

**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 26th day of March 2015.**

**PRESENT:** Francis G. Warthling, Chairman  
Earl L. Jann, Jr., Vice Chairman  
Jerome D. Schad, Treasurer (via videoconference)  
Matthew J. Baudo, Secretary to the Authority/Personnel Director  
Robert F. Gaylord, Executive Director  
Robert J. Lichtenthal, Jr., Deputy Director  
Wesley C. Dust, Executive Engineer  
John B. Licata, Counsel  
Ronald P. Bennett, Associate Attorney  
Daniel J. NeMoyer, Director of Human Resources  
Karen A. Prendergast, Comptroller  
Steven V. D'Amico, Business Office Manager  
Joyce Tomaka, Asst Manager of Accounting Services

**ATTENDEES:** Brian Gould  
Tom Malecki  
Nichole Ruf

**CALL TO ORDER**

**PLEDGE TO THE FLAG**

**I. - ROLL CALL**

**II. - READING OF MINUTES**

Motion by Mr. Jann seconded by Mr. Schad and carried to waive the reading of the Minutes of the Audit Committee Meeting held on Thursday, October 2, 2014.

**III. - APPROVAL OF MINUTES**

Motion by Mr. Jann seconded by Mr. Schad and carried to approve the Minutes of the Audit Committee Meeting held on Thursday, October 2, 2014.

**IV. - REPORTS (See "Report" Minutes for Details)**

**A) 2014 Audit by Drescher & Malecki LLP**

Drescher & Malecki distributed a summary of the 2014 audit. Tom Malecki and Nichole Ruf proceeded to give a presentation to the Committee of the 2014 audit.



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# ERIE COUNTY WATER AUTHORITY

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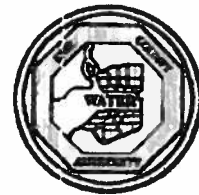
December 31, 2014 Audit



MARCH 26, 2015

## Erie County Water Authority

- Basic Financial Statements
- Schedule of Overhead Percentage
- Schedule of Cash and Investments and Schedule of  
Income from Cash and Investments
- Management Letter
- Auditor Communications
- Comprehensive Annual Financial Report



# Drescher & Malecki LLP Opinion

Drescher & Malecki LLP  
2025 William Street, Suite 8  
Chester, New York 14227  
Telephone: 716.688.2260  
Fax: 716.688.2261



Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners  
Troy County Water Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Troy County Water Authority (the "Authority"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as overseeing the overall preparation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2014, and the operating results in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial 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 financial statements are free from material misstatement.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2014, and the operating results in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Auditor Communications

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- Our responsibility under GAAS
- Significant accounting policies
- Significant accounting estimates
- Independence
- Other matters



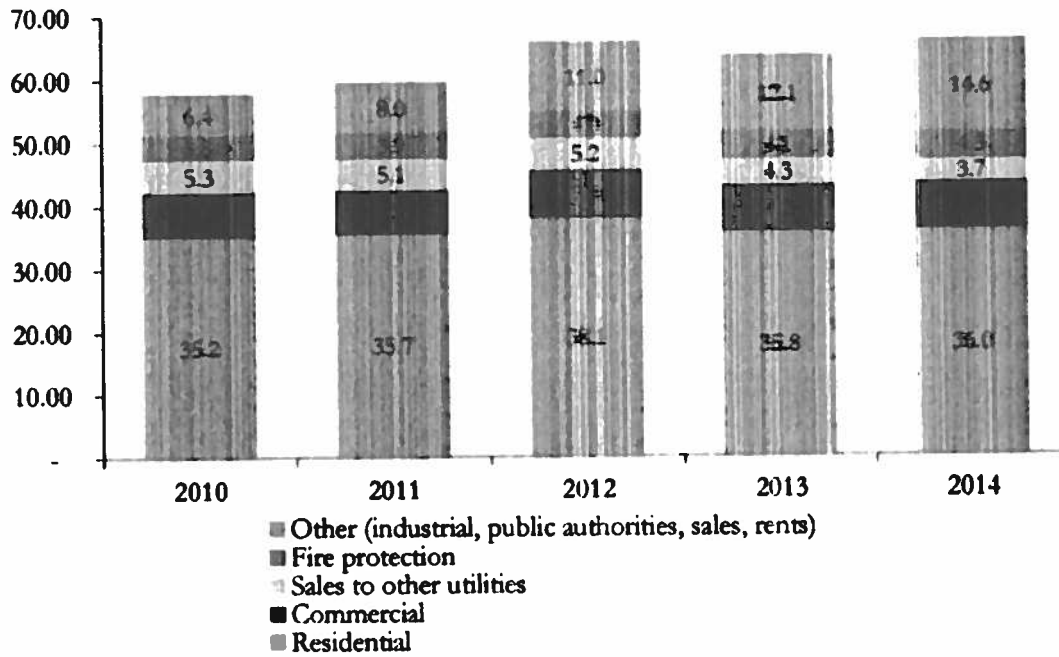
**ECWA**  
**Condensed Financial Information**  
**Condensed Statements of Net Position**

	December 31,	
	2014	2013
<b>Assets:</b>		
Current assets	\$ 44,186,699	\$ 41,428,587
Noncurrent assets	<u>379,656,663</u>	<u>381,169,996</u>
Total assets	<u>423,843,362</u>	<u>422,598,583</u>
<b>Liabilities:</b>		
Current liabilities	18,367,368	17,979,626
Noncurrent liabilities	<u>96,167,076</u>	<u>102,317,118</u>
Total liabilities	<u>114,534,444</u>	<u>120,296,744</u>
<b>Net Position:</b>		
Net investment in capital assets	278,715,700	270,186,065
Restricted	11,234,946	11,225,943
Unrestricted	<u>19,358,272</u>	<u>20,889,831</u>
Total net position	<u>\$ 309,308,918</u>	<u>\$ 302,301,839</u>

ECWA  
 Condensed Financial Information  
 Condensed Statements of Revenues, Expenses and  
 Changes in Net Position

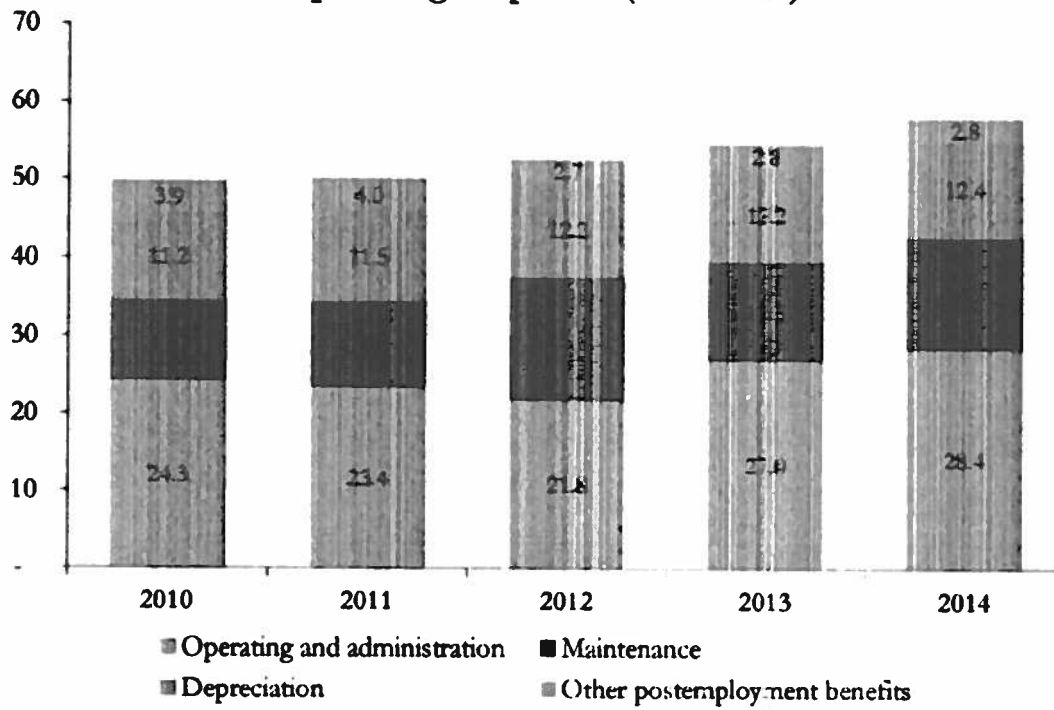
	December 31,	
	2014	2013
Operating revenue	\$ 65,908,808	\$ 63,555,781
Operating expenses	(57,811,984)	(54,382,827)
Nonoperating revenues and expenses	(2,554,433)	(2,727,346)
Contributions in aid of construction	1,464,688	1,392,541
Change in net position	<u>\$ 7,007,079</u>	<u>\$ 7,838,149</u>

ECWA  
Operating Revenues (\$Millions)





# ECWA Operating Expenses(\$Millions)





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## OBSERVATIONS

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**dm**

**Drescher & Malachuk LLP**  
 3063 William Street, Suite 6  
 Cheektowaga, New York 14227  
 Telephone: 716.886.2289  
 Fax: 716.886.2201



**Certified Public Accountants**

March 26, 2015

The Board of Commissioners  
 Erie County Water Authority

We have audited the financial statements of the Erie County Water Authority (the "Authority") as of and for the year ended December 31, 2014, and have issued our report thereon dated March 26, 2015 (which refers to other auditors of the financial statements for the year ended December 31, 2013). Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated November 14, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding matters noted during our audit in a separate letter to you dated March 26, 2015.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

3/26/15

#### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

#### **Qualitative Aspects of the Entity's Significant Accounting Practices**

##### ***Significant Accounting Practices***

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2014. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

During the year ended December 31, 2014, the Authority implemented GASB Statements No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, No. 69, *Government Combinations and Disposals of Government Operations*, and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces GASB Statement No. 25 and Statement No. 50. The objective of GASB Statement No. 69 is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The objective of GASB Statement No. 70 is to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements Nos. 67, 69, and 70 did not have a material impact on the Authority's financial position or results from operations.

