

**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 22th day of March, 2012.

**PRESENT:** Francis G. Warthling, Chairman  
Earl L. Jann, Jr., Vice Chairman  
John F. O'Donnell, Treasurer (via teleconference)  
Robert A. Mendez, Executive Director  
Matthew J. Baudo, Secretary to the Authority/Personnel Director  
Robert J. Lichtenthal, Jr., Deputy Director  
Wesley C. Dust, Executive Engineer  
Mark J. Fuzak, Attorney  
Ronald P. Bennett, Associate Attorney  
Paul H. Riester, Director of Administration  
Karen A. Prendergast, Comptroller  
Susan Rinaldo, Cash Manager  
Joyce Tomaka, Assistant Manager of Accounting Services

**ATTENDEES:** Sara M. Dayton, Lumsden & McCormick, LLP  
John P. Schiavone, Lumsden & McCormick, LLP

## **CALL TO ORDER**

## **PLEDGE TO THE FLAG**

### **I. - ROLL CALL**

### **II. - READING OF MINUTES**

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to waive the reading of the Minutes of the Audit Committee Meeting held on Thursday, May 12, 2011.

### **III. - APPROVAL OF MINUTES**

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to approve the Minutes of the Audit Committee Meeting held on Thursday, May 12, 2011.

**IV. - REPORTS**

**A) 2011 AUDIT BY LUMSDEN & MCCORMICK**

**Lumsden & McCormick distributed a summary of the 2011 audit. Sara Dayton proceeded to give a presentation to the Committee of the 2011 audit.**

**V. - COMMUNICATIONS AND BILLS**

**VI. - UNFINISHED BUSINESS**

**VII. - NEW BUSINESS**

**VIII. - ADJOURNMENT**

Motion by Mr. O'Donnell, second by Mr. Jann and carried that the meeting adjourn.



Matthew J. Baudo  
Secretary to the Authority

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## MANAGEMENT LETTER

March 22, 2012

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, 2011, 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 the 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.

### UPDATE OF PRIOR YEAR RECOMMENDATIONS

1. Access controls update

During 2010 we reviewed access controls within the Authority's financial reporting system. Our testing was limited to certain critical functions and recommendations were made to limit or remove access to these functions for various employees. We are pleased to report that the access controls have been significantly limited and any areas of risk identified in the previous year have been addressed accordingly. We recommend that Authority management continue to review access controls on an ongoing basis.

2. Cell phone policy update

While we did continue to note some discrepancies on employees' documentation of personal cell phone usage, no personal usage caused the Authority to pay additional fees on its plan. Management monitors monthly minutes to ensure all usage is within plan limits.

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**INFORMATIONAL POINT****3. W-2 Reporting of Healthcare Costs**

The Patient Protection and Affordable Care Act of 2010 will require the Authority to report the cost of healthcare for each employee on Forms W-2, effective with W-2s issued during 2012. This reporting requirement is informational only and its purpose is to provide "useful and comparable consumer information to employees," according to the Internal Revenue Service. Additional guidance is available in IRS Notice 2012-9, available at [www.irs.gov](http://www.irs.gov).

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We have discussed these comments with Authority personnel and would be pleased to discuss them in further 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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# PRESENTATION TO THE AUDIT COMMITTEE

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March 22, 2012

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

John P. Schiavone  
Sara M. Dayton

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Buffalo, NY 14203  
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<sup>6</sup> **Erie County Water Authority**  
 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, 2011 and 2010 and the revenue, expenses and changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Statements of Net Assets**

<u>December 31,</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and investments	\$ 19,882,000	\$ 21,565,000
Customer accounts receivable, net of allowance	4,285,000	4,321,000
Other current assets	9,392,000	6,543,000
	<u>33,559,000</u>	<u>32,429,000</u>
<b>Noncurrent assets:</b>		
Restricted cash and other investments	22,494,000	29,383,000
Capital assets, net	347,172,000	339,623,000
	<u>369,666,000</u>	<u>369,006,000</u>
	<u>403,225,000</u>	<u>401,435,000</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts and other payables	5,491,000	7,040,000
Interest and other accrued liabilities	3,645,000	5,497,000
Compensated absences	1,117,000	1,103,000
Water revenue bonds - current portion	6,053,000	5,783,000
	<u>16,306,000</u>	<u>19,423,000</u>
<b>Noncurrent liabilities:</b>		
Compensated absences	1,762,000	1,763,000
Other postemployment benefits	17,831,000	13,810,000
Water revenue bonds	77,590,000	83,642,000
	<u>97,183,000</u>	<u>99,215,000</u>
<b>Total liabilities</b>	<u>113,489,000</u>	<u>118,638,000</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	259,274,000	245,208,000
Restricted net assets	11,250,000	11,243,000
Unrestricted net assets	19,212,000	26,346,000
	<u>\$ 289,736,000</u>	<u>\$ 282,797,000</u>

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Erie County Water Authority  
 Presentation to the Audit Committee

<b>Statements of Revenue, Expenses and Changes in Net Assets</b>
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<b>For the years ended December 31,</b>	<b>2011</b>	<b>2010</b>
<b>Operating revenue</b>	<b>\$ 59,529,000</b>	<b>\$ 57,701,000</b>
<b>Operating expenses:</b>		
Operating and administration	23,394,000	24,339,000
Maintenance	10,986,000	10,215,000
Depreciation and amortization	11,942,000	11,697,000
Other postemployment benefits	4,021,000	3,881,000
	<u>50,343,000</u>	<u>50,132,000</u>
<b>Operating income</b>	<b>9,186,000</b>	<b>7,569,000</b>
<b>Nonoperating revenues (expenses):</b>		
Interest income	458,000	467,000
Gain on sale of investments	-	150,000
Interest expense, net of amount capitalized	(3,690,000)	(4,220,000)
	<u>(3,232,000)</u>	<u>(3,603,000)</u>
 Income before contributions in aid of construction and special item	 5,954,000	 3,966,000
Contributions in aid of construction	985,000	1,089,000
Special item resulting from a change in estimated fair value of acquired assets	-	(17,605,000)
	<u>-</u>	<u>(17,605,000)</u>
<b>Change in net assets</b>	<b>6,939,000</b>	<b>(12,550,000)</b>
Total net assets - beginning of year	282,797,000	295,347,000
<b>Total net assets - end of year</b>	<b>\$ 289,736,000</b>	<b>\$ 282,797,000</b>

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<sup>8</sup> **Erie County Water Authority**  
Presentation to the Audit Committee

<b>Statements of Cash Flows</b>
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For the years ended December 31,	2011	2010
Cash flows from operations	\$ 19,831,000	\$ 23,185,000
Cash flows for capital and related financing expenditures	(28,863,000)	(29,717,000)
Cash flows from (for) investing activities	3,490,000	(6,162,000)
<b>Net decrease in cash</b>	<b>\$ (5,542,000)</b>	<b>\$ (12,694,000)</b>

<b>Components of Operating Revenue</b>
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For the years ended December 31,	2011	2010	2009
Water sales:			
Residential	\$ 35,664,000	\$ 35,225,000	\$ 33,301,000
Commercial	6,866,000	6,973,000	6,859,000
Industrial	1,550,000	1,605,000	1,664,000
Public authorities	2,015,000	2,171,000	1,989,000
Fire protection	3,903,000	3,817,000	3,784,000
Sales to other utilities	5,086,000	5,322,000	4,966,000
Infrastructure investment charge	1,902,000	-	-
Other water sales	1,970,000	1,862,000	1,599,000
Total water sales	58,956,000	56,975,000	54,162,000
Rents from water towers	487,000	490,000	504,000
Miscellaneous	86,000	236,000	23,000
Operating revenue	\$ 59,529,000	\$ 57,701,000	\$ 54,689,000

## Communication with Those Charged with Governance

### *Qualitative Aspects of Accounting Practices*

- Significant accounting policies have been consistently applied.
- Sensitive accounting estimates for 2011 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

- Update of prior year recommendations relative to access controls and cell phone usage
- Informational comment regarding new W-2 reporting requirements of healthcare costs to employees

## Other Deliverables

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

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**ERIE COUNTY**  
**WATER AUTHORITY**  
*Basic Financial Statements and Required  
Supplementary Information for the  
Years Ended December 31, 2011 and 2010*

**ERIE COUNTY WATER AUTHORITY**  
**Basic Financial Statements**  
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on an Audit of Financial Statements Performed in Accordance with *Government Auditing*  
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**ERIE COUNTY WATER AUTHORITY**  
**Members of the Board of Commissioners**

