

MINUTES of the **AUDIT COMMITTEE MEETING** of the **ERIE COUNTY WATER AUTHORITY** held in the office, 350 Ellicott Square Building, Buffalo, New York, on the 24th day of March, 2011.

PRESENT: Kelly M. Vacco, Chairperson
Francis G. Warthling, Vice Chair
John F. O'Donnell, Treasurer
Robert A. Mendez, Executive Director
Matthew J. Baudo, Secretary to the Authority/Personnel Director
Robert J. Lichtenthal, Jr., Deputy Director
Karen Prendergast, Comptroller
Wesley C. Dust, Executive Engineer
Mark J. Fuzak, Attorney
Ronald P. Bennett, Associate Attorney
Joyce Tomaka, Assistant Manager of Accounting Services
Daniel NeMoyer, Director of Human Resources
Susan Rinaldo, Cash Manager

ATTENDEES: Sara M. Dayton, Lumsden & McCormick, LLP
John P. Schiavone, Lumsden & McCormick, LLP
Brian Gould, E3 Communications
Michael Rosich, Esq.

CALL TO ORDER

PLEDGE TO THE FLAG

I. - ROLL CALL

II. - READING OF MINUTES

Motion by Mr. Warthling seconded by Mr. O'Donnell and carried to waive the reading of the Minutes of the Audit Committee Meeting held on Thursday, October 28, 2010.

III. - APPROVAL OF MINUTES

Motion by Mr. Warthling seconded by Mr. O'Donnell and carried to approve the Minutes of the Audit Committee Meeting held on Thursday, October 28, 2010.

IV. - REPORTS

A) 2010 AUDIT BY LUMSDEN & MCCORMICK

Lumsden & McCormick distributed a summary of the 2010 audit. Sara Dayton proceeded to give a presentation to the Committee of the 2010 audit.

- B) LEGAL**
- C) FISCAL**
- D) OPERATIONS**
- E) HUMAN RESOURCES**


V. - COMMUNICATIONS AND BILLS

VI. - UNFINISHED BUSINESS

VII. - NEW BUSINESS

VIII. - ADJOURNMENT

Meeting adjourned until the next regular meeting to be held on Thursday, || at 4:00 p.m.

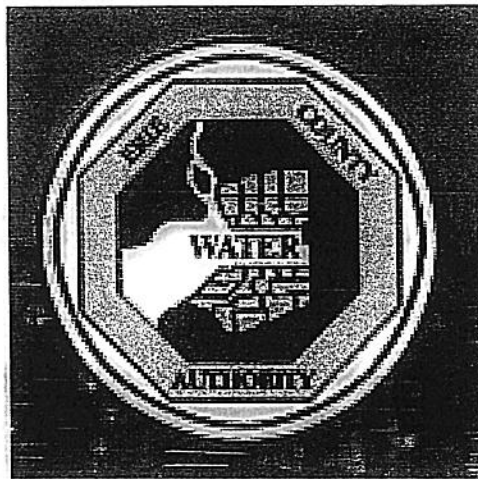

Matthew J. Baudo
Secretary to the Authority

SLZ

PRESENTATION TO THE AUDIT COMMITTEE

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March 24, 2011



 **Lumsden &
McCormick, LLP**
Certified Public Accountants

John P. Schiavone
Sara M. Dayton

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Buffalo, NY 14203 3/24/11
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⁴ Error! Unknown document property name.
 Presentation to the Audit Committee

Auditors' Report – Clean Opinion

The financial statements present fairly, in all material respects, the net assets as of December 31, 2010 and the revenue, expenses and changes in net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Statements of Net Assets

December 31,	2010	2009
Assets		
Current assets:		
Cash and investments	\$ 21,565,000	\$ 23,301,000
Customer accounts receivable, net of allowance	4,321,000	4,276,000
Other current assets	6,543,000	6,515,000
	32,429,000	34,092,000
Noncurrent assets:		
Restricted cash and other investments	29,383,000	33,426,000
Capital assets, net	339,623,000	351,860,000
	369,006,000	385,286,000
	401,435,000	419,378,000
Liabilities and Net Assets		
Current liabilities:		
Accounts and other payables	7,040,000	7,360,000
Interest and other accrued liabilities	5,497,000	5,128,000
Compensated absences	1,103,000	1,126,000
Water revenue bonds - current portion	5,783,000	5,962,000
	19,423,000	19,576,000
Noncurrent liabilities:		
Compensated absences	1,763,000	1,850,000
Other postemployment benefits	13,810,000	9,929,000
Water revenue bonds	83,642,000	92,676,000
	99,215,000	104,455,000
	118,638,000	124,031,000
Total liabilities		
Net assets:		
Invested in capital assets, net of related debt	245,208,000	247,452,000
Restricted net assets	11,243,000	12,132,000
Unrestricted net assets	26,346,000	35,763,000
	\$ 282,797,000	\$ 295,347,000

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Presentation to the Audit Committee

Statements of Revenue, Expenses, and Changes in Net Assets

For the years ended December 31,	2010	2009
Operating revenue	\$ 57,701,000	\$ 54,689,000
Operating expenses:		
Operating and administration	24,339,000	21,593,000
Maintenance	10,215,000	10,261,000
Depreciation and amortization	11,697,000	11,105,000
Other postemployment benefits	3,881,000	3,469,000
	<u>50,132,000</u>	<u>46,428,000</u>
Operating income	7,569,000	8,261,000
Nonoperating revenues (expenses):		
Interest income	467,000	872,000
Gain on sale of investments	150,000	-
Interest expense, net of amount capitalized	(4,220,000)	(3,964,000)
	<u>(3,603,000)</u>	<u>(3,092,000)</u>
Income before contributions in aid of construction and special item	3,966,000	5,169,000
Contributions in aid of construction	1,089,000	623,000
Special item resulting from a change in estimated fair value of acquired assets	<u>(17,605,000)</u>	-
Change in net assets	(12,550,000)	5,792,000
Total net assets - beginning of year	<u>295,347,000</u>	<u>289,555,000</u>
Total net assets - end of year	\$ 282,797,000	\$ 295,347,000

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 Presentation to the Audit Committee

Statements of Cash Flows

For the years ended December 31,	2010	2009
Cash flows from operations	\$ 23,185,000	\$ 22,881,000
Cash flows for capital and related financing expenditures	(29,717,000)	(39,765,000)
Cash flows for investing activities	(6,162,000)	(5,222,000)
Net decrease in cash	\$ (12,694,000)	\$ (22,106,000)

Components of Operating Revenue

For the years ended December 31,	2010	2009	2008
Water sales:			
Residential	\$ 35,225,000	\$ 33,301,000	\$ 34,520,000
Commercial	6,973,000	6,859,000	7,004,000
Industrial	1,605,000	1,664,000	1,901,000
Public authorities	2,171,000	1,989,000	2,053,000
Fire protection	3,817,000	3,784,000	3,799,000
Sales to other utilities	5,322,000	4,966,000	4,921,000
Other water sales	1,862,000	1,599,000	1,585,000
Total water sales	56,975,000	54,162,000	55,783,000
Rents from water towers	490,000	504,000	493,000
Miscellaneous	236,000	23,000	9,000
Operating revenue	\$ 57,701,000	\$ 54,689,000	\$ 56,285,000

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Presentation to the Audit Committee

Communication with Those Charged with Governance

Qualitative Aspects of Accounting Practices

- Significant accounting policies have been consistently applied; change in estimate.
- Sensitive accounting estimates for 2010 are reasonable.
- Significant footnote disclosures relate to capital assets, long-term debt, other postemployment benefits and commitments and contingencies.