##### ***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements are the estimate of the allowance for doubtful accounts, useful lives assigned to capital assets and related depreciation methods, accrued liability for legal expenses, the liability for compensated absences and the liability for other postemployment benefits.

Management's estimate of the allowance for doubtful accounts, useful lives assigned to capital assets and related depreciation methods, accrued liability for legal expenses, the liability for compensated absences and the liability for other postemployment benefits are based on past trends, estimates of specialist third parties, and actuarial valuations. We evaluated the key factors and assumptions used to develop the estimates for the allowance for doubtful accounts, useful lives assigned to capital assets and related depreciation methods, accrued liability for legal expenses, the liability for compensated absences and the

liability for other postemployment benefits and determined that they are reasonable in relation to the basic financial statements taken as a whole.

#### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We discovered no such misstatements during our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We discovered no such misstatements during our audit.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

#### **Representations Requested from Management**

We have requested certain representations from management, which are included in the attached letter dated March 26, 2015.

#### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

#### **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

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

A handwritten signature in dark ink, appearing to read "Daniel J. Mink". The signature is written in a cursive, somewhat stylized font.

March 26, 2015

3/26/15



## Erie County Water Authority

293 Main Street, Room 330 • Buffalo, NY 14203-2494  
716-849-8444 • Fax 716-849-8457

March 26, 2015

**Draucker & Minicelli LLP**  
3003 William St. Suite 5  
Cheektowaga, NY 14227

This representation letter is provided in connection with your audit of the business-type activities of the Erie County Water Authority (the "Authority") as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted for governments in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 26, 2015:

### Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 17, 2014 for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.



3/26/15

- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All components of net position are properly classified, and if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when a expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position is properly recognized under the policy.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated course of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

#### **Information Provided**

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements referred to above, such as records, documentation, meeting minutes, and other matters;




- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Authority has no plans or intentions that may materially affect the carrying values or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Authority is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on the financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

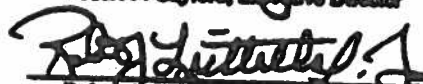
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB 62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62.
- The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

#### **Other Specific Representations**

- We agree with the findings of the specialist in evaluating other post-employment benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist in respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.
- With respect to supplementary information accompanying the financial statements:
  - We acknowledge our responsibility for the presentation of the supplementary information in accordance with U.S. GAAP.
  - We believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP.
  - The methods of measurement or presentation have not changed from those used in the prior period.

- We have no intention of terminating our pension plan, or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any circumstances that could result in the termination of our pension plan to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We do not plan to make frequent amendments to our pension or other postemployment benefit plans.
- The Authority is not required to legally adopt a budget.
- Materials and supplies that are recorded in the financial statements are stated at the lower of cost or market. Provisions have been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventory are the property of the Authority and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded. Quantities at the balance sheet date were determined from the Authority's perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees during the year.
- The Authority labor agreements provide for sick leave, vacations, and miscellaneous other paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. Estimated sick leave and compensatory time accumulated employee has been recorded. Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. The value recorded in the statements at December 31, 2014 is \$4,223,861. Management estimates that \$1,530,192 of the liability is due within one year. A non-current liability totaling \$2,693,669 has also been recorded. Management believes that sufficient resources will be made available for the payments of sick leave and compensatory time when such payments become due.
- Certain amounts relating to the financial statements as of and for the year ended December 31, 2013 have been reclassified in order to be consistent with the current year's presentation.

  
Robert P. Gaylord, Executive Director

  
Robert J. Lichensal, Jr., Deputy Director

**Drecher & Mafuchi LLP**  
 3083 William Street, Suite 5  
 Cheektowaga, New York 14227  
 Telephone: 716.606.2280  
 Fax: 716.606.2201



**Certified Public Accountants**

March 26, 2015

The Board of Commissioners and Management  
 Erie County Water Authority

In planning and performing our audit of the basic financial statements of the Erie County Water Authority (the "Authority") as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 entity's internal control. 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We also summarized new reporting requirements in Appendix A. These should be evaluated to determine the extent the Authority will be impacted in the future years.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

March 26, 2015

**APPENDIX A****New Reporting Requirements**

The Governmental Accounting Standards Board ("GASB") has adopted new pronouncements, which may have a future impact upon the Authority:

**GASB Statement No. 68**—The Authority is required to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the fiscal year ending December 31, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

**GASB Statement No. 71**—The Authority is required to implement GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective for the fiscal year ending December 31, 2015. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

**GASB Statement No. 72**—The Authority is required to implement GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the fiscal year ending December 31, 2016. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

**ERIE COUNTY  
WATER AUTHORITY**  
*Basic Financial Statements and Required  
Supplementary Information for the  
Years Ended December 31, 2014 and 2013  
and Independent Auditors' Report*

Draft

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

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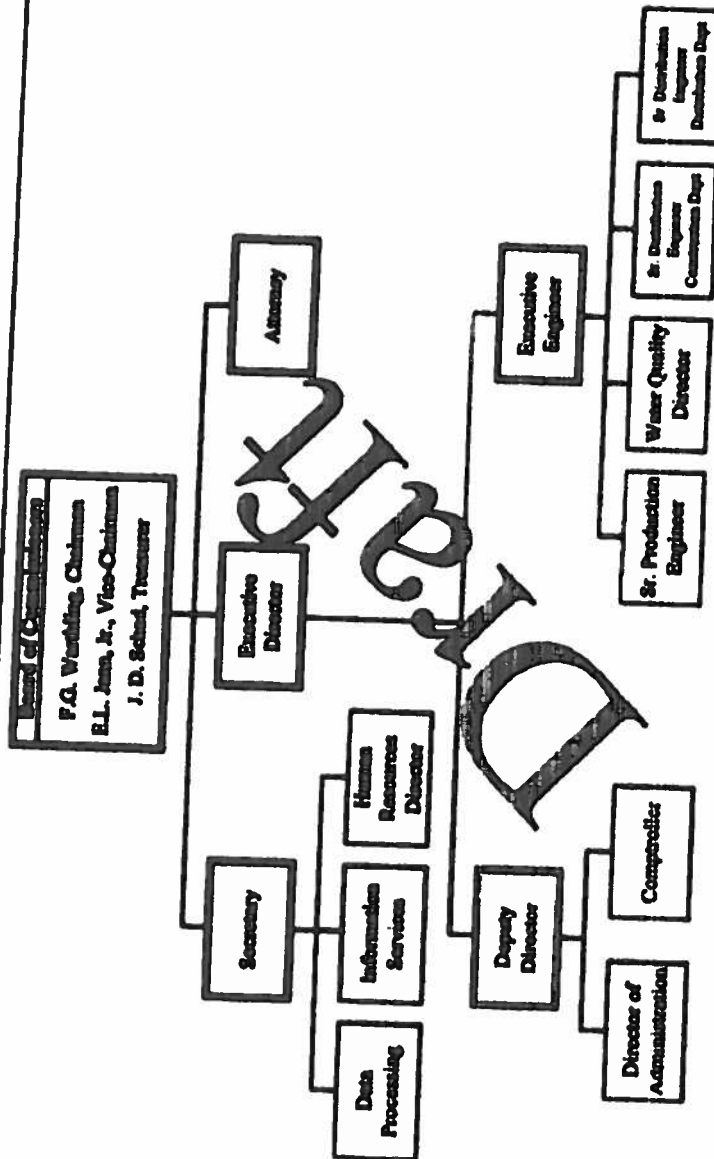
Members of the Board of the Erie County Water Authority are appointed by the Chairman of the Erie County Legislature upon receiving nominations from the majority of the Majority Caucus or the Minority Caucus, subject to confirmation by a majority of the Legislature. Each Member is appointed to a three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

<u>Board Member as of 12/31/2014</u>	<u>Most Recent Appointment Date</u>
Francis G. Werthling, Chairman	2012
Earl L. Jann, Jr., Vice Chairman	2014
Jerome D. Schell, Treasurer	2013

Draft



**ERIE COUNTY WATER AUTHORITY**  
Organizational Chart



## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Erie County Water Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Erie County Water Authority (the "Authority"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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### Auditor's Responsibility

Our responsibility is to express an opinion on the financial 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Predecessor Auditors' Report***

The financial statements of the Authority for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on March 20, 2014.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2015, 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, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

March 26, 2015

**ERIE COUNTY WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2014 and 2013**

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, 2014 and 2013. Certain data from the prior year has been reclassified to conform with the current year presentation. 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 position increased \$7,007,079 as a result of activity for the year ended December 31, 2014. For 2014, \$5,542,391 represents net income. The remaining increase of \$1,464,688 is capital contributions (contributions in aid of construction). In 2013, the Authority's net position increased \$7,838,149. For 2013, \$6,445,608 comprises net income. The remaining increase of \$1,392,541 represents capital contributions.
- The assets of the Authority exceeded its liabilities by \$309,308,918 and \$302,301,839, representing net position at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, unrestricted net position was \$19,351,112 and \$18,711,831 respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness, including related premiums, decreased \$8,487,236 in 2014 compared to a decrease of \$8,941,752 in 2013. The net decrease in 2014 resulted from scheduled principal payments of \$8,140,000 partially offset by the amortization of bond premiums. The net decrease in 2013 resulted from scheduled principal payments of \$7,850,000 coupled by the amortization of bond premiums. An additional principal payment of \$691,616 made in conjunction with the redemption in 2013 of the 2003 Series F bonds by Environmental Facilities Corporation.

**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 prepared as follows:

- The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., earned but unbilled revenues and earned but unused vacation leave).
- The *Statement of Cash Flow* presents information depicting the Authority's cash flow activities for the most recent reporting period and the effect that those activities had on the Authority's cash and cash equivalents balances.