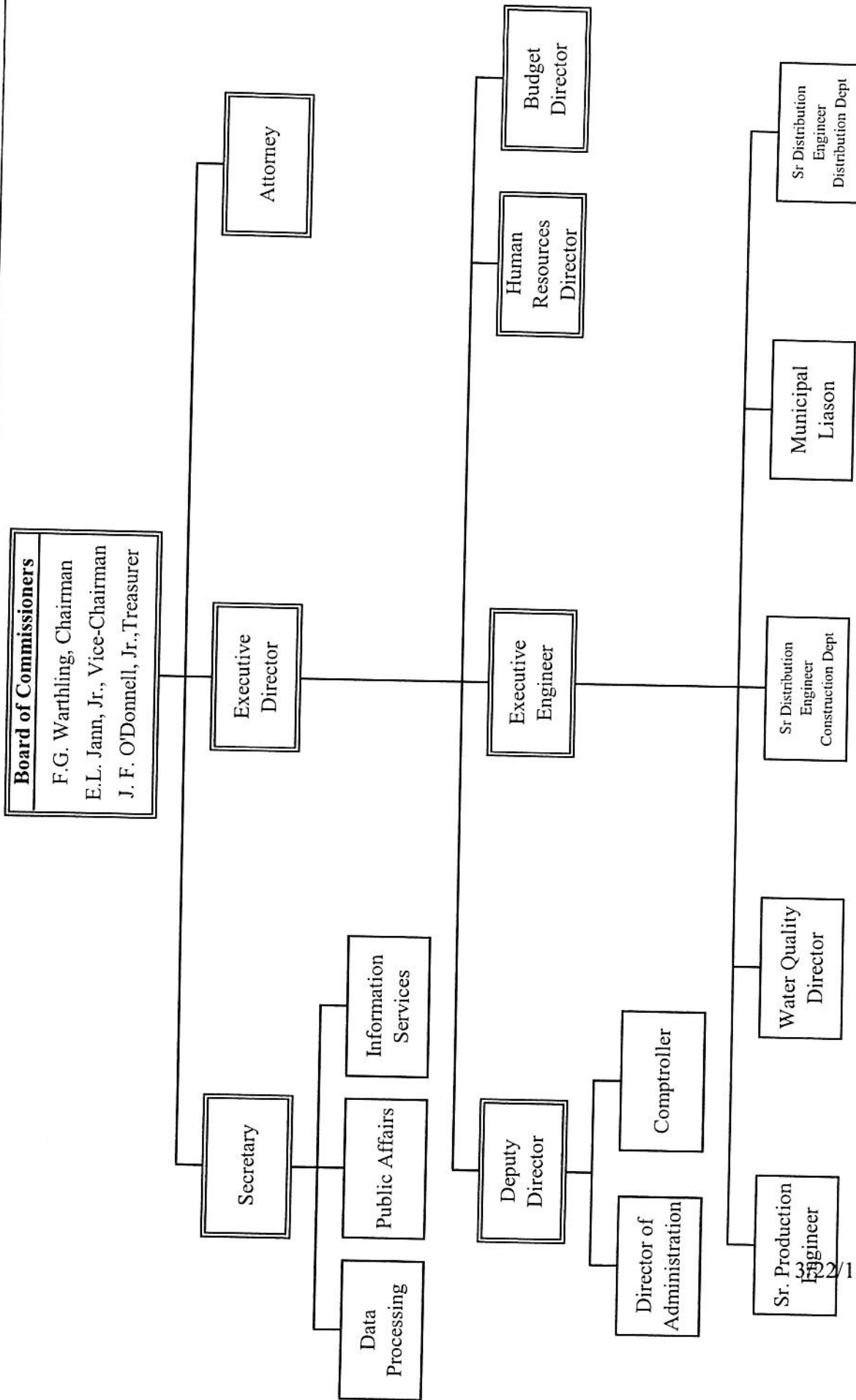
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Members of the Board of the Erie County Water Authority are appointed by the Chairman of the Erie County Legislature upon receiving nominations from the majority of the Majority Caucus or the Minority Caucus, subject to confirmation by a majority of 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.

<b>Board Members on 12/31/2011</b>	<b>Most Recent Appointment Date</b>
Francis G. Warthling, Chairman	April 2009
John F. O'Donnell, Jr., Treasurer	May 2010
Earl L. Jann, Jr., Vice Chairman	May 2011



# ERIE COUNTY WATER AUTHORITY Organizational Chart



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**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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2012 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 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 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 financial statements, and other knowledge we obtained during our audit of the 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 22, 2012

**ERIE COUNTY WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2011 and 2010**  
**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, 2011 and 2010. 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 increased \$6,938,735 as a result of activity for the year ended December 31, 2011. For 2011 \$5,953,503 is net income, and \$985,232 represents capital contributions. Conversely, net assets decreased \$12,550,178 as a result of activity for the year ended December 31, 2010. In 2010, \$3,965,783 is net income, \$1,088,835 represents capital contributions, and \$17,604,796 is a special item resulting in a loss from a change in estimated fair value of acquired assets.
- The assets of the Authority exceeded its liabilities by \$289,735,786 and \$282,797,051, representing net assets at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, unrestricted net assets were \$19,211,536 and \$26,346,449 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 \$5,782,479 compared to a decrease of \$9,213,201 during 2010.

### **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 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.
- The *Statement of Cash Flows* presents information depicting the Authority's cash flow activities for the reporting period 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.

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As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$289,735,786 at December 31, 2011 as compared to \$282,797,051 at December 31, 2010, as presented below in Table 1:

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

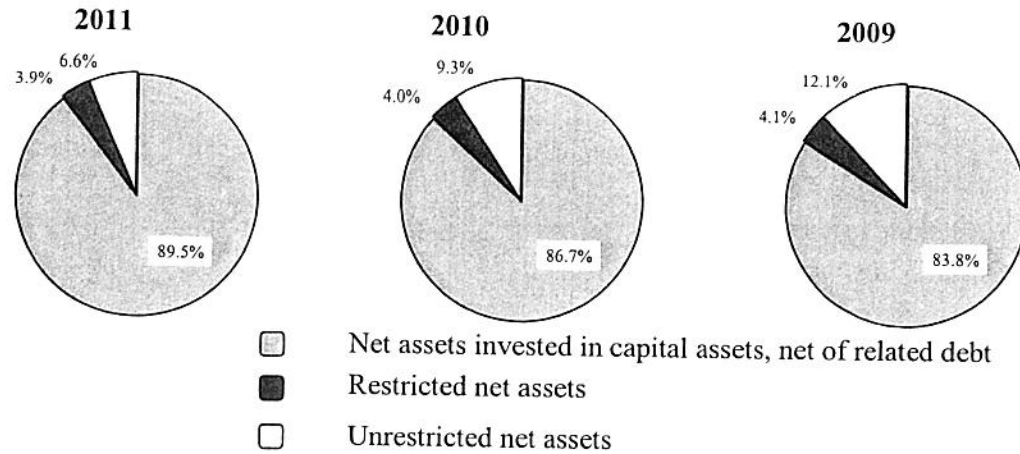
	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Current assets	\$ 33,559,085	\$ 32,428,335	\$ 1,130,750	3.5
Noncurrent assets:				
Other noncurrent assets	22,493,695	29,383,276	(6,889,581)	(23.4)
Capital assets	<u>347,171,722</u>	<u>339,622,802</u>	<u>7,548,920</u>	2.2
Total assets	<u>403,224,502</u>	<u>401,434,413</u>	<u>1,790,089</u>	0.4
Current liabilities	16,305,905	19,422,202	(3,116,297)	(16.0)
Noncurrent liabilities	<u>97,182,811</u>	<u>99,215,160</u>	<u>(2,032,349)</u>	(2.0)
Total liabilities	<u>113,488,716</u>	<u>118,637,362</u>	<u>(5,148,646)</u>	(4.3)
Invested in capital assets, net of related debt	259,274,082	245,207,926	14,066,156	5.7
Restricted	11,250,168	11,242,676	7,492	0.1
Unrestricted	<u>19,211,536</u>	<u>26,346,449</u>	<u>(7,134,913)</u>	(27.1)
Total net assets	<u>\$ 289,735,786</u>	<u>\$ 282,797,051</u>	<u>\$ 6,938,735</u>	2.5

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

At December 31, 2011, the largest portion of the Authority's net assets, 89.5%, consists of the Authority's investment in capital assets, as compared to 86.7% and 83.8% at December 31, 2010 and 2009, 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, 6.6%, at December 31, 2011, as compared to 9.3% and 12.1%, at December 31, 2010, and 2009, 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, 3.9%, 4.0% and 4.1% at December 31, 2011, 2010 and 2009, respectively, is restricted for various purposes.