Disagreements with Management, Audit Difficulties

- No disagreements with management.
- No unexpected difficulties which required additional time or analysis.

Corrected and Uncorrected Misstatements

- No corrected or uncorrected misstatements.

Management Representations

- We have obtained required representations from management.

Management Consultations with Other Accountants

- None to the best of our knowledge.

Other Audit Findings or Issues

- Discussions with management occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Observations and Recommendations

- Review monthly cell phone bills for proper reimbursement of personal usage
- Review employees' financial reporting access rights in greater detail for potential conflicts

Other Deliverables

- Schedule of Overhead Percentage
- Statement of Investments and Statement of Income from Investments
- Comprehensive Annual Financial Report

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MANAGEMENT LETTER

March 24, 2011

The Board of Commissioners and Management
Erie County Water Authority

In planning and performing our audit of the financial statements of Erie County Water Authority (the Authority), a business-type activity, as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

COMMENTS AND RECOMMENDATIONS

1. Access controls

During our testing we reviewed access controls within the Authority's financial reporting system. Our testing was limited to certain critical functions and a determination could not be made as to whether all access was compatible with the specific duties of various employees. We recommend that management perform a more thorough review of the existing rights of employees to ensure that only those who need access to key functions have the rights to do so.

2. Cell phone policy update

The Authority's cell phone policy, as amended during 2010, limits personal phone calls, requires authorization to download additional applications, and requires reimbursement of all personal phone calls at a rate of \$0.20 per minute. We continue to recommend management review of cell phone bills to ensure all usage is in accordance with policy and that the Authority is being properly reimbursed for all personal usage.

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We have discussed these comments with Authority personnel and would be pleased to discuss them in further⁹ detail, perform any additional study, or assist in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Commissioners and management of the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

March 24, 2011

The Board of Commissioners
Erie County Water Authority

We have audited the financial statements of Erie County Water Authority (the Authority), a business-type activity, for the year ended December 31, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter and in our planning meeting on October 28, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The financial statements include significant accounting policies used by the Authority are described in Note 1 to the financial statements. A change in accounting estimate recognized in 2010 to reflect the adjusted fair value of assets originally recorded in connection with conversion of certain other municipal water systems from bulk or lease-managed to direct service systems. No new accounting policies were adopted and the application of all other existing policies was not changed during 2010. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimates of allowances for doubtful accounts
- Useful lives assigned to capital assets and related depreciation methods
- Accrual of compensated absences (vacation and sick pay liabilities)
- Accrual for legal settlements or judgments
- Other postemployment benefits obligation and related disclosures

Management's process for determining the above estimates is based on firm concepts and reasonable assumptions of future events. We evaluated these key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Footnote Disclosures

Certain financial statement disclosures are particularly important because of their significance to financial statement users. The most important disclosures affecting the financial statements are reflected in Note 4 – Capital Assets, Note 5 – Long-Term Debt, Note 7 – Other Postemployment Benefits, and Note 10 – Commitments and Contingencies. These disclosures present the capital assets of the Authority, current obligations and future funding needs of the Authority, the actuarial accrued liabilities and net obligation for the Authority's other postemployment healthcare benefits, and certain commitments of the Authority.

We evaluated the above disclosures in relation to the financial statements taken as a whole and determined that they are reasonable.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We discovered no such misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management of the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

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ERIE COUNTY
WATER AUTHORITY
*Basic Financial Statements and Required
Supplementary Information for the
Years Ended December 31, 2010 and 2009*

ERIE COUNTY WATER AUTHORITY
Basic Financial Statements
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 Statements of Revenue, Expenses and Changes in Net Assets
 Statements of Cash Flows
 Notes to the Financial Statements

ERIE COUNTY WATER AUTHORITY
Members of the Board of Commissioners

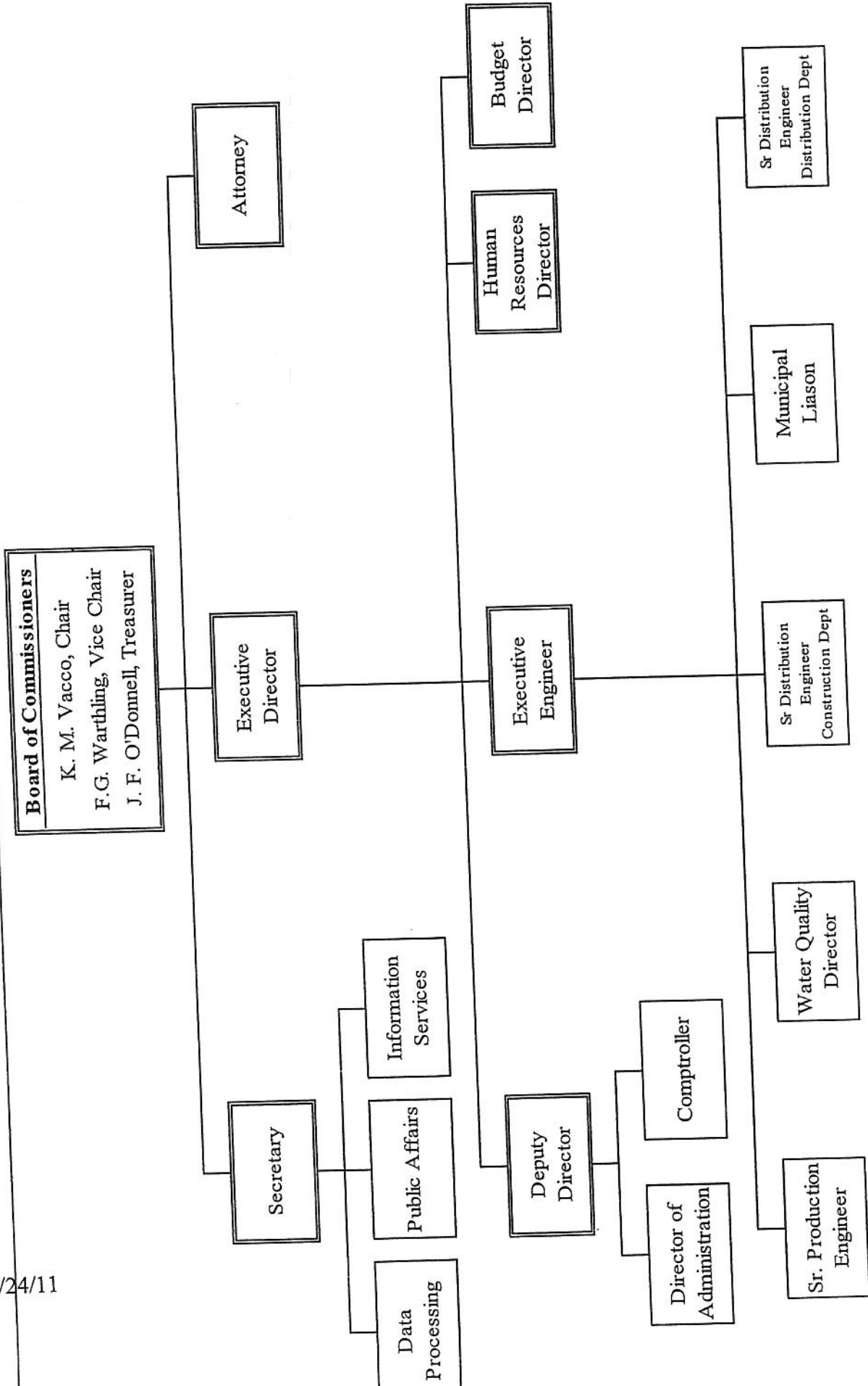
Members of the Board of the Erie County Water Authority are appointed by the Chairman of the Erie County Legislature upon receiving nominations from the majority of the Majority Caucus or the Minority Caucus, subject to confirmation by a majority of the Legislature. Each Member is appointed to a three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

