTERNET ON BEHALF OF THE ERIE COUNTY WATER AUTHORITY

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to authorize the following individuals to view all depository and investment activity on the Internet on behalf of the Erie County Water Authority:

Robert J. Lichtenthal, Jr., Deputy Director
 Karen A. Prendergast, Comptroller
 Susan L. Rinaldo, Cash Manager
 Joyce A. Tomaka, Assistant Manager of Accounting Services
 Mario D. Caruso, Business Office Manager
 Joseph Cukierski, Chief Account Clerk

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
 Noes: None

ITEM 16 - AUTHORIZATION TO APPROVE THE FOLLOWING INDIVIDUALS TO EXECUTE ALL FEDERAL AND STATE TAX RETURNS, INCLUDING BUT NOT LIMITED TO W-2, AND 1099 FORMS ON BEHALF OF THE ERIE COUNTY WATER AUTHORITY

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to authorize the following individuals to execute all Federal and State Tax Returns, including but not limited to W-2 and 1099 Forms on behalf of the Erie County Water Authority:

Karen A. Prendergast, Comptroller
 Susan L. Rinaldo, Cash Manager
 Joyce A. Tomaka, Assistant Manager of Accounting Services

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
 Noes: None

ITEM 17 - AUTHORIZATION TO APPROVE THE ERIE COUNTY WATER AUTHORITY'S ANNUAL INVESTMENT REPORT WITH AUDIT AND THE ANNUAL INVESTMENT GUIDELINES

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to approve the Annual Investment Report with attached Audit and the Investment Guidelines for the ensuing year or until such time as the Erie County Water Authority deems it necessary to amend said Guidelines.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell

Noes: None

ITEM 18 - AUTHORIZATION TO APPROVE THE DIRECTOR OF ADMINISTRATION TO AUTHORIZE AND EXECUTE PURCHASE ORDERS AFTER DEPARTMENTAL AND BOARD APPROVAL

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to approve the Director of Administration to authorize and execute purchase orders after departmental and Board approval.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell

Noes: None

ITEM 19 - AUTHORIZATION TO APPROVE THE DIRECTOR OF ADMINISTRATION TO AUTHORIZE AND EXECUTE ASSOCIATED PURCHASING AGREEMENTS, WARRANTEES AND MAINTENANCE AGREEMENTS ON DEPARTMENTAL AND BOARD APPROVED PURCHASE ORDERS NOT TO EXCEED AN AGGREGATE OF \$20,000 PER CALENDAR YEAR PER VENDOR

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to approve the Director of Administration to authorize and execute associated purchasing agreements, warrantees and maintenance agreements on departmental and Board approved purchase orders not to exceed an aggregate of \$20,000 per calendar year per vendor.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 20 - COMMITTEES

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to approve that the existing committees remain the same for the coming year and that the Chairman of the Erie County Water Authority will continue to be empowered to name new committees and assign members.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None

ITEM 22 - ADJOURNMENT

Motion by Mr. John F. O'Donnell seconded by Mr. Earl L. Jann, Jr. and carried to adjourn this annual organization meeting until the next organization meeting to be held on the first regularly scheduled board meeting after the 27th day of April, 2013.

On Roll Call the following votes were cast:

Ayes: Three; Commrs. Warthling, Jann and O'Donnell
Noes: None



Matthew J. Baudo
Secretary to the Authority/Personnel Director

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DESIGNATED DEPOSITORIES FOR FUNDS**HSBC BANK USA**

Erie County Water Authority Savings Account

MANUFACTURERS & TRADERS TRUST COMPANY

Erie County Water Authority Water System Revenue Fund

Erie County Water Authority Wilmington U.S. Treasury Money Market Fund (formerly MTB)

Erie County Water Authority Private Fire Protection Construction Account

Erie County Water Authority Savings Account – Water System Revenue

Erie County Water Authority Savings Account – Customer Deposit

Erie County Water Authority Water Works System Revenue Refunding Bonds Series 1990B - Debt Service Fund:

1. Principal Account - Serial Bonds
2. Interest Account
3. Bond Retirement Account - Term Bonds (Sinking Fund - for Principal on Called Bonds)

Erie County Water Authority Series 1992 Escrow Account

Erie County Water Authority Debt Service Fund, Series 1998D

Erie County Water Authority Debt Service Reserve Fund, Series 1998D

Erie County Water Authority 2003F Debt Service Fund

Erie County Water Authority 2003F Debt Service Reserve Fund

Erie County Water Authority 2007 Debt Service Fund

Erie County Water Authority 2007 Debt Service Reserve Fund

Erie County Water Authority 2008 Debt Service Fund

Erie County Water Authority 2008 Debt Service Reserve Fund

BANK OF AMERICA

Erie County Water Authority Extension & Improvement Fund

Erie County Water Authority Money Market Account

KEY BANK OF NEW YORK

Erie County Water Authority Operating & Maintenance Fund

Erie County Water Authority Money Market Account

Erie County Water Authority Employee Activity Account

Erie County Water Authority Construction Fund, Series 2012

JP MORGAN CHASE BANK, N.A.