The Authority's liabilities totaled \$113,488,716, \$118,637,362, and \$124,030,879, at December 31, 2011, 2010 and 2009 respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority had current ratios of 2.06, 1.67, and 1.74, at December 31, 2011, 2010 and 2009, 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, 2011, 2010, and 2009 follows:

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

	2011	2010	2009
Current assets	\$ 33,559,085	\$ 32,428,335	\$ 34,091,966
Current liabilities	16,305,905	19,422,202	19,575,321
Ratio of current assets to current liabilities	2.06	1.67	1.74

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Table 3 shows the changes in net assets for the years ended December 31, 2011, 2010, and 2009:  
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**Table 3 – Erie County Water Authority’s Changes in Net Assets**

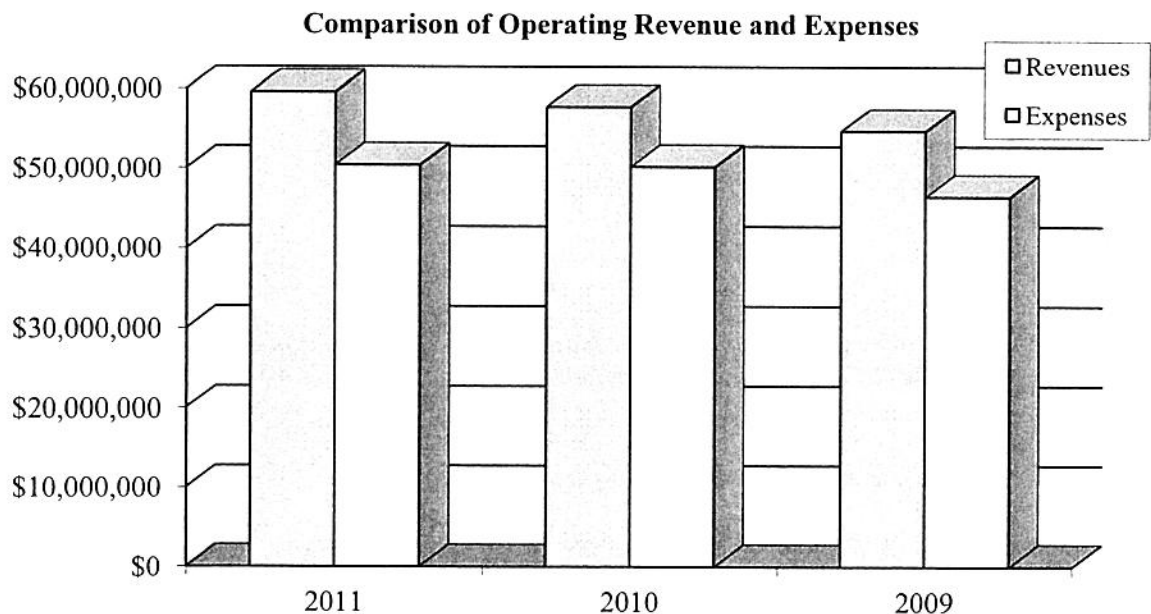
	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 59,529,303	\$ 57,701,068
Operating expenses:		
Operation and administration	23,394,286	24,338,869
Maintenance	10,985,943	10,214,890
Depreciation and amortization	11,941,852	11,697,572
Other postemployment benefits	<u>4,021,089</u>	<u>3,881,063</u>
Total operating expenses	<u>50,343,170</u>	<u>50,132,394</u>
Operating income	<u>9,186,133</u>	<u>7,568,674</u>
Nonoperating revenues (expenses):		
Interest income	458,260	467,408
Gain on sale of investments	-	150,107
Interest capitalization during construction	174,315	45,125
Interest expense	<u>(3,865,205)</u>	<u>(4,265,531)</u>
Total nonoperating revenues (expenses)	<u>(3,232,630)</u>	<u>(3,602,891)</u>
Net income before contributions in aid of construction & special item	5,953,503	3,965,783
Contributions in aid of construction	985,232	1,088,835
Special item from change in estimated fair value of acquired assets	<u>-</u>	<u>(17,604,796)</u>
Change in net assets	6,938,735	(12,550,178)
Total net assets - beginning of year	<u>282,797,051</u>	<u>295,347,229</u>
Total net assets - end of year	<u>\$ 289,735,786</u>	<u>\$ 282,797,051</u>

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**Table 3 – Erie County Water Authority’s Changes in Net Assets (cont’d)**

	2010	19 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	<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>

The following chart depicts a 3.2% increase in operating revenue from \$57,701,068 in 2010 to \$59,529,303 in 2011, compared to a 5.5% operating revenue increase from \$54,688,581 in 2009 to \$57,701,068 in 2010. Operating expenses increased 0.4% from \$50,132,394 in 2010 to \$50,343,170 in 2011, compared to an 8.0% increase from \$46,428,407 in 2009 to \$50,132,394 in 2010.



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20 A summary of operating revenue for the years ended December 31, 2011, 2010 and 2009 is presented below in Table 4:

**Table 4 - Summary of Operating Revenue**

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Water sales:				
Residential	\$ 35,663,644	\$ 35,224,872	\$ 438,772	1.2
Commercial	6,866,248	6,973,293	(107,045)	(1.5)
Industrial	1,549,584	1,604,491	(54,907)	(3.4)
Public authorities	2,015,272	2,170,750	(155,478)	(7.2)
Fire protection	3,903,155	3,816,992	86,163	2.3
Sales to other utilities	5,086,522	5,322,260	(235,738)	(4.4)
Infrastructure investment charge	1,901,758	-	1,901,758	100.0
Other water sales	1,969,950	1,861,997	107,953	5.8
Total water sales	\$ 58,956,133	\$ 56,974,655	\$ 1,981,478	3.5
Other operating income:				
Rents from water towers	487,231	490,467	(3,236)	(0.7)
Miscellaneous	85,939	235,946	(150,007)	(63.6)
Operating revenue	\$ 59,529,303	\$ 57,701,068	\$ 1,828,235	3.2

	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

Water sales represent the vast majority of revenue for the Authority, 99.0% for the year ended December 31, 2011, 98.7% for the year ended December 31, 2010, and 99.0% for the year ended December 31, 2009.

Following are some of the issues and events effecting revenue in 2011:

- In January of 2011, the Authority implemented an infrastructure investment charge of \$3.00 per quarter or \$1.00 per month, based on the length of the billing cycle. Of the \$1,981,478 increase in total water sales from 2010 to 2011, \$1,901,758 was generated by the new charge.

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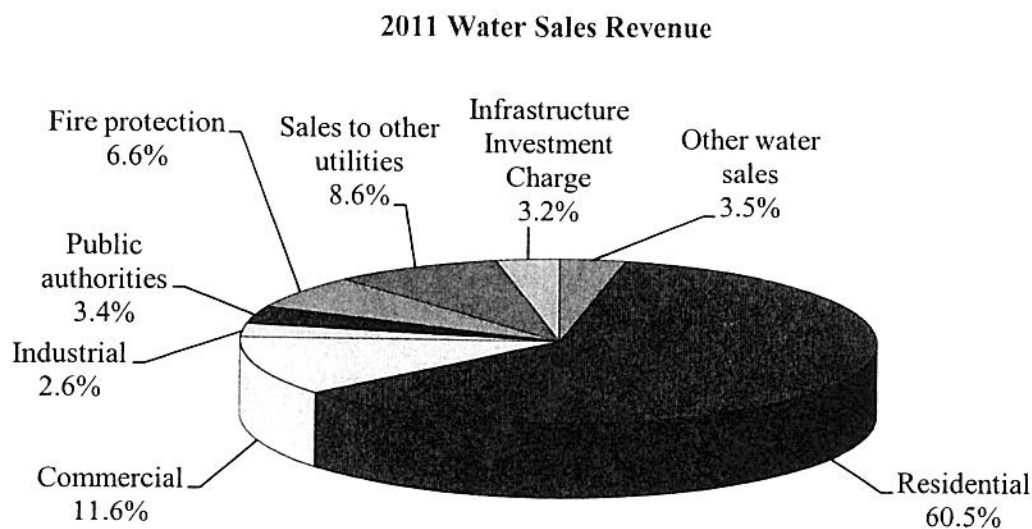


- Residential and other water sales increased 1.2% and 5.8% respectively, due mainly to a dry, hot July – resulting in increased consumption for July, and also an 8.1% increase in the summer surcharges.
- Sales to other utilities decreased 4.4% due to the conversion of the Village of Blasdell from a bulk sale customer to a direct service customer. That decrease was totally offset by an increase in residential sales, as the customers in the Village of Blasdell were added to that category.
- Miscellaneous revenues decreased due to the receipt of a \$190,000 incentive payment from New York State Energy Research and Development Authority (NYSERDA) in 2010 for power savings realized from the installation of variable frequency drives at major pump stations. Although the power savings continue, the incentive received in 2011 was significantly lower - \$25,500.