- The *Notes to Financial Statements* present additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following the financial statements section of this report.

#### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$309,308,918 at December 31, 2014 as compared to \$302,301,839 at December 31, 2013, as presented below in Table 1:

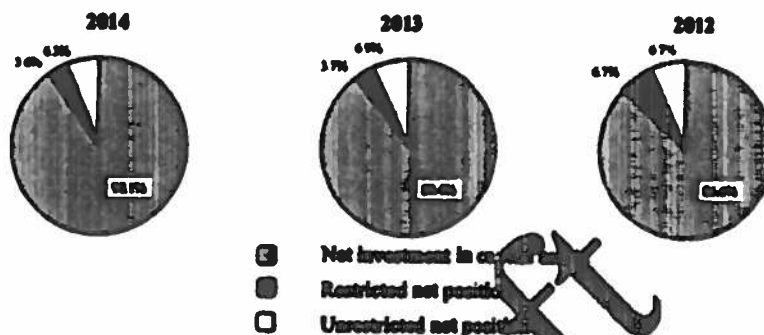
Table 1—Condensed Statement of Net Position

	December 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent
Current assets	\$ 44,186,699	\$ 41,428,587	\$ 2,758,112	6.7
Noncurrent assets:				
Other noncurrent assets	24,661,647	26,217,379	(1,555,732)	(5.9)
Capital assets	354,993,016	354,932,617	42,399	0.0
Total assets	423,841,362	422,598,583	1,244,779	0.3
Current liabilities	18,367,368	17,979,626	387,742	2.2
Noncurrent liabilities	96,167,074	102,317,118	(6,150,042)	(6.0)
Total liabilities	114,534,442	120,296,744	(5,762,300)	(4.8)
Net investment in capital assets	270,186,065	270,186,065	8,529,635	3.2
Restricted	11,225,943	11,225,943	9,003	0.1
Unrestricted	20,889,831	20,889,831	(1,531,559)	(7.3)
Total net position	\$ 302,301,839	\$ 302,301,839	\$ 7,007,079	2.3

	December 31,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
Current assets	\$ 41,428,587	\$ 37,060,817	\$ 4,367,770	11.8
Noncurrent assets:				
Other noncurrent assets	26,217,379	35,251,132	(9,033,753)	(25.6)
Capital assets	354,932,617	348,725,268	6,227,349	1.8
Total assets	423,598,583	421,037,217	1,561,366	0.4
Current liabilities	17,979,626	18,178,378	(198,752)	(1.1)
Noncurrent liabilities	102,317,118	108,395,149	(6,078,031)	(5.6)
Total liabilities	120,296,744	126,573,527	(6,276,783)	(5.0)
Net investment in capital assets	270,186,065	255,114,864	15,071,201	5.9
Restricted	11,225,943	19,662,029	(8,436,086)	(42.9)
Unrestricted	20,889,831	19,686,797	1,203,034	6.1
Total net position	\$ 302,301,839	\$ 294,463,690	\$ 7,838,149	2.7

At December 31, 2014, the largest portion of the Authority's net position, 90.1%, consists of the Authority's net investment in capital assets, as compared to 89.4% and 86.6% at December 31, 2013 and 2012, respectively. This amount is presented net of any outstanding debt which was used to acquire such capital assets. The second largest portion of net position, 6.3%, at December 31, 2014, as compared to 6.9% and 6.7%, at December 31, 2013, and 2012, respectively consists of unrestricted net position. These assets are not limited in any way with regards to how and what they may be used for. The remainder of net position, 3.6%, 3.7% and 6.7% at December 31, 2014, 2013 and 2012, respectively, is restricted for various purposes.



The Authority's liabilities totaled \$114,534,444, \$120,245,740, and \$114,373,527, at December 31, 2014, 2013 and 2012, respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority had current ratios of 2.41, 2.30, and 2.04, at December 31, 2014, 2013 and 2012, 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 compared to current liabilities of the Authority at December 31, 2014, 2013, and 2012 follows:

Table 2—Comparison of Current Assets and Current Liabilities

	December 31,		
	2014	2013	2012
Current assets	\$ 44,186,699	\$ 41,428,587	\$ 37,060,817
Current liabilities	18,367,368	17,979,626	18,178,378
Ratio of current assets to current liabilities	2.41	2.30	2.04

Table 3 shows the changes in net position for the years ended December 31, 2014, 2013, and 2012:

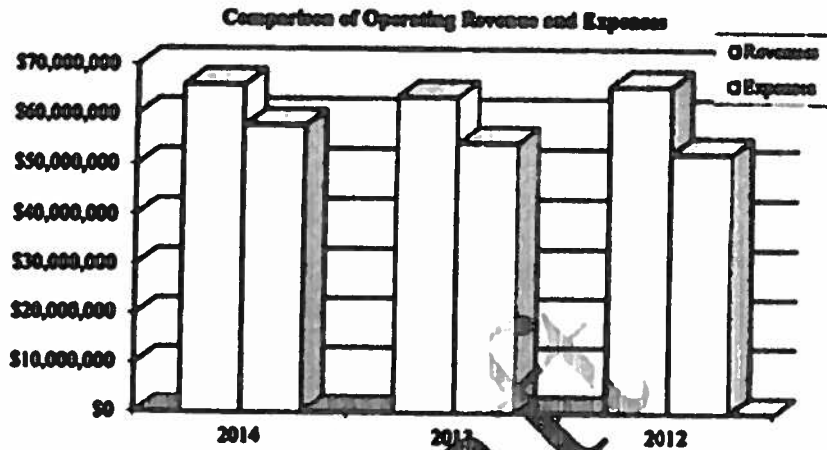
Table 3—Changes in Net Position

	Year Ended December 31,	
	2014	2013
Operating revenue	\$ 65,908,808	\$ 63,555,781
Operating expenses:		
Operation and administration	28,355,340	26,960,359
Maintenance	14,343,462	12,496,844
Depreciation	12,355,427	12,153,619
Other postemployment benefits	2,757,755	2,772,005
Total operating expenses	57,811,984	54,382,827
Operating income	8,096,824	9,172,954
Nonoperating revenues (expenses):		
Interest income	356,668	402,767
Interest capitalization during construction	55,722	215,181
Interest expense	(2,966,823)	(3,345,294)
Total nonoperating revenues (expenses)	(2,554,433)	(2,727,346)
Net income before contributions in aid of construction	5,542,391	6,445,608
Contributions in aid of construction	1,392,541	1,392,541
Change in net position	7,838,149	7,838,149
Total net position—beginning	294,463,690	294,463,690
Total net position—ending	\$ 302,301,839	\$ 302,301,839

	2013	2012
Operating revenue	\$ 63,555,781	\$ 65,763,547
Operating expenses:		
Operation and administration	26,960,359	21,831,010
Maintenance	12,496,844	15,681,903
Depreciation	12,153,619	12,174,628
Other postemployment benefits	2,772,005	2,660,748
Total operating expenses	54,382,827	52,348,289
Operating income	9,172,954	13,415,258
Nonoperating revenues (expenses):		
Interest income	402,767	414,187
Interest capitalization during construction	215,181	76,541
Interest expense	(3,345,294)	(3,485,877)
Total nonoperating revenues (expenses)	(2,727,346)	(2,995,149)
Net income before contributions in aid of construction and special item	6,445,608	10,420,109
Contributions in aid of construction	1,392,541	1,884,809
Special item resulting from change in estimated useful lives of capital assets	-	(3,494,544)
Change in net position	7,838,149	8,810,374
Total net position—beginning	294,463,690	285,653,316
Total net position—ending	\$ 302,301,839	\$ 294,463,690

The following chart depicts a 3.7% increase in operating revenue from \$63,555,781 in 2013 to \$65,900,000 in 2014, compared to a 3.4% decrease in operating revenue from \$65,763,547 in 2012 to \$63,555,781 in 2013. Operating expenses increased 6.3% from \$54,382,827 in 2013 to \$57,811,984 in 2014, compared to a 3.8% increase from \$52,348,209 in 2012 to \$54,382,827 in 2013.



A summary of operating revenue for the years ended December 31, 2014, 2013 and 2012 is presented below in Table 4:

Table 4—Summary of Operating Revenue

	Year Ended December 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent
<b>Water sales:</b>				
Residential	\$ 34,954,051	\$ 35,784,099	\$ 169,152	0.5
Commercial	7,450,855	7,245,844	205,011	2.8
Industrial	1,689,835	1,585,025	104,810	6.6
Public authorities	2,275,352	2,147,079	128,273	6.0
Fire protection	4,266,755	4,145,727	121,028	2.9
Sales to other utilities	3,604,340	4,275,543	(589,203)	(13.8)
Infrastructure investment charge	7,992,100	5,885,407	2,106,693	35.8
Other water sales	2,011,690	1,883,493	128,197	6.8
<b>Total water sales</b>	<b>65,326,906</b>	<b>62,953,017</b>	<b>2,373,969</b>	<b>3.8</b>
<b>Other operating revenue:</b>				
Rents from water towers	531,608	524,616	6,992	1.3
Miscellaneous	50,214	78,148	(27,934)	(35.7)
<b>Operating revenue</b>	<b>\$ 65,908,000</b>	<b>\$ 63,555,781</b>	<b>\$ 2,352,219</b>	<b>3.7</b>



Table 4—Summary of Operating Revenue (cont'd)

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
<b>Water sales:</b>				
Residential	\$ 35,784,899	\$ 38,069,148	\$ (2,284,249)	(6.0)
Commercial	7,245,844	7,482,928	(237,084)	(3.2)
Industrial	1,585,025	1,651,835	(66,810)	(4.0)
Public authorities	2,147,079	2,255,872	(108,793)	(4.8)
Fire protection	4,145,727	4,015,933	129,794	3.2
Sales to other utilities	4,275,543	5,206,479	(930,936)	(17.9)
Infrastructure investment charge	5,885,407	3,841,349	2,044,058	53.2
Other water sales	1,883,493	2,482,331	(598,838)	(24.1)
<b>Total water sales</b>	<b>62,933,017</b>	<b>65,005,875</b>	<b>(2,052,858)</b>	<b>(3.2)</b>
<b>Other operating revenues:</b>				
Rents from water towers	524,616	538,936	(14,320)	(2.7)
Miscellaneous	78,148	1,736	(140,588)	(64.3)
<b>Operating revenue</b>	<b>\$ 63,535,781</b>	<b>\$ 66,795,547</b>	<b>\$ (2,207,766)</b>	<b>(3.4)</b>

Water sales represent the vast majority of revenue for the Authority, 99.1% for the years ended December 31, 2014 and December 31, 2013, and 98.8% for the year ended December 31, 2012.