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

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ERIE COUNTY WATER AUTHORITY
Members of the Board of Commissioners

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BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Erie County Water Authority

We have audited the accompanying financial statements of Erie County Water Authority (the Authority), a business-type activity, as of December 31, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other postemployment benefits on pages 4 through 18 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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March 24, 2011

ERIE COUNTY WATER AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
UNAUDITED

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

Financial Highlights

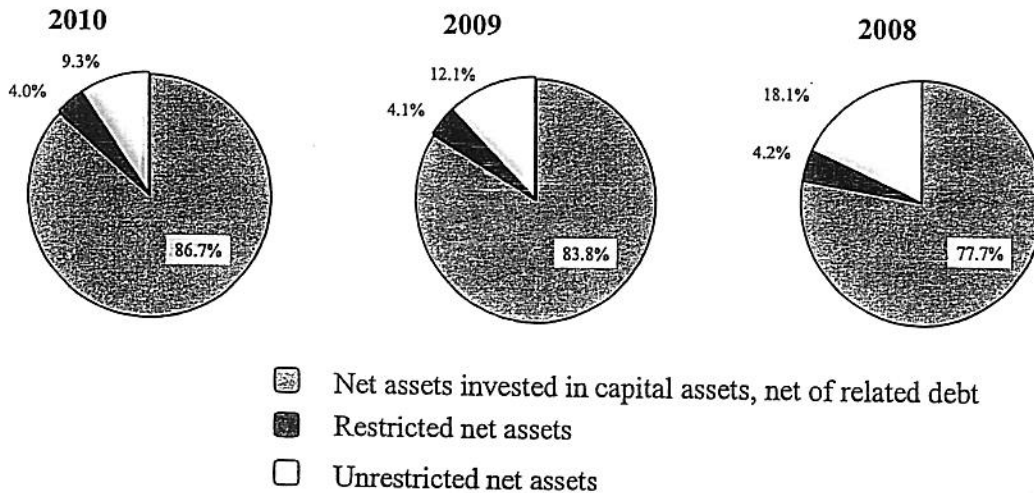
- The Authority's net assets decreased \$12,550,178 as a result of activity for the year ended December 31, 2010. For 2010 \$3,965,783 is net income, \$1,088,835 represents capital contributions (contributions in aid of construction), and \$17,604,796 is a special item resulting in a loss from a change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

Overview of the Financial Statements

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

- The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *Statement of Revenue, Expenses and Changes in Net Assets* presents information showing how the Authority's net assets changed during the most recent reporting period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in prior or future periods (e.g., earned but unused vacation leave and depreciation expense on capital assets).
- The *Statement of Cash Flows* presents information depicting the Authority's cash flow activities for the reporting period ended and the effect that these activities had on the Authority's cash and cash equivalent balances.
- The *Notes to Financial Statements* present additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following the financial statements section of this report.

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



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

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

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

Table 2 - Comparison of current assets and current liabilities

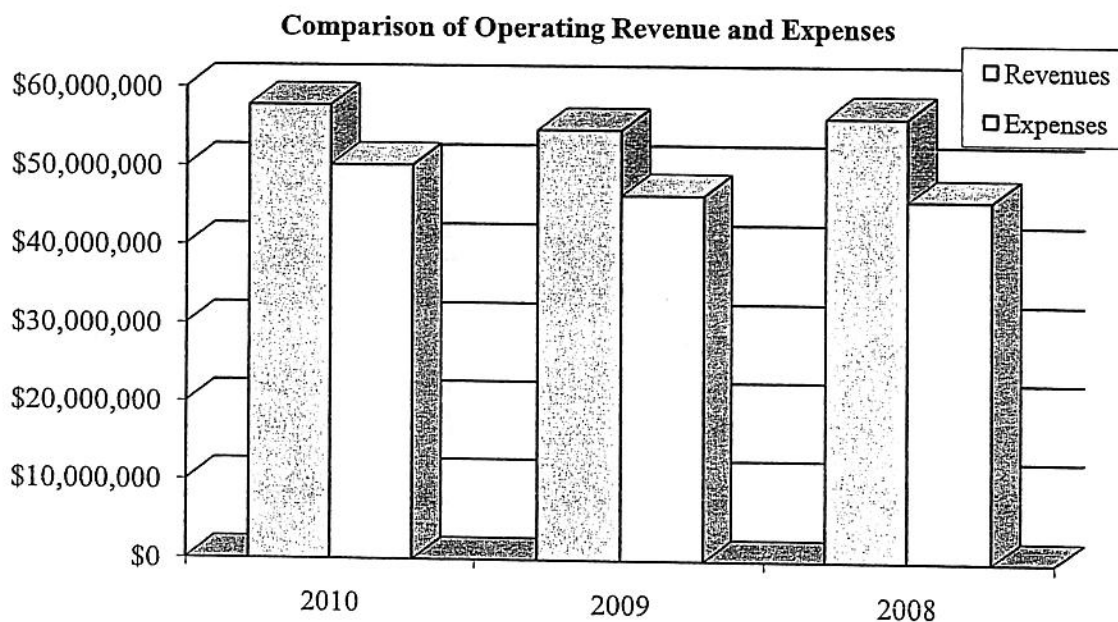
	2010	2009	2008
Current assets	\$ 32,428,335	\$ 34,091,966	\$ 34,305,092
Current liabilities	19,422,202	19,575,321	20,760,295
Ratio of current assets to current liabilities	1.67	1.74	1.65