Comparatively, these issues and events impacted revenue in 2010:

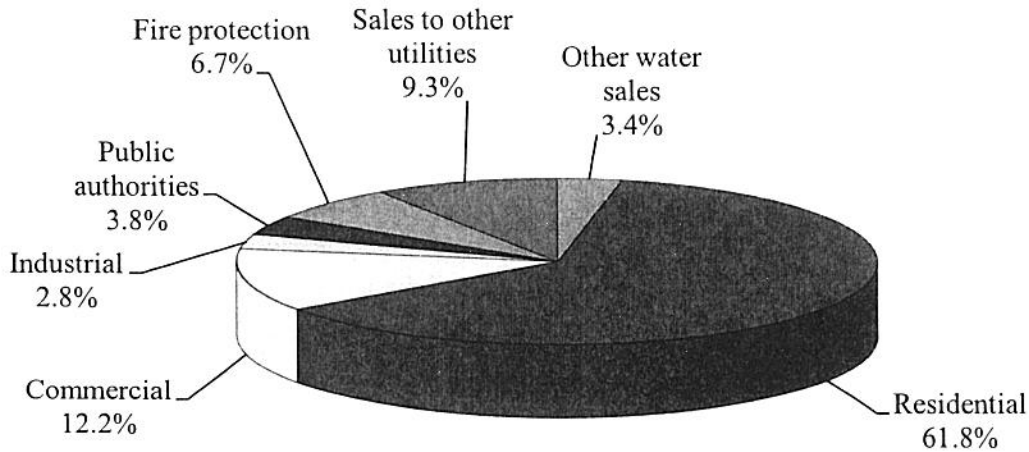
- The 5.2% increase in total water sales from \$54,161,408 in 2009 to \$56,974,655 in 2010 is attributed to a 3.5% general rate increase and a 19.7% increase in the summer surcharge rate from .61¢/1,000 gallons to .73¢/1,000 gallons. The summer surcharge is applied to summer usage in excess of 120% of winter usage.
- Other water sales increased 16.5% which reflects the summer surcharge increase of \$250,437 over 2009.
- Water tower rents decreased as a result of expiring lease agreements where wireless company consolidations resulted in duplication of leased space.

As presented in the illustration below, residential water sales represent the largest portion of water sales for the Authority, which was 60.5%, 61.8%, and 61.5% of total water sales for the years ended December 31, 2011, 2010 and 2009, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 11.6%, 12.2%, and 12.7% of total water sales for the years ended December 31, 2011, 2010 and 2009, respectively.

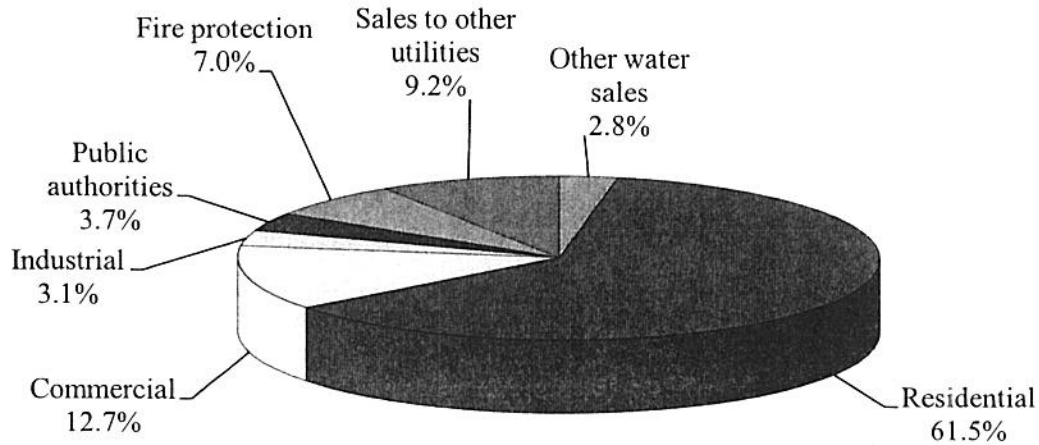


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2010 Water Sales Revenue



2009 Water Sales Revenue



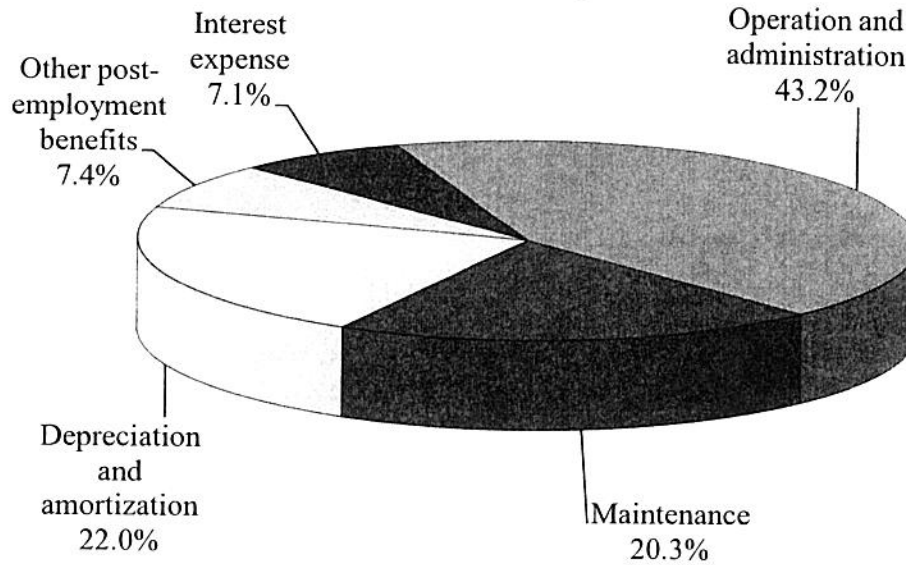
As illustrated below, operation and administration expenses are the largest expense and account for 43.2%, 44.8%, and 42.3% of the Authority’s expenses for the years ended December 31, 2011, 2010 and 2009, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were 22.0%, 21.5%, and 21.8% for the years ended December 31, 2011, 2010 and 2009, respectively.

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 23,394,286	\$24,338,869	\$ (944,583)	(3.9)
Maintenance	10,985,943	10,214,890	771,053	7.5
Depreciation and amortization	11,941,852	11,697,572	244,280	2.1
Interest expense	3,865,205	4,265,531	(400,326)	(9.4)
Other postemployment benefits	4,021,089	3,881,063	140,026	3.6
Total	<u>\$ 54,208,375</u>	<u>\$54,397,925</u>	<u>\$ (189,550)</u>	<u>(0.3)</u>