Erie County Water Authority Water Extension and Improvement Fund

Erie County Water Authority Payroll Account

Erie County Water Authority Government Money Market

Erie County Water Authority Water System Revenue Account

FIRST NIAGARA BANK

Erie County Water Authority Money Market Account

RBS CITIZENS, NA (D/B/A CITIZENS)

Erie County Water Authority Customer Deposit/Refund Account

APPROVED STAFF FOR ACH TRANSFERS

	NYS Retirement	Payroll Direct Deposit	Payroll Withholding Taxes	Accounts Payable
Karen A. Prendergast Comptroller	X	X	X	X
Susan L. Rinaldo Cash Manager			X	X
Joyce A. Tomaka Asst. Mgr. of Accounting Services	X	X	X	X
Joseph Cukierski Chief Account Clerk	X	X		

**INVESTMENT GUIDELINES
FOR THE ERIE COUNTY WATER AUTHORITY
PURSUANT TO ARTICLE 9, SECTION 2925
OF THE PUBLIC AUTHORITIES LAW**

I. SCOPE

These investment guidelines apply to all moneys and other financial resources available for investment on its own behalf or on behalf of any other entity or individual.

These guidelines have been constructed pursuant to the laws detailed in Exhibit I.

II. OBJECTIVES

The primary objectives of the Authority's investment activities are, in priority order,

- ▶ to conform with all applicable federal, state and other legal requirements (legal);
- ▶ to adequately safeguard principal (safety);
- ▶ to provide sufficient liquidity to meet all operating requirements (liquidity); and
- ▶ to obtain a reasonable rate of return (yield).

III. DELEGATION OF AUTHORITY

The governing board's responsibility for administration of the investment program is delegated to the Deputy Director, who shall establish written procedures for the operation of the investment program consistent with these investment guidelines. Such procedures shall include an adequate internal control structure to provide a satisfactory level of accountability based on a data base or records incorporating description and amounts of investments, transaction dates, and other relevant information and regulate the activities of subordinate employees.

IV. PRUDENCE

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Erie County Water Authority to operate effectively.

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Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

V. DIVERSIFICATION

It is the policy of the Erie County Water Authority to diversify its deposits and investments by financial institution, by investment instrument, and by maturity scheduling.

VI. LIQUIDITY

Per the current Board of Commissioners Guidelines, unrestricted cash will be maintained at 20% of the Authority's budgeted gross revenues. These funds will be invested in accordance with the Authority's Investment Guidelines.

The Authority will maintain operating cash of \$4 million, which will be available on a daily basis. These funds should be in the Authority's NOW accounts or money market accounts for easy access. If the Authority is aware of an event for which additional operating funds will be required, this amount can be adjusted.

The remaining unrestricted cash may be invested until it is needed for operating expenditures. A cash flow schedule should be reviewed to determine how long the funds may be invested. Depending on the economic environment, it may be advantageous to invest these funds on a short term basis. They can then be reinvested periodically until the funds are required.

VII. INTERNAL CONTROLS

The Deputy Director is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

VIII. DESIGNATION OF DEPOSITORIES

The banks and trust companies authorized for the deposit of monies are:

Depository Name

HSBC Bank USA
 Manufacturers & Traders Trust Company
 Bank of America
 Key Bank of New York
 JP Morgan Chase Bank
 RBS Citizens, N.A. (dba Citizens)
 First Niagara Bank
 UBS Financial Services Inc.

IX. COLLATERALIZING OF DEPOSITS

In accordance with the provisions of General Municipal Law, §10, all deposits of the Erie County Water Authority, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured:

1. By a pledge of “eligible securities” with an aggregate “market value” as provided by GML §10, equal to the aggregate amount of deposits from the categories designated in Appendix A to the guidelines.
2. At the time investments are made collateral requirements are established to protect the underlying investments. The collateral is monitored daily until the extinguishment of the investments.
3. Current market values will be reviewed monthly.

X. SAFEKEEPING AND COLLATERALIZATION

Eligible securities used for collateralizing deposits shall be held by a third party, bank or trust company subject to written security and custodial agreements.