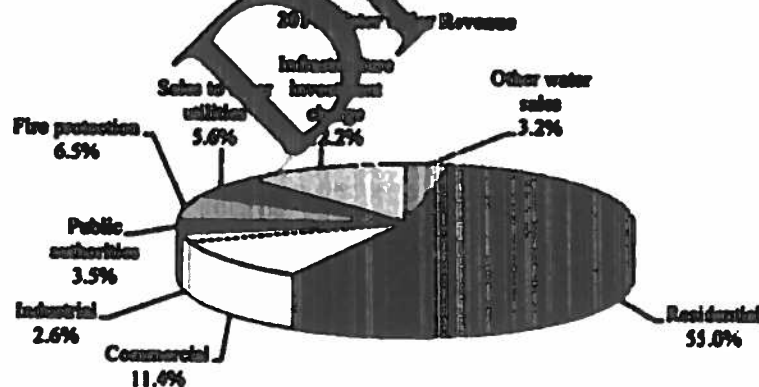
Following are some of the issues and events affecting revenue in 2014:

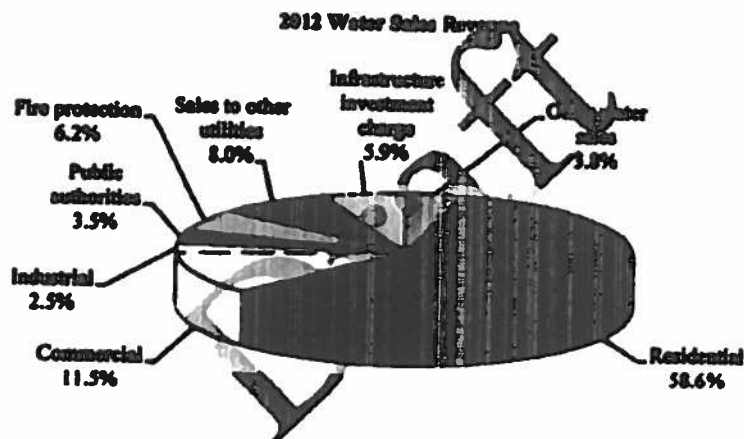
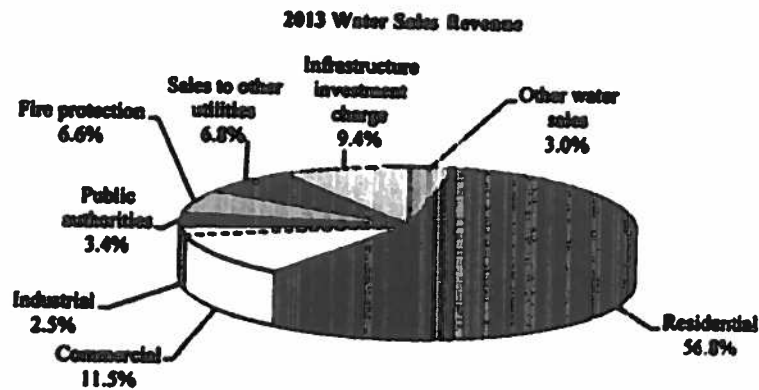
- > The Infrastructure Investment Charge increased \$106,693 in 2014. On January 1, 2014, the 2013 rate of \$9.00 per billing month to \$12.00 per billing month was increased to \$12 and \$4 per billing respectively. The conversion of the Village of Williamsville from bulk service to direct service also contributed to the increase. Approximately 1,800 additional monthly and quarterly customers are now paying the infrastructure investment charge compared to one monthly charge paid previously by the Village of Williamsville.
- > Metered rates rose 1.35% (or \$4) per thousand gallons on January 1, 2014 giving rise to small increases in revenue in all metered water categories except bulk sale revenue. Bulk sale revenue decreased 13.8% due to the conversion of the Village of Williamsville from bulk sales to direct service in June of 2014 and the conversion of the Town of Evans from bulk sale to lease managed in April of 2013. Billed consumption decreased 2.0% offsetting most of the increase in metered revenue.
- > A sharp increase in late charges of \$236,335, 30.8%, from \$765,636 in 2013 to \$1,002,029 in 2014 contributed to the rise in revenue as well. Although the late charge rate remained the same, the Authority collected 19,809 more late charges in 2014 than in 2013. As a result of the increased water and infrastructure investment charges, they were, also, 11% higher on average.
- > Miscellaneous non-operating revenue decreased \$28,463 due to fewer scrap sales in 2014. The enactment of a new Federal Public Law 111-310: Reduction of Lead in Drinking Water Act which regulates the amount of lead that is permissible when used with respect to the wetted surfaces of pipes, pipe fittings, plumbing fittings and fixtures resulted in scrapping non-compliant parts and materials during 2013.

Comparatively, these issues and events impacted revenue in 2013:

- > In January of 2013, the infrastructure investment charge was raised from \$6.00 per quarter or \$2.00 per month based on the length of the billing cycle to \$9.00 quarterly or \$3.00 per month. An additional \$2,044,058 in revenue was generated from the increase in the infrastructure investment charge.
- > Billed consumption decreased 7.7% in 2013 across all account types resulting in lower revenues, including a 46%, or \$664,819 decrease in summer surcharges. Annual rainfall increased 34.8% in 2013 as compared to 2012 resulting in lower water consumption. Extremely low rainfall amounts in June and July in 2012 resulted in unusually high water consumption.
- > Rents from water towers decreased \$14,320 in 2013 due to a lease cancellation in November of 2012 which resulted from carrier consolidations.
- > Miscellaneous non-operating revenue decreased \$140,590 due to a \$114,137 return of collateral from The Hartford Insurance Company in 2012, which was not reported in 2013. This decrease was partially offset by the sale of scrap metal.

As presented in the illustration below, residential water sales represent the largest portion of water sales for the Authority, which was 55.0%, 56.8%, and 51.4% of total water sales for the years ended December 31, 2014, 2013 and 2012, respectively. For the year ended December 31, 2014, the second largest water sales revenue for the Authority is Infrastructure Investment Charge, which was 12.2% of total water sales for the year. For the years ended December 31, 2013 and 2012, the second largest water sales revenue component for the Authority is commercial water sales, which was 11.5% in each of these years.





As illustrated below, operation and administration expenses are the largest expenses and account for 46.7%, 46.7%, and 39.0%, of the Authority's expenses for the years ended December 31, 2014, 2013 and 2012, respectively. The second largest expenses for the Authority for the years ended December 31, 2014, 2013 and 2012 was maintenance, which was 23.6%, 21.6% and 28.1%, respectively.

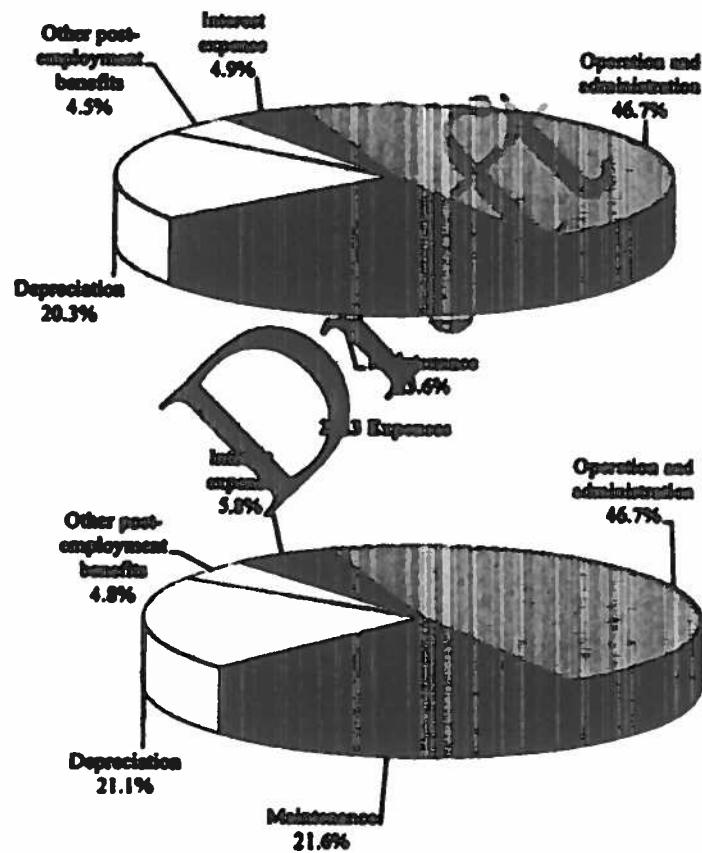
**Table 5—Summary of Expenses**

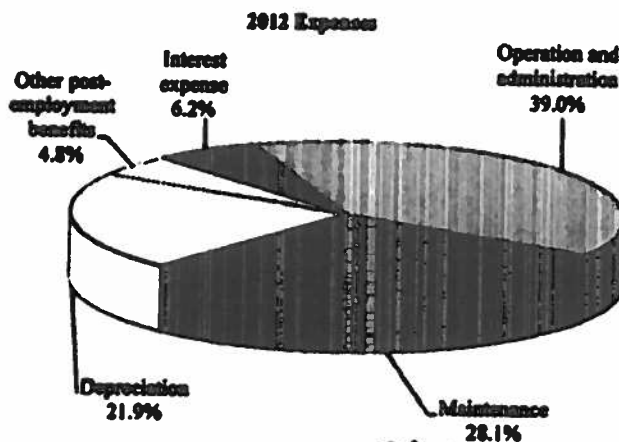
	Year Ended December 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent
Operation and administration	\$ 28,355,340	\$ 26,960,359	\$ 1,394,981	5.2
Maintenance	14,343,462	12,496,844	1,846,618	14.8
Depreciation	12,355,427	12,153,619	201,808	1.7
Interest expense	2,966,823	3,345,294	(378,471)	(11.3)
Other postemployment benefits	2,757,755	2,772,005	(14,250)	(0.5)
<b>Total</b>	<b>\$ 60,778,807</b>	<b>\$ 57,728,121</b>	<b>\$ 3,050,686</b>	<b>5.3</b>