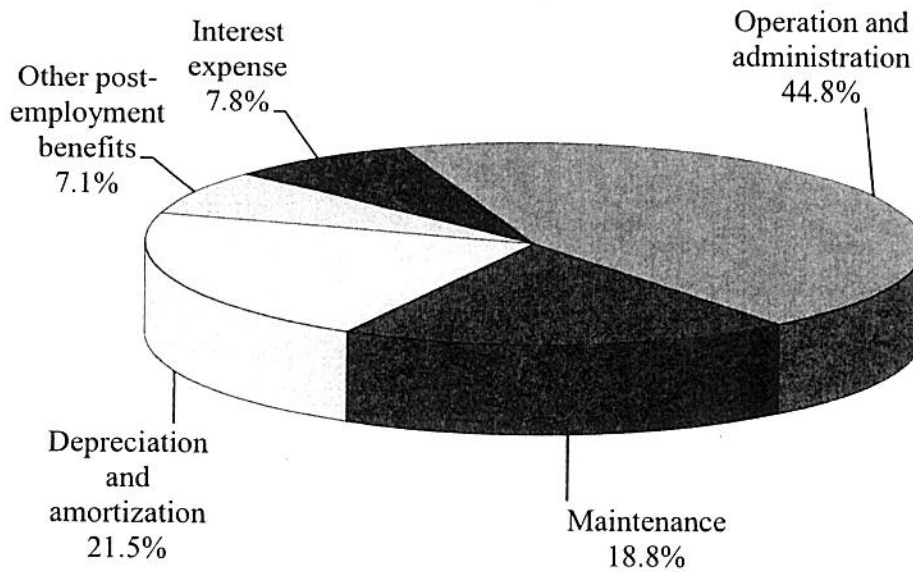
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	2010	2009	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 24,338,869	\$ 21,592,955	\$ 2,745,914	12.7
Maintenance	10,214,890	10,261,401	(46,511)	(0.5)
Depreciation and amortization	11,697,572	11,104,642	592,930	5.3
Interest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

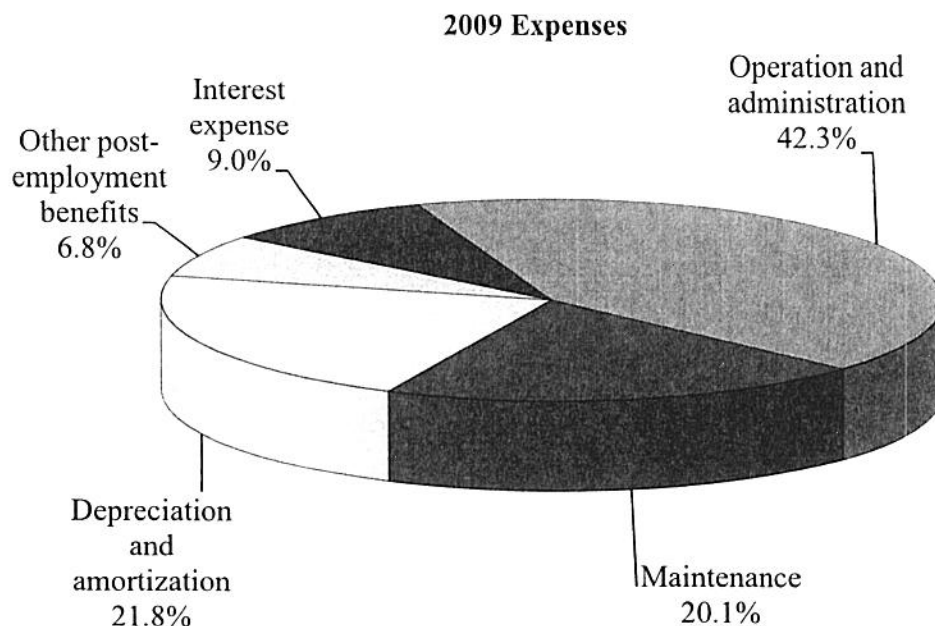
**2011 Expenses**



**2010 Expenses**



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Following are some of the issues and events effecting expenses in 2011:

- Operating and administrative expenses decreased 3.9%, or \$944,583 due, in part, to a 14.7% increase in capital spending which resulted in a \$482,782 increase in applied overhead.
- A 23% decrease in chemical costs resulted from a \$291,877 decline in caustic soda prices which went from \$0.2592/lb in 2010 to \$0.1405/lb in 2011.
- Refuse and waste disposal costs were \$303,107 lower in 2011 due to a smaller amount of residuals estimated to be removed at the end of 2011 as compared to 2010. Removal costs are estimated and accrued annually.
- Maintenance costs increased 7.5% or \$771,053 due to an increase in the number of water main breaks in January and February of 2011 compared to the same period in 2010. The increase in water main breaks resulted in increases in overtime of \$86,295, payments to repair contractors of \$155,910, and stone and cold patch of \$53,954.
- Fringe benefit costs rose 20% from \$6,789,566 in 2010 to \$8,158,350 in 2011. The increase represents a \$795,607 increase in health insurance costs and a \$586,560 increase in pension expense.
- Interest expense decreased \$400,326 due to 2010 bond maturities and the redemption of the Series 1998B bonds on December 15, 2010.

Comparatively, these issues and events impacted expenses in 2010:

- 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.

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- 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 <sup>25</sup> 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.
- 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.

Table 5 presents a summary of the Authority's cash flow activities for the years ended December 31, 2011, 2010 and 2009:

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

	2011	2010	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	\$ 19,830,755	\$ 23,185,455	\$ (3,354,700)
Capital and related financing activities	(28,863,172)	(29,717,426)	854,254
Investing activities	3,489,920	(6,161,868)	9,651,788
Net decrease in cash and cash equivalents	(5,542,497)	(12,693,839)	7,151,342
Cash and cash equivalents, beginning of year	37,773,635	50,467,474	(12,693,839)
Cash and cash equivalents, end of year	<u>\$ 32,231,138</u>	<u>\$ 37,773,635</u>	<u>\$ (5,542,497)</u>

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

At December 31, 2011, 2010, and 2009, cash and cash equivalents were restricted for various purposes as presented below:

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

	2011	2010	2009
Unrestricted	\$ 17,141,131	\$ 18,892,001	\$ 15,545,811
Restricted	15,090,007	18,881,634	34,921,663
Total	<u>\$ 32,231,138</u>	<u>\$ 37,773,635</u>	<u>\$ 50,467,474</u>

Total cash and cash equivalents decreased \$5,542,497 from \$37,773,635 in 2010 to \$32,231,138 <sup>3/22/12</sup> in 2011 due, in part, to the elimination of advance minimum billing of customers. This was offset by a decrease of \$9,907,296 in purchases of investments.

<sup>26</sup>In 2010, total cash and cash equivalents decreased \$12,693,839 from \$50,467,474 in 2009 to \$37,773,635 due, in part, to the redemption of series 1998B bonds in the amount of \$3,290,000. This was offset by an increase of \$6,914,096 in investments.

### Capital Assets

The Authority's investment in capital assets as of December 31, 2011 amounted to \$347,171,722 (net of accumulated depreciation) as compared to \$339,622,802 as of December 31, 2010, and \$351,859,544 as of December 31, 2009. 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)**

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Land	\$ 2,218,274	\$ 2,218,274	\$ -	-
Construction work in progress	3,849,281	4,826,542	(977,261)	(20.2)
Total capital assets, not being depreciated	6,067,555	7,044,816	(977,261)	(13.9)
Buildings and structures	248,273,892	241,896,893	6,376,999	2.6
Mains and hydrants	203,761,489	196,353,818	7,407,671	3.8
Equipment	49,357,555	45,900,451	3,457,104	7.5
Other	51,041,459	49,429,575	1,611,884	3.3
Total capital assets, being depreciated	552,434,395	533,580,737	18,853,658	3.5
Less accumulated depreciation	211,330,228	201,002,751	10,327,477	5.1
Total capital assets, being depreciated, net	341,104,167	332,577,986	8,526,181	2.6
Total capital assets	\$ 347,171,722	\$ 339,622,802	\$ 7,548,920	2.2

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Table 7 - Summary of Capital Assets (Net of Depreciation) (cont'd)

27

	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	7,044,816	4,168,579	2,876,237	69.0
Buildings and structures	241,896,893	242,896,817	(999,924)	(0.4)
Mains and hydrants	196,353,818	216,363,788	(20,009,970)	(9.2)
Equipment	45,900,451	43,377,501	2,522,950	5.8
Other	49,429,575	49,963,188	(533,613)	(1.1)
Total capital assets, being depreciated	533,580,737	552,601,294	(19,020,557)	(3.4)
Less accumulated depreciation	201,002,751	204,910,329	(3,907,578)	(1.9)
Total capital assets, being depreciated, net	332,577,986	347,690,965	(15,112,979)	(4.3)
Total capital assets	\$ 339,622,802	\$ 351,859,544	\$ (12,236,742)	(3.5)

### Debt Administration

At December 31, 2011 the Authority had \$83,642,766 in water revenue bond principal outstanding, net of deferred amounts for bond premium and issuance costs, as compared to \$89,425,245 and \$98,638,446 at December 31, 2010 and 2009. Water revenue bonds outstanding, net of deferred amounts from bond premium and issuance costs, decreased \$5,782,479 during the year ended December 31, 2011, compared to a \$9,213,201 decrease during the year ended December 31, 2010, as a result of making scheduled principal payments, as shown below.