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

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

	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 57,701,068	\$ 54,688,581
Operating expenses:		
Operation and administration	24,338,869	21,592,955
Maintenance	10,214,890	10,261,401
Depreciation and amortization	11,697,572	11,104,642
Other postemployment benefits	<u>3,881,063</u>	<u>3,469,409</u>
Total operating expenses	<u>50,132,394</u>	<u>46,428,407</u>
Operating income	<u>7,568,674</u>	<u>8,260,174</u>
Nonoperating revenues (expenses):		
Interest income	467,408	871,878
Gain on sale of investments	150,107	-
Interest capitalization during construction	45,125	643,393
Interest expense	<u>(4,265,531)</u>	<u>(4,606,955)</u>
Total nonoperating revenues (expenses)	<u>(3,602,891)</u>	<u>(3,091,684)</u>
Net income before contributions in aid of construction & special item	3,965,783	5,168,490
Contributions in aid of construction	1,088,835	623,387
Special item from change in estimated fair value of acquired assets	<u>(17,604,796)</u>	<u>-</u>
Change in net assets	<u>(12,550,178)</u>	<u>5,791,877</u>
Total net assets - beginning of year	<u>295,347,229</u>	<u>289,555,352</u>
Total net assets - end of year	<u>\$ 282,797,051</u>	<u>\$ 295,347,229</u>
	<u>2009</u>	<u>2008</u>
Operating revenue	\$ 54,688,581	\$56,284,871
Operating expenses:		
Operation and administration	21,592,955	22,892,786
Maintenance	10,261,401	9,148,964
Depreciation and amortization	11,104,642	10,383,433
Other postemployment benefits	<u>3,469,409</u>	<u>3,405,184</u>
Total operating expenses	<u>46,428,407</u>	<u>45,830,367</u>
Operating income	<u>8,260,174</u>	<u>10,454,504</u>
Nonoperating revenues (expenses):		
Interest income	871,878	2,353,043
Interest capitalization during construction	643,393	273,651
Interest expense	<u>(4,606,955)</u>	<u>(5,074,771)</u>
Total nonoperating revenues (expenses)	<u>(3,091,684)</u>	<u>(2,448,077)</u>
Net income before contributions in aid of construction	5,168,490	8,006,427
Contributions in aid of construction	623,387	755,542
Change in net assets	<u>5,791,877</u>	<u>8,761,969</u>
3/24/11 Total net assets - beginning of year	<u>289,555,352</u>	<u>280,793,383</u>
Total net assets - end of year	<u>\$ 295,347,229</u>	<u>\$ 289,555,352</u>

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



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

Table 4 - Summary of Operating Revenue

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

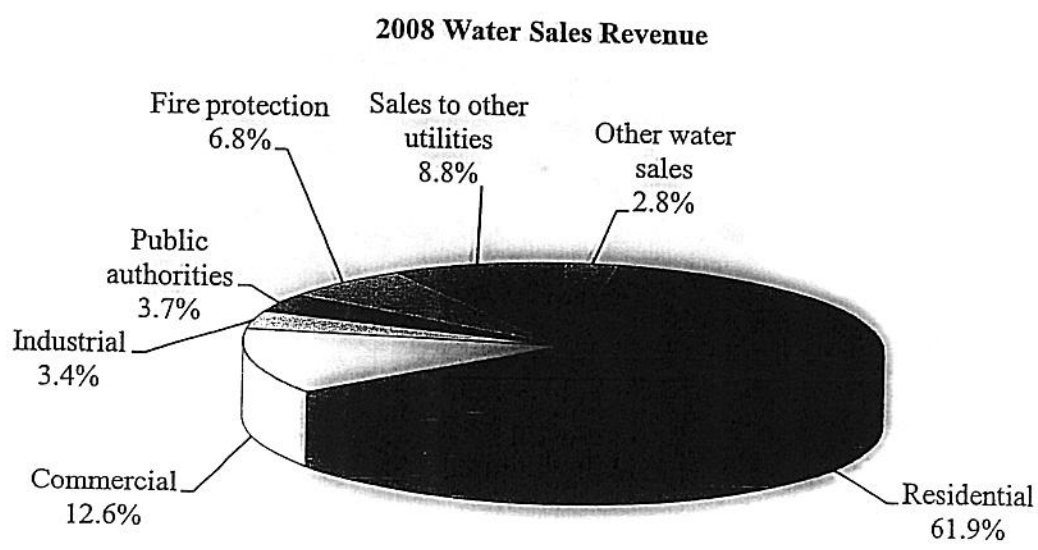
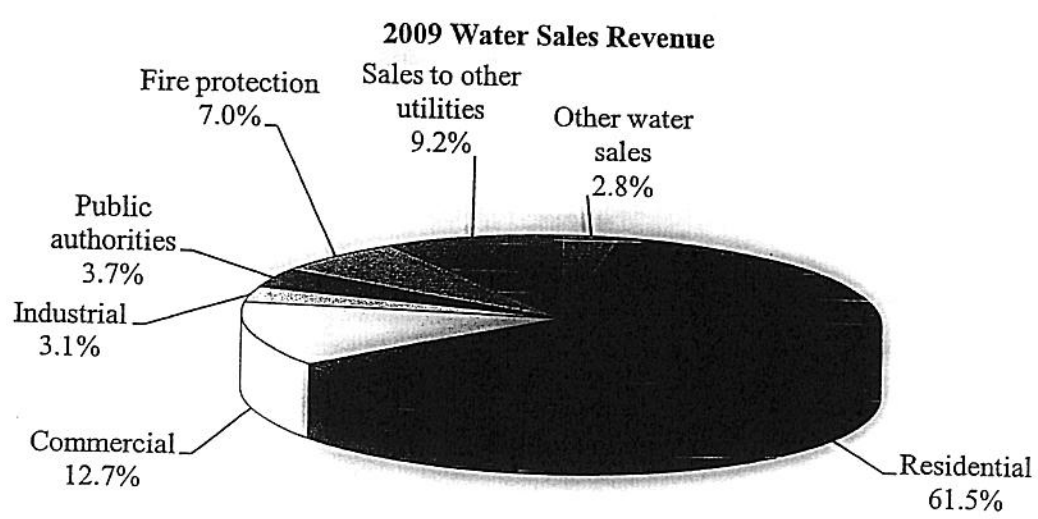
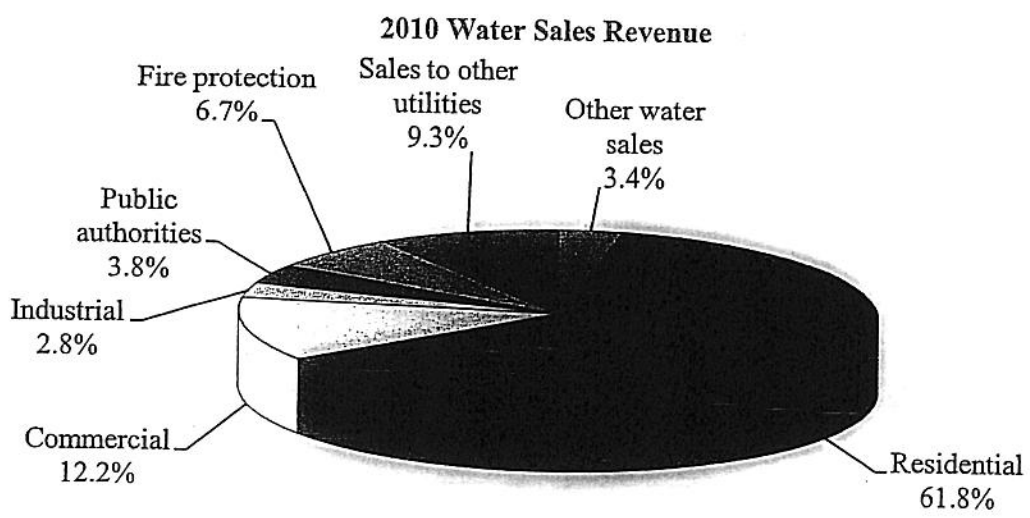
	2009	2008	Increase/(Decrease)	
			Dollars	Percent
Water sales:				
Residential	\$ 33,301,075	\$ 34,520,149	\$ (1,219,074)	(3.5)
Commercial	6,859,468	7,003,921	(144,453)	(2.1)
Industrial	1,664,086	1,901,354	(237,268)	(12.5)
Public authorities	1,988,592	2,052,689	(64,097)	(3.1)
Fire protection	3,783,547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