The security agreement shall provide that eligible securities are being pledged to secure the Authority’s deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events which will enable the Authority to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the Authority, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the Erie County Water Authority or its custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for, the Authority, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the Authority a perfected interest in the securities.

Securities issued in the Authority's name, for example commercial paper, will also be held by the custodian. These securities may not be released without prior written approval of the Authority.

XI. PERMITTED INVESTMENTS

All investments of the Erie County Water Authority shall comply with:

- 1) The Authority's bond covenants contained in the following:
 - Fourth General Water Revenue Bond Resolution dated July 9, 1992
 - First Supplemental Resolution dated July 9, 1992 (Series 1992)
 - 1998 Supplemental Resolution dated August 28, 1997, September 25, 1997 and February 5, 1998
 - Supplemental Resolution dated April 30, 1998 (Series 1998D)
 - 2003 Supplemental Resolution dated October 31, 2002 (Series 2003F)
 - 2007 Supplemental Resolution dated August 16, 2007 (Series 2007)
 - 2008 Supplemental Resolution dated June 19, 2008 (Series 2008)
 - 2012 Water Revenue Bond Resolution dated May 17, 2012 (Series 2012)
- 2) Existing Statutory Law
- 3) Recommendations of the New York State Comptroller and other applicable government agencies

Per the above, the Erie County Water Authority authorizes the Deputy Director to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs as follows:

a) Moneys held in the Funds and Accounts in respect of the Series 1998D, 2003F, 2007, 2008 and 2012 bonds shall only be invested in the following obligations:

- 1) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

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2) Obligations of any agency, subdivision, department division or instrumentality of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America.

3) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

4) Direct obligations of, or obligations guaranteed as to principal and interest by, any state or direct obligations of any agency or public authority thereof, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by at least two nationally recognized Bond Rating Agencies;

5) Bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company (which may include the Trustee with respect to any series of the Authority's bonds) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptance (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (1), (2), or (3) above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured;

6) Repurchase agreements with any bank or trust company (which may include the Trustee with respect to any series of the Authority's bonds), which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (1), (2) or (3) above provided that each such repurchase agreement (a) is in commercially reasonable form and is for a commercially reasonable period, and (b) results in transfer to the Trustee for the Authority's bonds or the Authority of legal title to, or the grant to the Trustee for the Authority's bonds or the Authority of a prior perfected security interest in, identified securities referred to in items (1), (2) or (3) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Trustee for the Authority's bonds or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement; and provided that such repurchase agreements comply with the restrictions specified in Section XIV of these guidelines.

7) Obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies;

8) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by Standard & Poor's and "P-1" by Moody's Investor Services, and which matures not more than 270 days after the date of purchase. However, funds held with respect to the 1998D Series may not be invested in commercial paper;

9) Certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United States of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Trustee under the Authority's Bond Resolutions, and provided further that, in the case of certificates other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation;

10) Investment agreements rated, or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's Investors Service or Standard & Poor's Corporation such investment agreements or the long term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements; and

11) Bonds, notes or other evidences of indebtedness rated "AAA" by Standard and Poor's Corporation and "Aaa" by Moody's Investor Services issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) with remaining maturities not exceeding three years. However, funds held with respect to the 1998D Series may not be invested in bonds, notes or other evidences of indebtedness issued by FNMA or FHLMC;

12) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's Corporation;

13) Such other investments with respect to any Series of Bonds as shall be specified in the supplemental resolution pursuant to which such Series of Bonds was issued.

All investment obligations shall be payable or redeemable at the option of the Erie County Water Authority within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable at the option of the Erie County Water Authority within two years of the date of purchase.

XII. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Erie County Water Authority shall maintain a list of financial institutions and dealers approved for investment purposes and establish appropriate limits to the amount of investments which can be made with each financial institution or dealer. All financial institutions with which the Authority conducts business must be credit worthy. Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the Erie County Water Authority. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. The Deputy Director is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated at least annually.

If the Authority deems it advisable to retain an investment banker, broker, agent, dealer or other investment advisor or agent to transact business with the Authority, it shall establish criteria for said individuals or firms covering the quality, reliability, experience, capitalization, size and any other factors that at the time the Authority feels pertinent before qualifying said firm to transact business with the Authority.

The Authority must have discretion over all investment transactions and must be supplied with adequate documentation for each transaction. All agreements must comply with the Investment Advisor's Act of 1940 and applicable New York State and Federal laws. In addition, a separate agreement will be entered into with a third party custodian to hold all securities purchased by the investment advisor.

See Exhibit II for Authorized Financial Institutions and Dealers.