	2011	2010
Series 1998B	\$ -	\$ 3,695,000
Series 1998D	860,000	830,000
Series 2003F	645,000	635,000
Series 2007	685,000	660,000
Series 2008	4,025,000	3,870,000
Total water revenue bond payments	6,215,000	9,690,000
Add (subtract) deferred amounts:		
For bond premiums	302,236	302,235
For issuance costs	(734,757)	(779,034)
Total water revenue bond payments, net of deferred amounts	\$ 5,782,479	\$ 9,213,201

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.



28 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, after a steady decrease, water consumption has remained relatively flat in 2011 as compared to 2010. Although there was a small increase in consumption in 2010 of .63%, it follows a 2.1% decrease from 2008 to 2009. Due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water, significant increases in water sales other than those caused by extreme weather conditions are not expected.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge of \$3.00 per quarter was implemented to maintain the Authority's aggressive investment program in very costly system-wide infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide a dependable, high quality water supply and fire protection services to all customers. Revenues generated from the charge will be used for infrastructure improvements only. In January of 2012, the infrastructure investment charge was increased to \$6 per quarter.

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 operating expenses of the Authority. Tariff rates are shown below:

#### Meters read and billed quarterly (To Nearest 1,000 Gallons)

	2012	2011	2010	2009	
First 300,000 gallons per quarter	\$ 2.96	\$ 2.96	\$ 2.96	\$ 2.86	per 1,000 gallons
Next 1,950,000	2.63	2.63	2.63	2.54	per 1,000 gallons
Next 5,250,000	2.41	2.41	2.41	2.33	per 1,000 gallons
Over 7,500,000	2.12	2.12	2.12	2.05	per 1,000 gallons

#### Meters read and billed monthly (To Nearest 1,000 Gallons)

	2012	2011	2010	2009	
First 100,000 gallons per month	\$ 2.96	\$ 2.96	\$ 2.96	\$ 2.86	per 1,000 gallons
Next 650,000	2.63	2.63	2.63	2.54	per 1,000 gallons
Next 1,750,000	2.41	2.41	2.41	2.33	per 1,000 gallons
Over 2,500,000	2.12	2.12	2.12	2.05	per 1,000 gallons

#### Annual hydrant charges

	2012	2011	2010	2009	
Lease managed districts	\$160.80	\$160.80	\$160.80	\$160.80	per hydrant
3/22/12 Direct service areas	229.08	229.08	229.08	229.08	per hydrant



Size of Meter (inches)	Quarterly Minimum Charge (\$)				Allowance per Quarter (gallons)	Monthly Minimum Charge (\$)			
	2012	2011	2010	2009		2012	2011	2010	2009
5/8	\$ 26.64	\$ 26.64	\$ 26.64	\$ 25.74	9,000	\$ 8.88	\$ 8.88	\$ 8.88	\$ 8.58
3/4	35.52	35.52	35.52	34.32	12,000	11.84	11.84	11.84	11.44
1	62.16	62.16	62.16	60.06	21,000	20.72	20.72	20.72	20.02
1 1/4	79.92	79.92	79.92	77.22	27,000	26.64	26.64	26.64	25.74
1 1/2	115.44	115.44	115.44	111.54	39,000	38.48	38.48	38.48	37.18
2	186.48	186.48	186.48	180.18	63,000	62.16	62.16	62.16	60.06
3	355.20	355.20	355.20	343.20	120,000	118.40	118.40	118.40	114.40
4	586.08	586.08	586.08	566.28	198,000	195.36	195.36	195.36	188.76
6	1,124.70	1,124.70	1,124.70	1,086.60	390,000	374.90	374.90	374.90	362.20
8	1,755.90	1,755.90	1,755.90	1,696.20	630,000	585.30	585.30	585.30	565.40
10	2,466.00	2,466.00	2,466.00	2,382.00	900,000	822.00	822.00	822.00	794.00
12	3,333.90	3,333.90	3,333.90	3,220.20	1,230,000	1,111.30	1,111.30	1,111.30	1,073.40
20	7,390.20	7,390.20	7,390.20	7,139.10	2,820,000	2,463.40	2,463.40	2,463.40	2,379.70
24	9,848.40	9,848.40	9,848.40	9,515.70	3,840,000	3,282.80	3,282.80	3,282.80	3,171.90

**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.

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## **BASIC FINANCIAL STATEMENTS**

**ERIE COUNTY WATER AUTHORITY**  
**Statements of Net Assets**

	December 31,	
	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,141,131	\$ 18,892,001
Restricted cash and cash equivalents	2,741,054	1,643,100
Restricted investments	-	1,029,670
Customer accounts receivable, net of allowance for doubtful accounts	4,285,295	4,320,565
Materials and supplies	2,255,430	2,117,214
Accrued revenue	5,416,717	2,940,658
Prepaid expenses and other assets	1,719,458	1,485,127
Total current assets	<u>33,559,085</u>	<u>32,428,335</u>
Noncurrent assets:		
Investments	549,983	549,983
Restricted cash and cash equivalents	12,348,953	17,238,534
Restricted investments	9,594,759	11,594,759
Capital assets, not being depreciated	6,067,555	7,044,816
Capital assets, being depreciated, net of accumulated depreciation	341,104,167	332,577,986
Total noncurrent assets	<u>369,665,417</u>	<u>369,006,078</u>
Total assets	<u>403,224,502</u>	<u>401,434,413</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	4,704,738	5,399,170
Advances for construction	426,957	466,527
Construction retention	359,169	1,174,197
Accrued interest on water revenue bonds	503,884	533,549
Accrued liabilities	3,141,601	4,963,148
Compensated absences	1,117,077	1,103,132
Water revenue bonds - current portion	6,052,479	5,782,479
Total current liabilities	<u>16,305,905</u>	<u>19,422,202</u>
Noncurrent liabilities:		
Compensated absences	1,761,708	1,762,667
Other postemployment benefits	17,830,816	13,809,727
Water revenue bonds - long term	77,590,287	83,642,766
Total noncurrent liabilities	<u>97,182,811</u>	<u>99,215,160</u>
Total liabilities	<u>113,488,716</u>	<u>118,637,362</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	259,274,082	245,207,926
Restricted		
Debt service reserve account	9,594,858	9,594,860
Debt service account	1,655,310	1,647,816
Unrestricted	19,211,536	26,346,449
Total net assets	<u>\$ 289,735,786</u>	<u>\$ 282,797,051</u>

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

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

---

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Operating revenue	\$ 59,529,303	\$ 57,701,068
Operating expenses:		
Operation and administration	23,394,286	24,338,869
Maintenance	10,985,943	10,214,890
Depreciation and amortization	11,941,852	11,697,572
Other postemployment benefits	4,021,089	3,881,063
Total operating expenses	50,343,170	50,132,394
Operating income	9,186,133	7,568,674
Nonoperating revenues (expenses):		
Interest income	458,260	467,408
Gain on sale of investments	-	150,107
Interest capitalization during construction	174,315	45,125
Interest expense	(3,865,205)	(4,265,531)
Total nonoperating revenues (expenses)	(3,232,630)	(3,602,891)
Net income before contributions in aid of construction and special item	5,953,503	3,965,783
Contributions in aid of construction	985,232	1,088,835
Special item resulting from a change in estimated fair value of acquired assets	-	(17,604,796)
Change in net assets	6,938,735	(12,550,178)
Total net assets - beginning of year	282,797,051	295,347,229
Total net assets - end of year	\$ 289,735,786	\$ 282,797,051

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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**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 54,979,845	\$ 58,008,184
Payments to contractors	(12,566,274)	(13,900,228)
Payments to employees including fringe benefits	(22,582,816)	(20,922,501)
Net cash provided by operating activities	19,830,755	23,185,455
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets, net	(19,873,281)	(16,964,225)
Principal repayments	(6,215,000)	(9,690,000)
Interest paid on revenue bonds, net of amount capitalized	(3,720,553)	(4,311,007)
Advances for construction	(39,570)	158,971
Contributions in aid of construction	985,232	1,088,835
Net cash used by capital and related financing activities	(28,863,172)	(29,717,426)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	-	(9,907,296)
Proceeds from sale or maturity of investments	3,029,670	3,143,307
Interest received	460,250	602,121
Net cash provided (used) by investing activities	3,489,920	(6,161,868)
Net decrease in cash and cash equivalents	(5,542,497)	(12,693,839)
Cash and cash equivalents - beginning of year (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits)	37,773,635	50,467,474
Cash and cash equivalents - end of year (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits)	\$ 32,231,138	\$ 37,773,635

(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

(concluded)

	December 31,	
	2011	2010
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 9,186,133	\$ 7,568,674
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	11,509,331	11,220,773
Amortization expenses	432,521	476,799
Other postemployment benefits	4,021,089	3,881,063
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	35,270	(44,694)
(Increase) decrease in material and supplies	(138,216)	28,851
(Increase) decrease in other assets	(2,712,380)	(191,659)
Increase (decrease) in accounts payable	(694,432)	(103,516)
Increase (decrease) in accrued liabilities	(1,821,547)	459,270
Increase (decrease) in compensated absences	12,986	(110,106)
Total adjustments	10,644,622	15,616,781
Net cash provided by operating activities	\$ 19,830,755	\$ 23,185,455

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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, 2011 and 2010**

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**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 accrued 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. 3/22/12

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**Retirement plan**—The Authority provides retirement benefits for all of its 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.