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

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

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

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

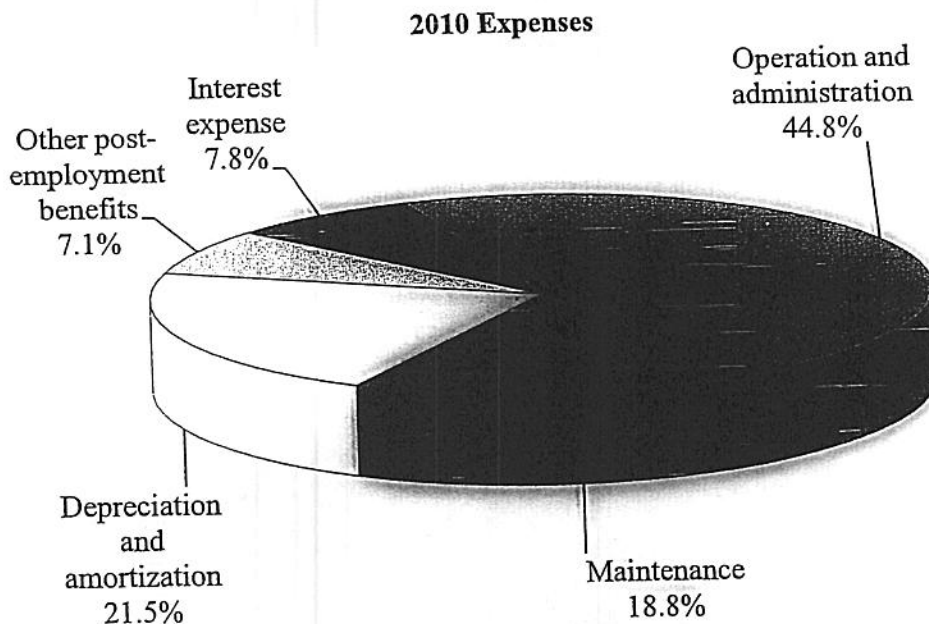


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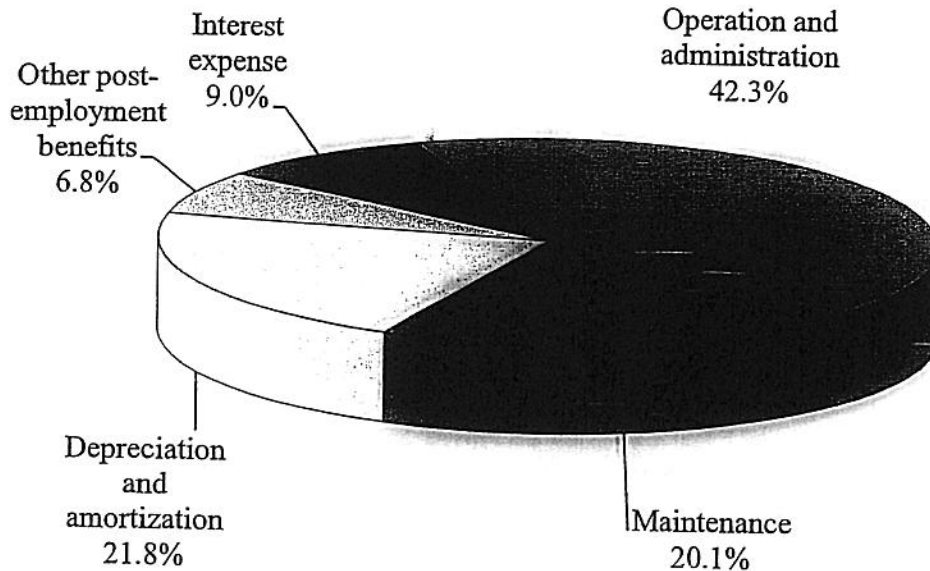
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 As illustrated below, operation and administration expenses are the largest expense and account for 44.8%, 42.3%, and 44.9%, of the Authority's expenses for the years ended December 31, 2010, 2009 and 2008, respectively. The second largest expense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

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

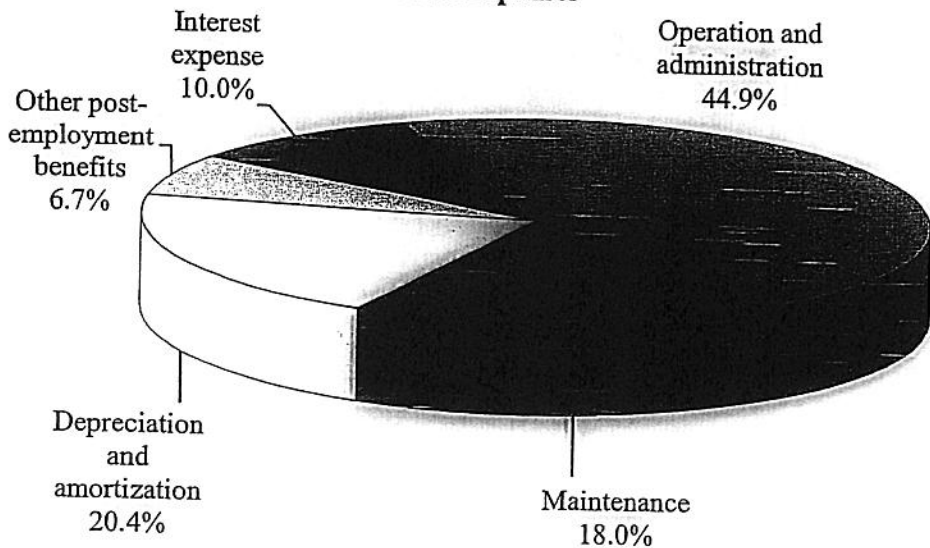
	2009	2008	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 21,592,955	\$22,892,786	\$ (1,299,831)	(5.7)
Maintenance	10,261,401	9,148,964	1,112,437	12.2
Depreciation and amortization	11,104,642	10,383,433	721,209	6.9
Interest expense	4,606,955	5,074,771	(467,816)	(9.2)
Other postemployment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