Table 5—Summary of Expenses (cont'd)

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
Operation and administration	\$ 26,960,359	\$ 21,831,010	\$ 5,129,349	23.5
Maintenance	12,496,844	15,681,903	(3,185,059)	(20.3)
Depreciation	12,153,619	12,174,628	(21,009)	(0.2)
Interest expense	3,345,294	3,485,877	(140,583)	(4.0)
Other postemployment benefits	2,772,005	2,660,748	111,257	4.2
Total	\$ 57,728,121	\$ 55,834,166	\$ 1,893,955	3.4

## 2014 Expenses





Following are some of the issues and events affecting expenses in 2014:

- Operation and administration expenses increased 5.2% or \$1,394,970.
  - ✓ Retiree health insurance expense increased 13.4% or 1.3% as a result of increases in both medical and prescription drug claims.
  - ✓ Power purchased increased \$637 or 15.4% due to a 6% increase in usage during 2014 and a 12.8% increase in the cost per kilowatt hour.
- Maintenance expenses increased 14.6% or \$4,846,618.
  - ✓ Payments to contractors for emergency main repairs increased \$595,007 or 57.9%. Watermain leaks in January and February of 2014 increased 19.4% over the same two months in the previous year, creating a need for additional services from outside contractors. In addition to the increase of \$325,733 paid to the Authority's current emergency services contractor, additional payments of \$276,503 were made to two other emergency repair contractors during January and February of 2014.
  - ✓ Payments to restoration contractors increased \$648,303 or 34.3%, due to an increase in the number of sites restored and unit cost increases under new restoration contracts effective March 31, 2014.
  - ✓ The cost of renting traffic control equipment rose 104.7% in 2014. In the last quarter of 2013 the Authority's provider for traffic control discontinued their emergency response service. A new vendor was identified and a contract was negotiated. The number of sites billed increased 13.8% and the average cost per site increased 79.7% in 2014.

- Interest expense decreased \$378,471 mainly due to 2014 bond maturities and a decrease in interest rates on the 2003F Bonds as a result of the August 2013 Refunding.

Comparatively, the following issues and events impacted expenses in 2013:

- Operation and administration expenses increased 23.5%, or \$5,129,349.
  - ✓ The Authority began reporting total retiree health care benefits of \$1,329,330 as operating and administrative expenses in 2013. Previously, these costs were distributed with other fringe benefit costs across all expense categories.
  - ✓ Capitalized operating and administrative expenses decreased resulting in a \$1,783,447 increase in reported expenses in 2013. A change in the capitalization methodology resulted in a decrease in the application percentage from 20.4% to 12.6% in 2013.
  - ✓ Despite a 4.4% decline in kilowatt hours used, commodity costs for power increased \$757,689 due to an increase of \$.015 in the average cost per kilowatt hour in 2013. This increase was somewhat offset by lower power transmission and distribution costs of \$163,408.
  - ✓ Renewal and replacement costs increased \$761,400 in operating units due to spending on the pending relocation of the water quality lab, repair and replacement of pumps, and permanent stand-by power at lease-managed pump stations.
- Maintenance expenses decreased 20.3%, or \$3,539,232 due to a decrease of \$3,539,232 in renewals and replacements. A tank repainting was completed in 2012, and no tank painting was undertaken in 2013.

Table 6—Summary of Cash Flow Activities

	Year Ended December 31,		Increase/(Decrease)
	2014	2013	Dollars
Cash flows provided by (used for):			
Operating activities	\$ 21,347,274	\$ 23,318,506	\$ (1,771,312)
Capital and related financing activities	(22,108,338)	(29,087,842)	6,979,504
Investing activities	(38,912)	(2,658,644)	2,627,732
Net decrease in cash and cash equivalents	(991,976)	(8,427,900)	7,435,924
Cash and cash equivalents—beginning	38,664,453	47,092,353	(8,427,900)
Cash and cash equivalents—ending	\$ 38,072,477	\$ 38,664,453	\$ (991,976)

Table 6—Summary of Cash Flow Activities (cont'd)

	Year Ended December 31,		Increase/(Decrease)
	2013	2012	Dollars
Cash flows provided by (used for):			
Operating activities	\$ 23,318,586	\$ 27,600,692	\$ (4,362,106)
Capital and related financing activities	(29,087,842)	(12,873,006)	(16,214,836)
Investing activities	(2,658,644)	53,529	(2,712,173)
Net decrease in cash and cash equivalents	(8,427,900)	14,861,215	(23,289,115)
Cash and cash equivalents—beginning	47,092,353	32,231,138	14,861,215
Cash and cash equivalents—ending	\$ 38,664,453	\$ 47,092,353	\$ (8,427,900)

At December 31, 2014, 2013, and 2012, cash and cash equivalents were restricted for various purposes as presented below:

Table 7—Summary of Cash and Cash Equivalents

	Year Ended December 31,		
	2014	2013	2012
Unrestricted	\$ 24,227,900	\$ 23,099,500	\$ 19,198,960
Restricted	13,844,477	15,711,464	27,893,393
Total	\$ 38,072,477	\$ 38,810,964	\$ 47,092,353

Total cash and cash equivalents decreased \$8,427,900 from \$38,664,453 in 2013 to \$38,072,477 in 2014.

Total cash and cash equivalents decreased \$8,427,900 from \$47,092,353 in 2012 to \$38,664,453 in 2013 due, in part, to the use of unrestricted cash proceeds of \$7,711,464 in 2013.

#### Capital Assets

The Authority's investment in capital assets as of December 31, 2014 amounted to \$354,995,016 (net of accumulated depreciation) as compared to \$354,952,617 as of December 31, 2013 and \$348,725,268 as of December 31, 2012. 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 buildings and structures and mains and hydrants.

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 8—Summary of Capital Assets (Net of Accumulated Depreciation)

	December 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,231,137	\$ 2,231,137	\$ -	-
Construction work in progress	5,795,468	3,327,930	2,467,538	74.1
Total capital assets, not being depreciated	8,026,605	5,559,067	2,467,538	44.4
<b>Capital assets, net of accumulated depreciation:</b>				
Buildings and structures	260,667,136	258,052,423	2,614,713	1.0
Mains and hydrants	214,871,473	212,089,378	2,782,095	1.3
Equipment	54,333,355	53,831,889	501,466	0.9
Other	54,807,942	53,738,138	1,069,804	2.0
Total capital assets, being depreciated	584,679,906	577,711,828	6,968,078	1.2
Less accumulated depreciation	237,711,495	228,318,278	9,393,217	4.1
Total capital assets, being depreciated, net	346,968,411	349,393,550	(2,425,139)	(0.7)
Total capital assets	\$ 354,995,016	\$ 357,932,617	\$ 42,399	0.0

	December 31,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,231,137	2,218,274	\$ 12,863	0.6
Construction work in progress	3,327,930	5,109,041	(1,781,111)	(34.9)
Total capital assets, not being depreciated	5,559,067	7,327,315	(1,768,248)	(24.1)
<b>Capital assets, net of accumulated depreciation:</b>				
Buildings and structures	258,052,423	245,245,334	12,807,089	5.2
Mains and hydrants	212,089,378	208,362,617	3,726,761	1.8
Equipment	53,831,889	52,786,871	1,045,018	2.0
Other	53,738,138	52,211,342	1,526,796	2.9
Total capital assets, being depreciated	577,711,828	558,606,164	19,105,664	3.4
Less accumulated depreciation	228,318,278	217,208,211	11,110,067	5.1
Total capital assets, being depreciated, net	349,393,550	341,397,953	7,995,597	2.3
Total capital assets	\$ 354,952,617	\$ 349,725,268	\$ 5,227,349	1.8

**Debt Administration**

At December 31, 2014 the Authority had \$76,279,316 in water revenue bond principal outstanding, net of deferred amounts for bond premiums, as compared to \$84,766,552 and \$93,610,404 at December 31, 2013 and 2012. Water revenue bonds outstanding, net of deferred amounts from bond premiums, decreased \$8,827,236 during the year ended December 31, 2014, as a result of principal payments shown on the following page.



**Table 9—Summary of Bond Payments and Premiums**

	Year Ended December 31,	
	2014	2013
Series 1998D	\$ 960,000	\$ 925,000
Series 2003F	690,000	1,361,616
Series 2007	770,000	740,000
Series 2008	4,615,000	4,395,000
Series 2012	1,150,000	1,120,000
Total water revenue bond payments	8,185,000	8,541,616
Amortization of bond premiums	302,236	302,236
Total water revenue bond payments and bond premiums	\$ 8,487,236	\$ 8,843,852

The Authority's issuance of Series 1998D and Series 2003F were through the New York State Environmental Facilities Corporation (EFC) and are rated based on the EFC's rating.

The Authority's bond ratings have remained stable since receiving an upgrade in 2008 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 in the basic financial statements.