**Investments**—The Authority considers investments that mature in more than three months but less than a year as investments. Investments that mature in more than one year are considered long term.

**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 property or property contributed in aid of construction, 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 2.1% of the original cost of average depreciable property for each of the years ended December 31, 2011 and 2010.

**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.

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**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 2011 and 2010, \$734,757 and \$779,034, 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 included customer billings collected for subsequent periods and therefore unearned for the year ended December 31, 2010. The practice of billing in advance was discontinued in April of 2011. Also included are provisions for estimated losses and surcharges collected from customers on behalf of various municipalities and unpaid at year end.

**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, 2011 and 2010 totaled \$569,452 and \$620,977, 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, 2011 and 2010 have been adequately reserved for.

**Reclassifications**—Certain amounts relating to the financial statements as of and for the year ended December 31, 2010 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. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* 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.

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During the year ended December 31, 2011, the Authority implemented 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 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 secure payment of their water bills segregated from the Authority's operating cash.

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As of December 31, 2011 and 2010, the Authority had the following restricted cash, cash equivalents, and investments:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Restricted for debt service:				
Cash	\$ 1,655,310	\$ 1,655,310	\$ 345,146	\$ 345,146
Cash equivalents - U.S. Treasury bills	-	-	272,976	273,000
Investments - U.S. Treasury bills	-	-	1,029,612	1,029,670
Total restricted for debt service	<u>1,655,310</u>	<u>1,655,310</u>	<u>1,647,734</u>	<u>1,647,816</u>
Restricted for sick pay reserve, current				
Cash	<u>92,722</u>	<u>92,722</u>	<u>92,772</u>	<u>92,772</u>
Restricted for customer deposits:				
Cash	<u>993,022</u>	<u>993,022</u>	<u>932,182</u>	<u>932,182</u>
Current restricted cash, cash equivalents, and investments	<u>\$ 2,741,054</u>	<u>\$ 2,741,054</u>	<u>\$ 2,672,688</u>	<u>\$ 2,672,770</u>
Restricted for future construction:				
Cash	\$ 10,587,147	\$ 10,587,147	\$ 15,475,766	\$ 15,475,766
Certificates of deposit	-	-	2,000,000	2,000,000
Total restricted for future construction	<u>10,587,147</u>	<u>10,587,147</u>	<u>17,475,766</u>	<u>17,475,766</u>
Restricted for debt service reserve:				
Cash	99	99	101	101
State and Local Government Series Treasury bonds	<u>9,594,759</u>	<u>9,594,759</u>	<u>9,594,759</u>	<u>9,594,759</u>
Total restricted for debt service reserve	<u>9,594,858</u>	<u>9,594,858</u>	<u>9,594,860</u>	<u>9,594,860</u>
Restricted for sick pay reserve, long term:				
Cash	<u>1,761,707</u>	<u>1,761,707</u>	<u>1,762,667</u>	<u>1,762,667</u>
Noncurrent restricted cash, cash equivalents, and investments	<u>\$ 21,943,712</u>	<u>\$ 21,943,712</u>	<u>\$ 28,833,293</u>	<u>\$ 28,833,293</u>
Total restricted cash, cash equivalents and investments	<u>\$ 24,684,766</u>	<u>\$ 24,684,766</u>	<u>\$ 31,505,981</u>	<u>\$ 31,506,063</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, 2011 and 2010, 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.

### 3. ACCOUNTS RECEIVABLE

Accounts receivable primarily represents amounts due from customers for current and past due 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 municipality for payment. Allowances for doubtful accounts at December 31, 2011 and 2010 total \$693,532 and \$432,784, respectively.

## 4. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and December 31, 2010 was as follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	4,826,542	18,204,238	(19,181,499)	3,849,281
Total capital assets, not being depreciated	<u>7,044,816</u>	<u>18,204,238</u>	<u>(19,181,499)</u>	<u>6,067,555</u>
Capital assets in service, being depreciated:				
Buildings and structures	241,896,893	6,932,999	(556,000)	248,273,892
Mains and hydrants	196,353,818	7,506,254	(98,583)	203,761,489
Equipment	45,900,451	4,031,302	(574,198)	49,357,555
Other	49,429,575	1,611,884	-	51,041,459
Total capital assets, being depreciated	<u>533,580,737</u>	<u>20,082,439</u>	<u>(1,228,781)</u>	<u>552,434,395</u>
Less accumulated depreciation:				
Buildings and structures	107,694,084	6,140,063	(612,454)	113,221,693
Mains and hydrants	40,369,501	1,961,989	(91,825)	42,239,665
Equipment	25,088,949	2,291,274	(477,575)	26,902,648
Other	27,850,217	1,116,005	-	28,966,222
Total accumulated depreciation	<u>201,002,751</u>	<u>11,509,331</u>	<u>(1,181,854)</u>	<u>211,330,228</u>
Total capital assets being depreciated, net	<u>332,577,986</u>	<u>8,573,108</u>	<u>(46,927)</u>	<u>341,104,167</u>
Total capital assets, net	<u>\$ 339,622,802</u>	<u>\$ 26,777,346</u>	<u>\$ (19,228,426)</u>	<u>\$ 347,171,722</u>
	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>

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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	<u>400,162</u>	<u>38,339</u>	<u>361,823</u>
		<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, 2011:

<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 12/31/2011</u>
Series 1998D	10/15/2019	2000	.845-3.35% (*)	\$ 16,859,700	\$ 8,190,000
Series 2003F	7/15/2023	2004	.79-4.50% (*)	15,544,443	10,650,000
Series 2007	12/1/2037	2008	4.50-5.00%	35,000,000	32,725,000
Series 2008	12/1/2018	2009	4.00-5.00%	45,770,000	34,120,000
					85,685,000
Less portion due within one year					(6,485,000)
					<u>\$ 79,200,000</u>

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

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.

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

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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.

After the refunding, interest on the 1998D bonds ranges from .845% to 3.355%. Prior to the refunding interest ranged from 3.9% to 5.15%. Interest is payable semi-annually on April 15 and October 15. Principal is payable on October 15. The final maturity of the bonds is October 15, 2019.

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, upgrades to the coagulation basins, 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% to 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

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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.

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 present value savings for the redemption as calculated by our financial advisors, Public Financial Management, Inc. is \$171,354.

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 \$4,350,000 at December 31, 2011 with maturities ranging from 2012 to 2014.