2009 Expenses



2008 Expenses



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

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

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

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

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

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

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

Table 5 - Summary of Cash Flow Activities

	<u>2010</u>	<u>2009</u>	Increase/(Decrease) <u>Dollars</u>
Cash flows provided (used) by:			
Operating activities	\$ 23,185,455	\$ 22,880,734	\$ 304,721
Capital and related financing activities	(29,717,426)	(39,765,152)	10,047,726
Investing activities	<u>(6,392,514)</u>	<u>(3,961,875)</u>	<u>(2,430,639)</u>
Net decrease in cash and cash equivalents	(12,924,485)	(20,846,293)	7,921,808
Cash and cash equivalents, beginning of year	<u>51,727,790</u>	<u>72,574,083</u>	<u>(20,846,293)</u>
Cash and cash equivalents, end of year	<u>\$ 38,803,305</u>	<u>\$ 51,727,790</u>	<u>\$ (12,924,485)</u>

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

	<u>2009</u>	<u>2008</u>	Increase/(Decrease) <u>Dollars</u>
Cash flows provided (used) by:			
Operating activities	\$22,880,734	\$25,308,187	\$ (2,427,453)
Capital and related financing activities	(39,765,152)	(38,481,479)	(1,283,673)
Investing activities	<u>(3,961,875)</u>	<u>2,958,623</u>	<u>(6,920,498)</u>
Net decrease in cash and cash equivalents	(20,846,293)	(10,214,669)	(10,631,624)
Cash and cash equivalents, beginning of year	<u>72,574,083</u>	<u>82,788,752</u>	<u>(10,214,669)</u>
Cash and cash equivalents, end of year	<u>\$51,727,790</u>	<u>\$72,574,083</u>	<u>\$ (20,846,293)</u>

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

Table 6 - Summary of Cash, Cash Equivalents, and Investments

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Unrestricted	\$ 18,892,001	\$ 15,545,811	\$ 18,620,470
Restricted	<u>31,506,063</u>	<u>36,181,979</u>	<u>53,953,613</u>
Total	<u>\$ 50,398,064</u>	<u>\$ 51,727,790</u>	<u>\$ 72,574,083</u>

Total cash and cash equivalents decreased \$12,924,485 from \$51,727,790 in 2009 to \$38,803,305 in 2010 due, in part, to the redemption of series 1998B bonds in the amount of \$3,290,000. This was offset by a decrease of \$4,450,017 in the amount of cash in investments.

Total cash and cash equivalents decreased \$20,846,293 from \$72,574,083 in 2008 to \$51,727,790 in 2009 due primarily to increased capital spending at the water treatment plants. The coagulation basins at the Sturgeon Point treatment plant represent a \$29,000,000 investment over the prior two years. No long term capital financing was undertaken in 2009 – additions to water plant were made using money previously restricted for capital improvements.

Capital Assets

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

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

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

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

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

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

Debt Administration

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

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

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

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

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

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

Economic Factors

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

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

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

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

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

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

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

Requests for Information

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

ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

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

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ERIE COUNTY WATER AUTHORITY
Statements of Revenue, Expenses and Changes in Net Assets

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

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

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

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

(continued)

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

ERIE COUNTY WATER AUTHORITY

Statements of Cash Flows

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(concluded)

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

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

ERIE COUNTY WATER AUTHORITY
Notes to the Financial Statements
Years Ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity—The Erie County Water Authority (the “Authority”) is a public benefit corporation created in 1949 by the State of New York. The accounts of the Authority are maintained generally in accordance with the Uniform System of Accounts prescribed by the New York State Public Service Commission (“PSC”), although the Authority is not subject to PSC rules and regulations. The rates established by the Authority do not require PSC approval.

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

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

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

Revenues from providing water services are reported as operating revenues. Operating revenues are recorded as water service is supplied. Water supplied, but not billed, as of the calendar year end is estimated based upon historical usage and has been accounted for as earned but unbilled revenue.

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

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

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

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

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

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

Investment securities—Investments are carried at market value based on quoted market prices. The cost of investments sold is determined using the specific identification method and then adjusted to market value changes to reflect the combined net change in these elements in the statements of revenue, expenses, and changes in net assets.

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

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

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

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

Capital assets—Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. The cost of additions to capital assets, including purchased or contributed property, and replacements of retired units of property, is capitalized. Cost includes direct material, labor, overhead and an allowance for funds used during construction equivalent to the cost of borrowed funds advanced for construction purposes. Overhead is added proportionately to the cost of a project on a monthly basis. The cost of retirements of capital assets is charged against accumulated depreciation. Maintenance and repairs are charged to expenses as incurred, and major betterments are capitalized.

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

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

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

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

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

Contributions in aid of construction—Contributions in aid of construction represent amounts received from individuals, governmental agencies, and others, to reimburse the Authority for construction costs incurred on capital projects or the original cost of certain water plant systems conveyed to the Authority by municipalities and others. Only those water plant systems resulting in increased revenue generation are assigned any value and, therefore, recorded as a contribution in aid of construction.

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

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

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

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

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

2. CASH AND INVESTMENTS

Deposits—All uninsured bank deposits are fully collateralized.

Investments—The Authority's bond resolutions and investment guidelines allow for monies to be invested in the following instruments:

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

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

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

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

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

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

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

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

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

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

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

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

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

3. ACCOUNTS RECEIVABLE

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

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

Following fifteen (15) days from the collection letter date, an unpaid account is sent to a collector who schedules a visit to the customer with an unpaid bill notice. At the visit, the account is "posted", and the customer has three (3) working days to either pay the bill in full, or submit a partial payment (25%-33%) with a signed promissory agreement for the remaining balance. The agreement is normally kept to a term of 90 days, with some exceptions to 180 days. A final bill that remains unpaid in a direct service area is referred to an outside collection agency. The collection agency keeps a predetermined portion of any collected monies. In agreements with lease managed water districts, unpaid water bills are referred to municipalities for payment per the terms of a lease management agreement. The outstanding balances of an unpaid final bill in a lease managed area are not referred to an outside agency, instead they are sent to the proper town for payment. Allowances for doubtful accounts at December 31, 2010 and 2009 total \$432,784 and \$708,721, respectively. 3/24/11