#### **Economic Factors**

The local economic outlook for Western New York has begun to stabilize, as has the state and national economy. Water consumption decreased 2.6% in 2014 continuing its downward trend. Water consumption in 2013 was down 7.8% from 2012 and was 2.5% lower than 2011. Due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water, significant fluctuations in water sales other than those caused by extreme weather conditions are not expected.

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

Table 10—Tariff Rates

Meters read and billed quarterly (To Nearest 1,000 Gallons)								
	2015	2014	2013	2012				
First 300,000 gallons per quarter	\$ 3.05	\$ 3.00	\$ 2.96	\$ 2.96	per 1,000 gallons			
Next 1,950,000	2.72	2.67	2.63	2.63	per 1,000 gallons			
Next 5,250,000	2.50	2.45	2.41	2.41	per 1,000 gallons			
Over 7,500,000	2.20	2.16	2.12	2.12	per 1,000 gallons			

Meters read and billed monthly (To Nearest 1,000 Gallons)								
	2015	2014	2013	2012				
First 100,000 gallons per month	\$ 3.05	\$ 3.00	\$ 2.96	\$ 2.96	per 1,000 gallons			
Next 650,000	2.72	2.67	2.63	2.63	per 1,000 gallons			
Next 1,750,000	2.50	2.45	2.41	2.41	per 1,000 gallons			
Over 2,500,000	2.20	2.16	2.12	2.12	per 1,000 gallons			

Annual hydrant charges				
	2015	2014	2013	2012
Lease managed districts	\$160.00	\$160.00	\$160.00	\$160.00 per hydrant
Direct service areas	229.08	229.08	229.08	229.08 per hydrant

Size of Meter (inches)	Quarterly Minimum Charge (\$)				Allowance (gallons) per quarter	Monthly Minimum Charge (\$)			
	2015	2014	2013	2012		2015	2014	2013	2012
5/8	\$ 27.00	\$ 26.64	\$ 26.64	\$ 26.64	9,000	\$ 9.00	\$ 8.88	\$ 8.88	\$ 8.88
3/4	36.00	35.52	35.52	35.52	12,000	12.00	11.84	11.84	11.84
1	63.00	62.16	62.16	62.16	21,000	21.00	20.72	20.72	20.72
1 1/4	81.00	79.92	79.92	79.92	27,000	27.00	26.64	26.64	26.64
1 1/2	117.00	115.44	115.44	115.44	39,000	39.00	38.48	38.48	38.48
2	189.00	186.48	186.48	186.48	63,000	63.00	62.16	62.16	62.16
3	360.00	355.20	355.20	355.20	120,000	120.00	118.40	118.40	118.40
4	594.00	586.08	586.08	586.08	198,000	198.00	195.36	195.36	195.36
6	1,140.30	1,124.70	1,124.70	1,124.70	390,000	380.10	374.90	374.90	374.90
8	1,781.10	1,755.90	1,755.90	1,755.90	630,000	593.70	585.30	585.30	585.30
10	2,502.00	2,466.00	2,466.00	2,466.00	900,000	834.00	822.00	822.00	822.00
12	3,383.10	3,333.90	3,333.90	3,333.90	1,230,000	1,127.70	1,111.30	1,111.30	1,111.30
20	7,503.00	7,390.20	7,390.20	7,390.20	2,820,000	2,501.00	2,463.40	2,463.40	2,463.40
24	10,002.00	9,848.40	9,848.40	9,848.40	3,840,000	3,334.00	3,282.80	3,282.80	3,282.80

The current generation of senior water utility managers is the first to be faced with the circumstances of needing to renew infrastructure which is nearing the end of its useful life and in many cases is in excess of 100 years old. Additionally, a nearly four decade effort to promote conservation and water appliance efficiency is showing results with decreased water consumption per customer. At present, over 30% of the bills sent to Authority customers are for the monthly or quarterly minimum. Given the reality of rising repair costs, infrastructure replacement and decreasing consumption, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge 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. In 2014, the infrastructure investment charge was 12.2% of total water sales as compared to 9.4% and 5.9% in 2013 and 2012, respectively.

Over the past fifteen years the Authority has also been engaged in a series of water system consolidations whereby independent municipal water system operators have transferred ownership of their systems to the Authority. The pace of these consolidations has increased in the past three years and is in keeping with the original intention for the creation of the Authority. The continuation of this trend will have the effect of shifting costs from smaller systems and rate bases to the Authority. However, due to economies of scale enjoyed by the Authority, the overall community-wide cost should be lower in a coordinated, unified system compared to those of a patchwork network of smaller systems.

#### 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 should be addressed to Robert J. Lichtenthal, 1st Deputy Director, Erie County Water Authority, 295 Main Street, Rm. 350, Buffalo, New York 14202-0494.

**ERIE COUNTY WATER AUTHORITY**  
**Statements of Net Position**  
**December 31, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 24,227,500	\$ 23,099,589
Restricted cash and cash equivalents	1,762,991	1,559,626
Restricted investments	1,390,783	1,376,780
Customer accounts receivable, (net of allowance for doubtful accounts)	5,374,841	4,403,760
Materials and supplies	2,119,398	2,009,023
Accrued revenue	6,682,749	6,525,411
Prepaid expenses and other assets	2,427,957	2,454,398
Total current assets	44,185,699	41,428,587
Noncurrent assets:		
Investments	549,903	549,903
Restricted cash and cash equivalents	14,005,238	14,005,238
Restricted investments	11,662,158	11,662,158
Capital assets not being depreciated	5,559,067	5,559,067
Capital assets, net of accumulated depreciation	349,393,530	349,393,530
Total noncurrent assets	371,169,996	371,169,996
Total assets	813,045,695	782,598,583
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	5,108,005	4,298,660
Advances for construction	398,161	311,835
Construction in progress	755,812	579,759
Accrued interest on water revenue bonds	395,192	434,436
Accrued liabilities	1,352,770	2,463,423
Compensated absences	1,530,192	1,404,277
Water revenue bonds - current portion	8,827,236	8,487,236
Total current liabilities	18,367,368	17,979,626
Noncurrent liabilities:		
Compensated absences	2,693,672	2,774,233
Other postemployment benefits	26,021,324	23,263,569
Water revenue bonds - long term	67,452,088	76,279,316
Total noncurrent liabilities	96,167,076	102,317,118
Total liabilities	114,534,444	120,296,744
<b>NET POSITION</b>		
Net investment in capital assets	278,715,700	278,186,065
Restricted:		
Debt service reserve account	8,903,180	8,903,356
Debt service account	2,331,766	2,322,587
Unrestricted	19,358,272	20,099,831
Total net position	\$ 309,308,918	\$ 302,501,839

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 Position**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 65,908,808	\$ 63,555,781
Operating expenses:		
Operation and administration	28,355,340	26,960,359
Maintenance	14,343,462	12,496,844
Depreciation	12,355,427	12,153,619
Other postemployment benefits	2,757,755	2,772,005
Total operating expenses	<u>57,811,984</u>	<u>54,382,827</u>
Operating income	<u>8,096,824</u>	<u>9,172,954</u>
Nonoperating revenues (expenses):		
Interest income	1,098	402,767
Interest capitalization during construction	55,722	215,181
Interest expense	<u>(2,986,823)</u>	<u>(3,345,294)</u>
Total nonoperating revenues (expenses)	<u>(2,554,433)</u>	<u>(2,727,346)</u>
Net income before contributions in aid of construction	5,542,391	6,445,608
Contribution in aid of construction	<u>1,464,688</u>	<u>1,392,541</u>
Change in net position	7,007,079	7,838,149
Net position—beginning	<u>302,301,839</u>	<u>294,463,690</u>
Net position—ending	<u>\$ 309,308,918</u>	<u>\$ 302,301,839</u>

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

**ERIE COUNTY WATER AUTHORITY**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 64,684,338	\$ 63,013,873
Payments to contractors	(18,584,783)	(17,461,137)
Payments to employees including fringe benefits	(24,552,281)	(22,234,150)
Net cash provided by operating activities	<u>21,547,274</u>	<u>23,318,586</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets, net	(12,221,773)	(18,478,474)
Bond repayments	(8,185,000)	(8,541,616)
Interest paid on revenue bonds, net of amount capitalized	(3,252,579)	(3,490,710)
Advances for construction	86,326	38,417
Contribution in aid of construction	1,464,608	1,392,541
Net cash used for capital and related financing activities	<u>(22,108,338)</u>	<u>(29,087,842)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(13,174,030)	(5,123,685)
Proceeds from sale or maturity of investments	12,792,025	2,043,436
Interest received	351,093	421,605
Net cash used for investing activities	<u>(30,912)</u>	<u>(2,658,644)</u>
Net decrease in cash	(591,976)	(8,427,900)
Cash and cash equivalents—beginning (including amounts restricted for future construction, debt service reserve, and debt service, reserve for compensated absences, and customer deposits)	<u>38,664,453</u>	<u>47,092,353</u>
Cash and cash equivalents—ending (including amounts restricted for future construction, debt service reserve, debt service, and customer deposits)	<u>\$ 38,072,477</u>	<u>\$ 38,664,453</u>

(continued)

**ERIE COUNTY WATER AUTHORITY**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

(concluded)

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income:	\$ 8,096,824	\$ 9,172,954
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	12,355,427	12,153,619
Other postemployment benefits expense	2,757,755	2,772,005
(Increase) decrease in accounts receivable	(971,061)	191,467
(Increase) decrease in material and supplies	(110,375)	150,230
(Increase) in other assets	(325,322)	(1,042,207)
Increase (decrease) in accounts payable	809,345	(512,152)
(Decrease) increase in other accrued liabilities	(1,110,653)	249,134
Increase in compensated absences	45,354	183,536
Total adjustments	<u>13,450,450</u>	<u>14,145,632</u>
Net cash provided by operating activities	<u>\$ 21,547,274</u>	<u>\$ 23,318,586</u>

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, 2014 and 2013**

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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 activities of the Authority are accounted for similar to those often found in the private sector using the flow of economic events as the primary focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses are accounted for through the enterprise fund and with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from providing water service 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 nonoperating revenues. All expenses related to operating the system are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

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

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



**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**—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 cash invested for more than three months investments. Investments are carried at market values 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 position.