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

Year ending December 31,	Bond Principal	Interest on Bonded Debt
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	7,690,000	2,670,046
2017-2021	22,955,000	8,681,738
2022-2026	9,115,000	5,489,101
2027-2031	7,240,000	3,764,971
2032-2036	9,025,000	1,882,775
2037	2,060,000	103,000
	<u>85,685,000</u>	<u>36,311,612</u>
Less portion due within one year	<u>6,485,000</u>	<u>3,825,728</u>
	<u>\$ 79,200,000</u>	<u>\$ 32,485,884</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 years ended December 31, 2011 and December 31, 2010:

	Balance 1/1/2011	Additions and Appreciation	Deletions	Balance 12/31/2011	Due Within One Year
Series 1998D	\$ 9,050,000	\$ -	\$ (860,000)	\$ 8,190,000	\$ 890,000
Series 2003F	11,295,000	-	(645,000)	10,650,000	660,000
Series 2007	33,410,000	-	(685,000)	32,725,000	710,000
Series 2008	38,145,000	-	(4,025,000)	34,120,000	4,225,000
Bonds payable	\$ 91,900,000	\$ -	\$ (6,215,000)	\$ 85,685,000	\$ 6,485,000
Add (subtract) deferrals:					
For bond premiums	2,514,876	-	(302,236)	2,212,640	302,236
Total bonds payable	\$ 94,414,876	\$ -	\$ (6,517,236)	\$ 87,897,640	\$ 6,787,236
Issuance costs	(4,989,631)	-	734,757	(4,254,874)	(734,757)
Bonds payable, net of issuance costs	\$ 89,425,245	\$ -	\$ (5,782,479)	\$ 83,642,766	\$ 6,052,479
Compensated absences	\$ 2,865,799	\$ 210,175	\$ (197,189)	\$ 2,878,785	\$ 1,117,077

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	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	<u>42,015,000</u>	<u>-</u>	<u>(3,870,000)</u>	<u>38,145,000</u>	<u>4,025,000</u>
Bonds payable	\$ 101,590,000	\$ -	\$ (9,690,000)	\$ 91,900,000	\$ 6,215,000
Add (subtract) deferrals:					
For bond premiums	<u>2,817,111</u>	<u>-</u>	<u>(302,235)</u>	<u>2,514,876</u>	<u>302,236</u>
Total bonds payable	\$ 104,407,111	\$ -	\$ (9,992,235)	\$ 94,414,876	\$ 6,517,236
Issuance costs	<u>(5,768,665)</u>	<u>-</u>	<u>779,034</u>	<u>(4,989,631)</u>	<u>(734,757)</u>
Bonds payable, net of issuance costs	\$ 98,638,446	\$ -	\$ (9,213,201)	\$ 89,425,245	\$ 5,782,479
Compensated absences	\$ 2,975,905	\$ 229,517	\$ (339,623)	\$ 2,865,799	\$ 1,103,132

## 6. PENSION PLAN

**Plan Description**—The Authority participates in the New York State and Local Employees’ Retirement System (“State Plan”), which is a cost-sharing, multiple-employer, public employee retirement system. The State Plan provides retirement, disability, and death benefits to members as authorized by the New York State Retirement and Social Security Law. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (“Comptroller”) serves as the sole trustee and administrative head of the State Plan. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the State Plan and for the custody and control of their funds. The State Plan issues financial reports containing financial statements and required supplementary information. These reports are available to the public and 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](http://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>
3/22/12	2011	\$ 2,207,764	12.7% - 21.5%
	2010	\$ 1,657,556	11.3% - 15.3%
	2009	\$ 961,939	7.0% - 9.3%

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the State Plan: requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible, and changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1<sup>st</sup> (e.g., billings due February 2011 would be based on the pension value as of March 31, 2010).

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.

## 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 137 and 131 retirees receiving health care benefits, at December 31, 2011 and December 31, 2010 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.

On November 23, 2011 the Board of Commissioners adopted a resolution accepting a new nine-year collective bargaining agreement with employees represented by the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME). Under the terms of the agreement, represented employees hired after November 23, 2011 who meet the eligibility requirements will pay 15% of the total premium of the Core Plan for the duration of their retirement. Eligibility criteria for all employees represented by AFSCME were increased from 55 to 58 years of age and, for employees hired after January 1, 2006, from 15 to 20 years of service.

Similarly, on December 13, 2011 the Board of Commissioners adopted an amendment to the Retiree Medical Insurance policy relative to non-represented employees. Effective April 1, 2012 retirees not represented by a collective bargaining agreement shall pay 15% of the full premium of single, double or family point of service (POS) contract. Retirees who elect to enroll in the Traditional Blue PPO 812 plan will pay the difference between the Authority’s share of the POS premium and the PPO premium.

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The Authority's annual postemployment 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 2011 and 2010.

	2011	2010
Annual required contribution	\$5,572,881	\$5,260,201
Interest on net OPEB obligation	690,486	496,433
Adjustment to annual required contribution	(898,343)	(645,874)
Annual OPEB costs (expense)	5,365,024	5,110,760
Contributions made	(1,343,935)	(1,229,697)
Increase in net OPEB obligation	4,021,089	3,881,063
Net OPEB obligation - beginning of year	13,809,727	9,928,664
Net OPEB obligation - end of year	<u>\$17,830,816</u>	<u>\$13,809,727</u>

**Funding Status and Funding Progress**—As of January 1, 2011, based upon an interim valuation, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$52,999,239.

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

	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
January 1, 2011	\$ 5,365,024	\$ 1,343,935	25.0%	\$ 17,830,816
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

**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, 2011 interim 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 (inflation rate)* – 3.4%

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

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

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

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

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

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

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

*Per capita costs* – All retiree health plans are offered through LMHF. Actual claims experience from LMHF was used to develop retiree claim costs.

## 8. LABOR RELATIONS

Certain Authority employees are represented by two bargaining units, American Federation of State, County and Municipal Employees (“AFSCME”) and Civil Service Employees Association, Inc. (“CSEA”). The CSEA contract expired on March 31, 2008 and is currently under negotiation. A new nine-year collective bargaining agreement was ratified by the AFSCME union and adopted by the Board on November 23, 2011. The new contract is effective from April 1, 2008 through March 31, 2017.

## 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>2011</u>	<u>2010</u>
Capital assets, net of accumulated depreciation	\$347,171,722	\$339,622,802
Related debt:		
Water revenue bonds issued for capital assets	(85,685,000)	(91,900,000)
Bond premium	<u>(2,212,640)</u>	<u>(2,514,876)</u>
Investment in capital assets, net of related debt	<u>\$259,274,082</u>	<u>\$245,207,926</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 ended December 31, 2011 and 2010, 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 1998D bond resolution. 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 1998D bonds, the Authority established the debt service reserve as the average of the annual installments of debt service per the bond resolution. 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.

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, 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 \$87 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 2011 and 2010 aggregated \$324,307 and \$322,855. 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.

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**ERIE COUNTY WATER AUTHORITY**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Funding Progress**  
**Other Postemployment Benefit Plan**

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

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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) as of and for the year ended December 31, 2011, which comprise the Authority's basic financial statements and have issued our report thereon dated March 22, 2012. 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 the 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.

March 22, 2012

3/22/12

**ERIE COUNTY**  
**WATER AUTHORITY**  
*Schedule of Overhead Percentage for the*  
*Year Ended December 31, 2011*

**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), a business-type activity, for the year ended December 31, 2011. 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, 2011, in conformity with accounting principles generally accepted in the United States of America.

March 22, 2012

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**ERIE COUNTY WATER AUTHORITY**  
**Schedule of Overhead Percentage**  
**For the Year Ended December 31, 2011**

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**2011 Expenditures**

Operating & Maintenance expenses	\$ 34,380,230
Construction costs	<u>12,169,246</u>
Total	\$ 46,549,476

Construction Percentage (1) 26.14%

**Composition of Overhead:**

Water Quality Assurance	\$ 1,219,099
Service Center Unit	656,868
Construction Engineering	2,650,256
Administrative expenses	3,456,085
Comptrollers Unit	3,085,352
Legal Services	439,650
Secretary to the Authority	2,034,998
Members of the Authority	74,380
General Expenses	<u>806,612</u>
Total Overhead	\$ <u>14,423,300</u>

Construction Percentage multiplied by total overhead \$ 3,770,251

Overhead Percentage (2) 30.98%

(1) Construction costs divided by total expenditures.

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

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

**INDEPENDENT AUDITORS' REPORT**

The Board of Commissioners  
Erie County Water Authority

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

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

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

March 22, 2012

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## ERIE COUNTY WATER AUTHORITY

### Statement of Investments

December 31, 2011

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

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

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**Working Funds:**

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

Total Working Funds	<u>133,069</u>
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**Fiscal Agent Funds:**

Debt Service Reserve Accounts	322,599
Debt Service Accounts	<u>2,674</u>

Total Fiscal Agent Funds	<u>325,273</u>
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Net decrease in the fair market value of investments	<u>(82)</u>
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Total Income from Investments	<u><u>\$ 458,260</u></u>
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**ERIE COUNTY WATER AUTHORITY**  
**Notes to Statements of Investments and of Income from Investments**  
**December 31, 2011**

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**1. ORGANIZATION AND FUNCTION OF THE AUTHORITY**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

3/22/12