44. CAPITAL ASSETS

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

	Balance 1/1/2010	Additions	Deletions	Balance 12/31/2010
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	1,950,305	15,311,315	(12,435,078)	4,826,542
Total capital assets, not being depreciated	<u>4,168,579</u>	<u>15,311,315</u>	<u>(12,435,078)</u>	<u>7,044,816</u>
Capital assets in service, being depreciated:				
Buildings and structures	242,896,817	1,866,799	(2,866,723)	241,896,893
Mains and hydrants	216,363,788	6,397,866	(26,407,836)	196,353,818
Equipment	43,377,501	3,267,918	(744,968)	45,900,451
Other	49,963,188	2,092,515	(2,626,128)	49,429,575
Total capital assets, being depreciated	<u>552,601,294</u>	<u>13,625,098</u>	<u>(32,645,655)</u>	<u>533,580,737</u>
Less accumulated depreciation:				
Buildings and structures	103,287,631	6,127,597	(1,721,144)	107,694,084
Mains and hydrants	48,476,743	1,892,488	(9,999,730)	40,369,501
Equipment	23,422,707	2,159,764	(493,522)	25,088,949
Other	29,723,248	1,040,924	(2,913,955)	27,850,217
Total accumulated depreciation	<u>204,910,329</u>	<u>11,220,773</u>	<u>(15,128,351)</u>	<u>201,002,751</u>
Total capital assets being depreciated, net	<u>347,690,965</u>	<u>2,404,325</u>	<u>(17,517,304)</u>	<u>332,577,986</u>
Total capital assets, net	<u>\$ 351,859,544</u>	<u>\$ 17,715,640</u>	<u>\$ (29,952,382)</u>	<u>\$ 339,622,802</u>
	Balance 1/1/2009	Additions	Deletions	Balance 12/31/2009
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	13,135,714	29,670,976	(40,856,385)	1,950,305
Total capital assets, not being depreciated	<u>15,353,988</u>	<u>29,670,976</u>	<u>(40,856,385)</u>	<u>4,168,579</u>
Capital assets in service, being depreciated:				
Buildings and structures	209,058,723	33,838,094	-	242,896,817
Mains and hydrants	214,333,344	2,279,022	(248,578)	216,363,788
Equipment	40,137,616	3,875,928	(636,043)	43,377,501
Other	48,031,909	1,931,279	-	49,963,188
Total capital assets, being depreciated	<u>511,561,592</u>	<u>41,924,323</u>	<u>(884,621)</u>	<u>552,601,294</u>
Less accumulated depreciation:				
Buildings and structures	97,891,487	5,396,144	-	103,287,631
Mains and hydrants	46,643,778	2,138,798	(305,833)	48,476,743
Equipment	21,992,402	1,982,330	(552,025)	23,422,707
Other	28,573,963	1,149,285	-	29,723,248
Total accumulated depreciation	<u>195,101,630</u>	<u>10,666,557</u>	<u>(857,858)</u>	<u>204,910,329</u>
Total capital assets being depreciated, net	<u>316,459,962</u>	<u>31,257,766</u>	<u>(26,763)</u>	<u>347,690,965</u>
Total capital assets, net	<u>\$ 331,813,950</u>	<u>\$ 60,928,742</u>	<u>\$ (40,883,148)</u>	<u>\$ 351,859,544</u>

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

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

5. LONG-TERM DEBT

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

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

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

The Current Interest Series 1998B and 1998D Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bonds Series 1998B and Series 1998D in 1998. The 1998B and 1998D bonds in the amounts of \$7,780,931 and \$16,859,700, respectively, representing the Authority's portion of these financings, were issued to cover the costs of the construction of two new clearwell water tanks and a new pumping station at the Authority's Sturgeon Point plant.

Payments are made to the bondholders as follows:

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

The bonds bear different rates of interest ranging from 3.65% to 5.15% over their respective installment payment dates scheduled to end on December 15, 2017 and October 15, 2019, respectively.

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

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

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

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

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

The terms of the EFC borrowings provide for an interest subsidy of approximately one-third of the stated interest rates shown above. The subsidy is generated from a United States Environmental Protection Agency grant to the EFC which the EFC invests and credits the borrower with the earnings on the invested funds as an offset to the interest payable on the bonds.

On September 13, 2007, the 2007 Series Bonds were issued for \$35,194,288, which includes a premium of \$194,288 that is amortized over the life of the bonds. The purpose of these bonds is to provide funds for the costs of acquisition and construction of various projects undertaken by the Authority as part of its capital improvement program. This includes the replacement of various water mains and valves in the distribution system, construction of new pump stations, and upgrades to the 3/24/11 regulation basins and the replacement of electrical equipment and installation of standby emergency generators at the Authority's Sturgeon Point and Van de Water Treatment Plants.

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

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

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

Prior to 1993, the Authority completed a plan of restructuring a significant portion of its debt through a series of bond issuances. The net proceeds from these issuances and certain existing funds were deposited with an escrow agent pursuant to refunding agreements, and invested in U.S. Government securities. The maturities of these invested funds and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased bonds as they mature. These advance refunding transactions effectively released the Authority from its obligation to repay these bonds and constituted in-substance defeasances. The principal outstanding on the bonds defeased prior to 1993 is \$5,800,000 at December 31, 2010 with maturities ranging from the year 2011 to the year 2014.

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

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

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

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

6. PENSION PLAN

Plan Description—The Authority participates in the New York State and Local Employees' Retirement System ("State Plan"), which is a cost-sharing, multiple-employer, public employee retirement system. The State Plan provides retirement, disability, and death benefits to members as authorized by the New York State Retirement and Social Security Law. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as the sole trustee and administrative head of the State Plan. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the State Plan and for the custody and control of their funds. The State Plan issues publicly available financial reports that contain financial statements and required supplementary information. The State Plan report may be obtained by writing to the New York State and Local Retirement Systems – Employees' Retirement System, 110 State Street, Albany, New York 12244 or on the Internet at www.osc.state.ny.us.

Funding Policy—Plan members who joined the State Plan before July 27, 1976 are not required to make contributions. Those joining on or after July 27, 1976 are required to contribute 3% of their annual salary for the first ten years of their membership, or credited service. For members hired after January 1, 2010, an additional tier was added which requires a 3% contribution for the duration of their membership. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service, subject to certain limitations. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2010	\$ 1,657,556	11.3% - 15.3%
2009	961,939	7.0% - 9.3%
2008	1,123,063	8.0% - 10.8%

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

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

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

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7. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

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

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

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

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

Actuarial cost method – Projected Unit Credit

Investment rate of return – 5%

Change in consumer price index for medical care – 3.4%

Healthcare cost trend rate – Health insurance – 9.0% initially, reduced to a rate of 5.0% in 2018 and beyond for pre-65 retirees; 7.0% initially rising to 30.0% for fiscal years 2011, 2012 and 2013 and returning to 6.0% in 2014 and declining to 5.0% by 2018 and beyond for post-65 retirees. Prescription drug coverage has an assumed increase of 10.0% initially, declining to 5.0% for 2018 and beyond.

Amortization of actuarial accrued liability – Actuarial accrued liability is being amortized over thirty years using the level dollar method, on an open basis.

Mortality – The RP-2000 Mortality Table for annuitants and non-annuitants with projected mortality improvements; specifically as outlined in IRC Regulation 1.430(h)(3)-1 for 2010 valuations.

Turnover – Rates of turnover are based on experience under the New York State Employees' Retirement System (State Plan).

Retirement incidence – Rates of retirement are based on the experience under the State Plan.