**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 recognizes 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 revenues**—This account represents revenues at the end of the year that have not yet been billed to customers.

**Prepaid expenses and other assets**—This consists 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. Infrastructure assets with individual costs less than \$10,000 are treated as a class of assets and are capitalized. The cost of additions to capital assets, including purchased property or property contributed in aid of construction, and replacement of property, is capitalized. Cost includes direct material, labor, overhead and an allowance for funds used during construction equivalent to the average 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 composite and straight-line methods based upon annual rates established in accordance with PSC guidelines: buildings and structures, 15 to 76 years; hydrants and mains, 64 to 100 years; equipment, 5 to 43 years; and other, 4 to 50 years. Depreciation expense approximated 2.13% and 2.14% of the original cost of average depreciable property for the years ended December 31, 2014 and 2013 respectively.

**Long-term obligations**—Long term debt is reported as a liability in the statements of net position. 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.

**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**—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 has remained relatively stable from the previous year. Insurance expenses for the years ended December 31, 2014 and 2013 totaled \$1,987,700 and \$1,624,215, respectively. There were no claims that significantly exceeded insurance coverage or reserved amounts for each of the last two years. Any unpaid claims outstanding as of December 31, 2014 and 2013 have been fully reserved for.

**Use of estimates**—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from these estimates.

**Reclassification**—Certain amounts relating to the financial statements as of and for the year ended December 31, 2013 have been reclassified in order to be consistent with the current year's presentation.

**Adoption of New Accounting Pronouncements**—During the year ended December 31, 2014, the Authority implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; No. 69, *Government Contributions and Disposals of Government Operations*; and No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which had no impact on the Authority's financial position or results of operations.

**Future impacts of accounting pronouncements**—The Authority has not completed the process of evaluating the impact that will result from adopting; No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, effective for the year ending December 31, 2015 and No. 72, *Fair Value Measurement and Application*, effective for the year ending December 31, 2016. 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, if any.

## 2. CASH, CASH EQUIVALENTS 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 debt service**—Cash restricted for debt service was established to fulfill the debt service requirements on the outstanding bonds as they become due and payable.

**Restricted for customer deposits**—Cash restricted for customer deposits was established to keep customer deposits for future use to be returned and deposits taken from customers to secure payment of their water bills segregated from the Authority's operating cash.

**Restricted for employee pension contributions**—During 2014, the Authority began participation in the New York State Mandatory Defined Contribution Program sponsored by the State University of New York (SUNY) Employee Retirement Plan. Eligible employees have a 366 day vesting period during which the employer retains the employee and employer contributions.

**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.

As of December 31, 2014 and 2013, the Authority had the following restricted cash, cash equivalents, and investments:

	December 31, 2014		December 31, 2013	
	Amortized Cost	Market Value	Amortized Cost	Market Value
<b>Restricted for debt service:</b>				
Cash	\$ 788,969	\$ 788,969	\$ 696,798	\$ 696,798
Cash equivalents - U.S. Treasury bills	151,999	152,014	248,995	249,009
Investments - U.S. Treasury bills	<u>1,390,835</u>	<u>1,390,783</u>	<u>1,376,719</u>	<u>1,376,700</u>
	<u>2,331,803</u>	<u>2,331,766</u>	<u>2,322,512</u>	<u>2,322,507</u>
<b>Restricted for customer deposits:</b>				
Cash	807,230	807,230	613,819	613,819
<b>Restricted for employee pension contribution:</b>				
Cash	<u>14,778</u>	<u>14,778</u>	<u>-</u>	<u>-</u>
<b>Current restricted cash, cash equivalents, and investments</b>	<u>\$ 3,153,811</u>	<u>\$ 3,203,774</u>	<u>\$ 2,936,331</u>	<u>\$ 2,936,406</u>
<b>Restricted for future construction:</b>				
Cash	\$ 12,081,404	\$ 12,081,404	\$ 14,005,040	\$ 14,005,040
Investment - Certificate of Deposit	<u>3,179,990</u>	<u>3,179,990</u>	<u>2,759,000</u>	<u>2,759,000</u>
	<u>15,261,394</u>	<u>15,261,394</u>	<u>16,764,040</u>	<u>16,764,040</u>
<b>Restricted for debt service reserve:</b>				
Cash		22	198	198
Investment - State and Local Government Treasury bonds	<u>8,903,180</u>	<u>8,903,158</u>	<u>8,903,158</u>	<u>8,903,158</u>
	<u>8,903,180</u>	<u>8,903,180</u>	<u>8,903,356</u>	<u>8,903,356</u>
<b>Noncurrent restricted cash, cash equivalents, and investments</b>	<u>\$ 24,111,664</u>	<u>\$ 24,111,664</u>	<u>\$ 25,667,396</u>	<u>\$ 25,667,396</u>
<b>Total restricted cash, cash equivalents and investments</b>	<u>\$ 27,265,475</u>	<u>\$ 27,265,438</u>	<u>\$ 28,603,727</u>	<u>\$ 28,603,802</u>

**Custodial credit risk**—For 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, 2014 and 2013, 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*—For 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 uses the specific identification method to identify the maturity for each investment and evaluates risk accordingly.

### 3. CUSTOMER ACCOUNTS RECEIVABLE

Customer accounts receivable primarily represent 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 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 \$100, 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 that 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 accounts to 120 days. A final bill that remains unpaid in a direct service area is referred to municipal collection agency. The collection agency keeps a predetermined portion of any collected amount. In agreements with lease managed water districts and in some direct service districts, unpaid water bills are referred to municipalities for payment per the terms of the agreement. The outstanding balances of an unpaid final bill in these areas are not referred to an outside agency, and they are presented to the proper municipality for payment. Allowances for doubtful accounts at December 31, 2014 and 2013 total \$335,728 and \$307,644, respectively.

### 4. CAPITAL ASSETS

Capital asset activity for the years-ended December 31, 2014 and December 31, 2013 are presented on the following page.

	Balance 1/1/2014	Additions	Retirements & Reclassifications	Balance 12/31/2014
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,231,137	\$ -	\$ -	\$ 2,231,137
Construction work in progress	3,327,930	12,038,938	(9,571,400)	5,795,468
Total non-depreciable capital assets	5,559,067	12,038,938	(9,571,400)	8,026,605
<b>Capital assets being depreciated:</b>				
Buildings and structures	258,052,423	3,880,013	(1,265,300)	260,667,136
Mains and hydrants	212,089,378	2,793,350	(11,255)	214,871,473
Equipment	53,831,809	2,386,880	(1,885,414)	54,333,355
Other	53,738,138	1,359,846	(290,042)	54,807,942
Total depreciable capital assets	577,711,828	10,420,089	(3,452,011)	584,679,906
<b>Less accumulated depreciation:</b>				
Buildings and structures	121,289,868	6,505,102	(1,265,300)	126,529,670
Mains and hydrants	46,358,222	2,130,594	(9,905)	48,478,911
Equipment	30,121,681	2,739,640	(1,396,963)	31,464,358
Other	30,548,907	930,071	(290,042)	31,238,936
Total accumulated depreciation	228,318,278	12,305,307	(2,962,210)	237,711,995
Capital assets being depreciated, net	349,393,550	8,114,782	(489,801)	346,968,411
Total capital assets, net	\$ 354,952,617	\$ 10,053,600	(10,061,201)	\$ 354,995,016

	Balance 1/1/2013	Additions	Retirements & Reclassifications	Balance 12/31/2013
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,231,137	\$ -	\$ 12,963	\$ 2,231,137
Construction work in progress	3,327,930	18,234,376	(20,015,457)	3,327,930
Total non-depreciable capital assets	5,559,067	18,234,376	(20,002,624)	5,590,819
<b>Capital assets being depreciated:</b>				
Buildings and structures	245,763,334	12,963,549	(156,460)	258,052,423
Mains and hydrants	209,422,617	3,778,606	(51,845)	212,089,378
Equipment	52,786,871	2,149,321	(1,104,303)	53,831,809
Other	52,211,342	1,539,699	(12,863)	53,738,138
Total depreciable capital assets	558,606,164	20,431,135	(1,325,471)	577,711,828
<b>Less accumulated depreciation:</b>				
Buildings and structures	115,123,849	6,287,979	(121,960)	121,289,868
Mains and hydrants	44,318,388	2,091,679	(51,845)	46,358,222
Equipment	28,377,682	2,605,051	(861,052)	30,121,681
Other	29,388,291	1,168,910	(8,694)	30,548,907
Total accumulated depreciation	217,208,210	12,153,619	(1,043,551)	228,318,278
Capital assets being depreciated, net	341,397,954	8,277,516	(281,920)	349,393,550
Total capital assets, net	\$ 348,725,269	\$ 26,511,892	\$ (20,284,544)	\$ 354,952,617

## 5. LONG-TERM DEBT

*Summary of long-term debt*—the following is a summary of the Authority's water revenue bonds at December 31, 2014:

Series	Final Annual Installment Payment Day	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding 12/31/2014
Series 1998D	10/15/2019	2000	345-3.35% (*)	\$ 16,859,700	\$ 3,415,000
Series 2003F	7/15/2023	2004	.79-4.50% (*)	15,544,443	7,938,384
Series 2007	12/1/2037	2008	4.50-5.00%	35,000,000	30,505,000
Series 2008	12/1/2018	2009	4.00-5.00%	45,770,000	20,885,000
Series 2012	6/1/2022	2013	2.41%	12,500,000	10,230,000
					74,973,384
Less portion due within one year					(8,525,000)
					<u>\$ 66,448,384</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 and, 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 Bonds Series 1998D. 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 distribution mains and a new pumping station at the Authority's Sturgeon Point plant.