XIII. PURCHASE OF INVESTMENTS

The Authority shall enter into a written contract covering each investment made by the Authority unless it shall determine by resolution that a written contract is not practical or that written contracts are not a regular business practice with respect to any specific investment or transaction.

The Deputy Director is authorized to contract for the purchase of investments:

1. Directly, including through a repurchase agreement, from an authorized trading partner.
2. By participation in a cooperative investment program with another authorized governmental entity pursuant to Section 1054 of the Public Authorities Law where the specific program has been authorized by the governing board.
- 5/17/12 3. By utilizing an ongoing investment program with an authorized trading partner pursuant to a contract authorized by the governing board.

All investments in U.S. Government Securities shall be kept in "Book-Entry" form, and the securities may be retained by the banking institution involved. In such instances, the Authority shall have a duly executed agreement passing title to said securities to the Authority.

The written contract shall fully secure the Authority's financial interest in each investment except where these guidelines describe circumstances where the Authority's financial interest in any investment may be less than fully secured or collateralized.

Said contract shall recite the type and amount of collateral or insurance for each investment.

It shall establish a method of valuation of the collateral at not less than market value. The Deputy Director, or someone delegated to act in his behalf, shall monitor the valuation of the collateral security not less than once every six (6) months and keep a record setting forth the valuation of said collateral security.

All purchased obligations, unless registered or inscribed in the name of the Authority, shall be purchased through, delivered to and held in the custody of a bank or trust company. Such obligations shall be purchased, sold or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the Erie County Water Authority by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law, §10.

The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for, the Authority, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities.

The agreement shall describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to provide the Authority a perfected interest in the securities.

XIV. REPURCHASE AGREEMENTS

Repurchase agreements are authorized subject to the following restrictions:

- ▶ All repurchase agreements must be entered into subject to a Master Repurchase Agreement.
- ▶ Trading partners are limited to banks or trust companies authorized to do business in New York State and primary reporting dealers.

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- ▶ Obligations shall be limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.
- ▶ No substitution of securities will be allowed.
- ▶ The custodian shall be a party other than the trading partner.
- ▶ Maximum dollars to be invested with each bank or Trust Company is \$30 million except for proceeds received from a banking institution or state authority in relation to issuance of Authority bonds.

XV. LOCKBOX

1. A written contract must be entered into for lockbox services.
2. Customer water bill payments processed by a lockbox will be deposited into a Water System Revenue Account. This account will be collateralized in accordance with Section IX of these guidelines.

XVI. ON-LINE BANKING SERVICE AGREEMENTS

1. The customer water bill payments made on-line with a service organization acting on behalf of the paying bank will be electronically transferred into the Water System Revenue Account. In addition, customer deposits will be transferred into the Customer Deposit Account. These accounts will be collateralized in accordance with Section IX of these guidelines.
2. A written contract must be entered into for the transmission of customer payments made on-line.

XVII. REPORTING

1. The Deputy Director of the Authority shall report to the Authority's Board on the investments of the Authority not less than once each month.
2. The independent accounting firm retained by the Authority to perform the yearly audit of the Authority's books and records shall audit the investments of the Authority and make its report available to the members of the Authority at the time the members conduct the annual review and approval of these investment guidelines.

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3. The Deputy Director shall annually prepare for approval by resolution of the Authority an investment report which shall include these investment guidelines, any amendments to such guidelines since the last investment report, an explanation of these guidelines and amendments, the results of the annual independent audit, the investment income records of the Authority and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer or advisor rendering investment associated services to the Authority since the last investment report. This investment report may be made a part of the Authority's annual report.

4. The Deputy Director shall submit the annual investment report to the County Executive of the County of Erie, the Erie County Chief Fiscal Officer, the Authority Budget Office, and to the New York State Comptroller's Department of Audit and Control. Copies of this report shall be made available to the public upon reasonable request thereof.

APPENDIX A
Schedule of Eligible Securities
for Collateralization of Deposits

- _____ (i) Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation.

- _____ (ii) Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

- _____ (iii) Obligations partially insured or guaranteed by any agency of the United States of America, at a proportion of the Market Value of the obligation that represents the amount of the insurance or guaranty.

- _____ (iv) Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, school district or district corporation of such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys.

- _____ (v) Currency of the United State of America which constitutes legal tender.