Election percentage – It was assumed 100% of future retirees eligible for coverage will elect postretirement healthcare coverage.

Spousal coverage – 80% of future retirees are assumed to elect spousal coverage upon retirement.

Per capita costs – All retiree health plans are offered through Labor Management Healthcare Fund (LMHF). Actual claims experience from LMHF was used to develop retiree claim costs.

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8. LABOR RELATIONS

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

9. NET ASSETS, RESERVES AND DESIGNATIONS

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

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

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

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

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

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

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

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

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

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

- **Debt Service Account** — The 1992 Fourth Resolution, 1998B, 1998D, 2003F, 2007 and 2008 Supplemental Fourth Resolution bond resolutions require that a specified amount of funds be maintained in the Debt Service Account. The requirements of the Debt Service Account state that the Authority must deposit funds to provide for monthly interest and principal payments to start not later than six months prior to the payment of interest and twelve months prior to the payment of principal.

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

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

10. COMMITMENTS AND CONTINGENCIES

The Authority maintains and operates certain facilities employed in the sale and distribution of water which it leases from various local municipal water districts pursuant to lease management agreements. No financial consideration is afforded the municipalities in conjunction with these lease agreements. Such agreements generally are for at least ten-year terms and automatically renew for additional ten-year terms unless terminated by either party one year prior to expiration of the term. The agreements provide that the municipalities obtain water exclusively from the Authority. Future maintenance and operating costs to be incurred by the Authority under such arrangements presently in effect are not determinable.

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

The Authority is also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2010 and 2009 aggregated \$322,855 and \$320,269. Future minimum annual rentals to be paid under such leases are not significant.

The Authority is involved in litigation and other matters arising in its normal operating, financing, and investing activities. While the resolution of such litigation or other matters could have a material effect on earnings and cash flows in the year of resolution, the Authority has obtained various liability, property, and workers' compensation insurance policies which would reduce exposure to loss on the part of the Authority. Management has made provisions for anticipated losses in the accompanying financial statements as advised by legal counsel. None of this litigation and none of these other matters are expected to have a material effect on the financial condition of the Authority at this time.

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

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

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See independent auditors' report.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Commissioners
Erie County Water Authority

We have audited the financial statements of Erie County Water Authority (the Authority), a business-type activity, as of and for the year ended December 31, 2010, which comprises the Authority's basic financial statements and have issued our report thereon dated March 24, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, and others within the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

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March 24, 2011

ERIE COUNTY
WATER AUTHORITY
Schedule of Overhead Percentage for the
Year Ended December 31, 2010

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Erie County Water Authority

We have audited the overhead components included in the accompanying schedule of overhead percentage of Erie County Water Authority (the Authority) for the year ended December 31, 2010. This schedule is the responsibility of the Authority's management. Our responsibility is to express an opinion on the overhead components included in this schedule 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 overhead components included in the schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of overhead percentage referred to above presents fairly, in all material respects, the overhead percentage of the Authority for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

March 24, 2011

ERIE COUNTY WATER AUTHORITY
Schedule of Overhead Percentage
For the Year Ended December 31, 2010

2010 Expenditures

Operating & Maintenance expenses	\$ 34,553,759
Construction Costs	<u>9,940,660</u>
Total	\$ 44,494,419

Construction Percentage (1) 22.34%

Composition of Overhead:

Water Quality Assurance	\$ 1,182,840
Service Center Unit	623,375
Construction Engineering	2,543,684
Administrative Expenses	3,208,935
Comptrollers Unit	3,003,141
Legal Services	393,169
Secretary to the Authority	2,139,442
Members of the Authority	101,728
General Expenses	<u>1,519,303</u>
Total Overhead	\$ 14,715,617

Construction Percentage multiplied by total overhead \$ 3,287,469

Overhead Percentage (2) 33.07%

(1) Construction costs divided by total expenditures.

(2) Construction percentage multiplied by total overhead divided by construction cost.

ERIE COUNTY
WATER AUTHORITY
Statement of Investments and Statement of
Income from Investments
December 31, 2010

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) as of December 31, 2010 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, 2010 and income from investments for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

March 24, 2011

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ERIE COUNTY WATER AUTHORITY
Statement of Investments
December 31, 2010

	<u>Market Value</u>	<u>Amortized Cost</u>
Working Funds		
Extension and Improvement Accounts:		
Money Market Funds	\$ 15,139,031	\$ 15,139,031
Certificates of Deposit	2,000,000	2,000,000
Total Extension and Improvement Accounts	<u>17,139,031</u>	<u>17,139,031</u>
Operating and Maintenance Accounts:		
Money Market Funds	13,089,818	13,089,818
US Treasury Securities	549,983	549,983
Total Operating and Maintenance Accounts	<u>13,639,801</u>	<u>13,639,801</u>
Sick Pay Reserve Accounts:		
Money Market Funds	<u>1,855,439</u>	<u>1,855,439</u>
Customer Deposit Accounts:		
Money Market Funds	104,924	104,924
Total Working Fund Investments	<u>32,739,195</u>	<u>32,739,195</u>
Fiscal Agent Funds		
Debt Service Reserve Accounts:		
Money Market Funds	101	101
State and Local Government Series Treasury bonds	9,594,759	9,594,759
Total Debt Service Reserve Accounts	<u>9,594,860</u>	<u>9,594,860</u>
Debt Service Accounts:		
Money Market Funds	345,146	345,146
US Treasury Securities	1,302,670	1,302,588
Total Debt Service Accounts	<u>1,647,816</u>	<u>1,647,734</u>
Total Fiscal Agents Funds	<u>11,242,676</u>	<u>11,242,594</u>
Total	<u>\$ 43,981,871</u>	<u>\$ 43,981,789</u>

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ERIE COUNTY WATER AUTHORITY
Statement of Income from Investments
For the Year Ended December 31, 2010

Working Funds:

Extension and Improvement Accounts	\$ 134,376
Operating and Maintenance Accounts	56,260
Sick Pay Reserve Accounts	10,255
Customer Deposit Accounts	<u>2,947</u>
 Total Working Funds	 <u>203,838</u>

Fiscal Agent Funds:

Debt Service Reserve Accounts	268,567
Debt Service Accounts	<u>6,367</u>
 Total Fiscal Agent Funds	 <u>274,934</u>
 Gain on sale of investments	 <u>150,107</u>
 Net decrease in the fair market value of investments	 <u>(11,364)</u>
 Total Income from Investments	 <u>\$ 617,515</u>

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ERIE COUNTY WATER AUTHORITY
Notes to Statements of Investments and of Income from Investments
December 31, 2010

1. ORGANIZATION AND FUNCTION OF THE AUTHORITY

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 1998B, Series 1998D, Series 2003F, Series 2007 and Series 2008 Bonds. At December 31, 2010, the Authority had invested substantially all of its funds in the following:

<u>Security</u>	<u>Interest Rate</u>
US Government obligations	.02%-4.81%
Certificates of deposit	.55%
Cash equivalents (including money market funds, certificates of deposit and repurchase agreements)	.01%-.45%

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.