EXHIBIT I

The Erie County Water Authority Investment Guidelines have been constructed pursuant to the following laws:

General Municipal Law 10, 11 and 39
Banking Law 107a
Public Authorities Law 1055, 2824, 2890 and 2925
New York Office of the State Comptroller's Investment Guidelines for
Public Authorities (Advisory Only)
New York Office of the State Comptroller's Financial Management Guide
Erie County Water Authority Bond Covenants
Investment Advisor's Act of 1940

EXHIBIT II

Authorized Financial Institutions and Dealers:

HSBC Bank USA
Manufacturers & Traders Trust Company
Bank of America
Key Bank of New York
JP Morgan Chase Bank
Bank of New York
RBS Citizens, N.A. (d/b/a Citizens)
First Niagara Bank
Public Financial Management
PFM Asset Management, LLC
New York State Environment Facilities Corporation
County of Erie
Moody's Investors Service
Standard & Poor's Rating Services
Fitch Ratings
United States Treasury
National Public Finance Guarantee Corp. (formerly MBIA)
UBS Financial Services Inc.

ERIE COUNTY
WATER AUTHORITY
Statement of Investments and Statement of
Income from Investments
December 31, 2011

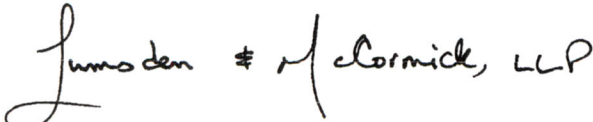
INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Erie County Water Authority

We have audited the accompanying statement of investments of Erie County Water Authority (the Authority), a business-type activity, as of December 31, 2011 and the related statement of income from investments for the year then ended. These statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of investments and statement of income from investments referred to above present fairly, in all material respects, the investments of the Authority as of December 31, 2011 and income from investments for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



March 22, 2012

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ERIE COUNTY WATER AUTHORITY

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Statement of Investments

December 31, 2011

	Market Value	Amortized Cost
Working Funds		
Extension and Improvement Accounts:		
Money Market Funds	\$ 10,194,534	\$ 10,194,534
Operating and Maintenance Accounts:		
Money Market Funds	11,636,319	11,636,319
State and Local Government Series Treasury Bonds	549,983	549,983
Total Operating and Maintenance Accounts	12,186,302	12,186,302
Sick Pay Reserve Accounts:		
Money Market Funds	1,854,429	1,854,429
Customer Deposit Accounts:		
Money Market Funds	305,711	305,711
Total Working Fund Investments	24,540,976	24,540,976
Fiscal Agent Funds		
Debt Service Reserve Accounts:		
Money Market Funds	99	99
State and Local Government Series Treasury Bonds	9,594,759	9,594,759
Total Debt Service Reserve Accounts	9,594,858	9,594,858
Debt Service Accounts:		
Money Market Funds	1,655,310	1,655,310
Total Fiscal Agents Funds	11,250,168	11,250,168
Total	\$ 35,791,144	\$ 35,791,144

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ERIE COUNTY WATER AUTHORITY
Statement of Income from Investments
For the Year Ended December 31, 2011

Working Funds:

Extension and Improvement Accounts	\$ 72,876
Operating and Maintenance Accounts	50,308
Sick Pay Reserve Accounts	7,429
Customer Deposit Accounts	<u>2,456</u>
 Total Working Funds	 <u>133,069</u>

Fiscal Agent Funds:

Debt Service Reserve Accounts	322,599
Debt Service Accounts	<u>2,674</u>
 Total Fiscal Agent Funds	 <u>325,273</u>

Net decrease in the fair market value of investments	<u>(82)</u>
 Total Income from Investments	 <u><u>\$ 458,260</u></u>

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ERIE COUNTY WATER AUTHORITY
Notes to Statements of Investments and of Income from Investments
December 31, 2011

1. ORGANIZATION AND FUNCTION OF THE AUTHORITY

The Erie County Water Authority (the Authority) is a public benefit corporation created in 1949 by the State of New York for the purpose of constructing, operating and maintaining a public water supply for certain parts of Erie County.

The Authority operates its business activities on a direct service basis where it 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments are made by the Authority in accordance with its Bond Resolutions and Investment Guidelines in the Official Statement, relating to the Series 1998D, Series 2003F, Series 2007 and Series 2008 Bonds. At December 31, 2011, the Authority had invested substantially all of its funds in the following:

<u>Security</u>	<u>Interest Rate</u>
US Government obligations	2.95%-4.81%
Cash equivalents (including money market funds)	.01%-.40%

Investments are carried at market value for those investments subject to market forces and at amortized cost for investments not subject to market forces. The amortized cost recorded is either original cost (government obligations and asset-based securities) or face value (money market funds). Any premium or discount resulting from the purchase of government securities is included in cost and amortized into income over the term of the security.

Income from investments is recorded on the accrual basis and includes realized gains and losses from sales of investments.