Interest on the 1998D bonds ranges from .45% to 3.355% and 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 cost of new pump stations along with meters, water mains, a pump station and tank in the City of Tonawanda.

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.

On August 1, 2013 EPC refunded the Series 2003F bonds. New bonds were issued in the same principal denomination. The Authority paid off \$691,616 on the outstanding bond principal. The Authority did not issue new bonds to EPC. The interest rates on the outstanding bonds were significantly reduced. The net present value savings as calculated by EPC is \$1,382,895.

The terms of the EPC 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 EPC which the EPC 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 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. The Series 2008 Bonds carry an interest rate of 4.0% and mature December 1 of each year through December 1, 2018. The proceeds of the Series 2008 Bonds, including a \$3,081,304 premium which is amortized over the life of the Series 2008 Bonds, was used to refund the principal of the Series 1993A and Series 1993B Bonds, \$27,500,000 and \$15,000,000, respectively. A portion of the proceeds covered the costs of issuance including a fee in connection with the termination of the swap agreement related to the Series 1993B Bonds. The remaining proceeds were deposited into the Series 2008 Debt Service Fund Account. The Series 1993A and Series 1993B Bonds were redeemed on June 25, 2008. The issuance of the Series 2008 refunding bonds reduced the debt service by \$7,481,572 and has a net present value cash flow savings of \$8,393,467.

On June 8, 2012, the Authority issued \$12,500,000 of Bonds under a Bond Direct Purchase Agreement. The bonds were issued under the Authority's Fourth Bond Resolution. The purpose of these bonds is to provide funds for the acquisition and construction of Sturgeon Point clarifier/thickener improvements, pump station improvements, raw water pumps, Van De Water coagulation basins, and the Texas/Lang interconnection with the City of Buffalo.

Interest on the 2012 Series bonds is at 2.41% and is payable semi-annually on June 1 and December 1. The principal is payable annually on June 1. The final maturity of the bonds is June 1, 2022.

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 final maturity of the defeased bonds was on December 1, 2014.



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

Year ending December 31,	Bond Principal	Interest on Bonded Debt
2015	\$ 8,525,000	\$ 3,120,333
2016	8,095,000	2,765,639
2017	9,255,000	2,390,972
2018	9,660,000	1,995,770
2019	4,180,000	1,500,901
2020-2024	13,648,384	6,071,230
2025-2029	6,640,000	4,398,874
2030-2034	8,255,000	2,689,525
2035-2037	5,915,000	600,250
	<u>74,973,384</u>	<u>25,613,494</u>
Less portion due within one year	<u>8,525,000</u>	<u>3,120,333</u>
	<u>\$ 66,448,384</u>	<u>\$ 22,493,161</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, 2014 and December 31, 2013:

	Balance 1/1/2014	Additions and Amortization	Reductions	Balance 12/31/2014	Due Within One Year
Series 1998D	\$ 6,375,000	\$ -	(960,000)	\$ 5,415,000	\$ 1,000,000
Series 2003F	8,628,384	-	(690,000)	7,938,384	705,000
Series 2007	31,275,000	-	(770,000)	30,505,000	800,000
Series 2008	2,500,000	-	(4,615,000)	20,885,000	4,845,000
Series 2012	11,300,000	-	(1,150,000)	10,230,000	1,175,000
Bonds payable	158,384	-	(8,185,000)	74,973,384	8,525,000
Bond premiums	1,000,161	-	(302,236)	1,305,932	302,236
Total bonds payable	<u>\$ 84,748,749</u>	<u>\$ -</u>	<u>\$ (8,487,236)</u>	<u>\$ 76,279,316</u>	<u>\$ 8,827,236</u>
Compensated absences	<u>\$ 4,178,510</u>	<u>\$ 298,744</u>	<u>\$ (253,390)</u>	<u>\$ 4,223,864</u>	<u>\$ 1,530,192</u>

	Balance 1/1/2013	Additions and Appreciation	Reductions	Balance 12/31/2013	Due Within One Year
Series 1998D	\$ 7,300,000	\$ -	\$ (925,000)	\$ 6,375,000	\$ 960,000
Series 2003F	9,990,000	-	(1,361,616)	8,628,384	690,000
Series 2007	32,015,000	-	(740,000)	31,275,000	770,000
Series 2008	29,895,000	-	(4,395,000)	25,500,000	4,615,000
Series 2012	12,500,000	-	(1,120,000)	11,380,000	1,150,000
Bonds payable	91,700,000	-	(8,541,616)	83,158,384	8,185,000
Bond premiums	1,910,404	-	(302,236)	1,608,168	302,236
Total bonds payable	\$ 93,610,404	\$ -	\$ (8,843,852)	\$ 84,766,552	\$ 8,487,236
Compensated absences	\$ 3,994,974	\$ 339,888	\$ (156,352)	\$ 4,178,510	\$ 1,404,277

#### 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 (NYSRSSL). Obligations of employers and employees to contribute and benefits to employees are governed by the NYRSSL. As set forth in the NYRSSL, 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 conduct of the business of the State Plan and for the custody and control of their funds. The State Plan is also the 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.oec.state.ny.us/ret](http://www.oec.state.ny.us/ret).

**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 and before April 1, 2012, a 3% contribution for the duration of their membership is required.

Under Chapter 18 of the Laws of 2012 of the State of New York, contribution rates for members hired after April 1, 2012 are based on annual wages. Also, subject to some eligibility requirements, effective July 1, 2013, employees with an annual salary of at least \$75,000 per year who are not represented by a collective bargaining unit may opt out of the New York State Employees Retirement System and elect to join the New York State Voluntary Defined Contribution Program sponsored by the State University of New York (SUNY) Optional Retirement Plan. TIAA-CREF acts as the third party administrator for the plan. The electing member contributes 6% and the employer contributes 8% of the employee's annual salary.

Under the authority of the NYRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

Year Ended December 31,	Amount	Rate
2014	\$ 2,995,800	10.9% - 27.7%
2013	2,904,953	11.4% - 28.8%
2012	2,563,599	10.0% - 25.4%

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 2013 would be based on the pension value as of March 31, 2012).

The Authority has paid 100% of the required contributions each year.

## 7. LABOR RELATIONS

Certain Authority employees are represented by two bargaining units: the American Federation of State, County and Municipal Employees ("AFSCME") and the Civil Service Employees Association, Inc. ("CSEA"). The CSEA and the Authority entered into a new nine-year collective bargaining agreement dated October 16, 2012. A new nine-year collective bargaining agreement was ratified by the AFSCME union and adopted by the Board of Commissioners on November 23, 2011. Both contracts are effective from April 1, 2006 through March 31, 2017.

## 8. POSTEMPLOYMENT BENEFITS

**Plan Description**—The Authority provides three health plans through Labor Management Healthcare Fund ("LMHF"). Retirees must meet age and years of service requirements to qualify for health benefits under this 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 155 employees receiving health care benefits at December 31, 2014 and December 31, 2013 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 not required to make a contribution. Retirees enrolling in the Traditional Blue PPO 812 plan after June 1, 2004 are required to make 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.

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.

The Board of Commissioners adopted an amendment to the Retiree Medical Insurance policy relative to non-represented employees on December 13, 2011. Effective April 1, 2012 retirees not represented by a collective bargaining agreement contribute 15% of the full premium for single, double or family point of service ("POS") contract. Retirees who elect to enroll in the Traditional Blue PPO \$12 plan will pay the difference between the Authority's share of the POS premium and the PPO premium.

On October 16, 2012 the Board of Commissioners entered into a new nine-year collective bargaining agreement with employees represented by the Civil Service Employees Association, Inc., Local 1000, AFSCME AFL-CIO ("CSEA"). Under the terms of the agreement, represented employees hired after July 26, 2012 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 hired prior to January 1, 2008 was changed to age 55 with a minimum of ten years of service, while employees hired on or after January 1, 2008 must be 58 with a minimum of fifteen years of service with the Authority.

The Authority's annual postemployment benefit ("OPEB") cost is calculated based on the annual required contributions ("ARC") of the employee, 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 funding that, if paid on an ongoing basis, is projected to cover the normal cost of the plan 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 2014 and 2013.

	Year Ended December 31,	
	2014	2013
Annual required contribution	\$ 4,575,624	\$ 4,472,869
Interest on net OPEB obligation	1,163,178	1,024,578
Adjustment to annual required contribution	(1,513,329)	(1,333,006)
Annual OPEB cost (expense)	4,225,473	4,164,441
Contributions made	(1,467,718)	(1,392,436)
Increase in net OPEB obligation	2,757,755	2,772,005
Net OPEB obligation—beginning	23,263,569	20,491,564
Net OPEB obligation—ending	\$ 26,021,324	\$ 23,263,569

**Funding Status and Funding Progress**—As of January 1, 2014, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$45,566,345. The ratio of unfunded actuarial accrued liability to covered payroll of \$15,140,745 is 3.01 for 2014.

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:

Fiscal Year Ending	Valuation Date	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
December 31, 2014	January 1, 2014	\$ 4,225,473	\$ 1,467,718	34.7%	\$ 26,021,324
December 31, 2013	January 1, 2013	4,164,441	1,392,436	33.4%	23,263,569
December 31, 2012	January 1, 2012	3,945,756	1,285,008	32.6%	20,491,564

**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 most recent and 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, 2014 actuarial valuation, the last full valuation, the actuarial methods and assumptions listed below were used.

**Actuarial cost method** – Projected Unit Credit

**Investment rate of return and discount rate** – 5%

**Annual rate of increase in the consumer price index** – 2.5%

**Healthcare cost trend rate** – Health insurance – 7.75% initially, reduced to a rate of 5.0% in 2022 and beyond for pre-65 retirees; 5.2% initially, reduced to 5.0% in 2022 and beyond for post-65 retirees. Prescription drug coverage has an assumed increase of 6.25% initially, declining to 5.0% for 2022 and beyond.

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

**Mortality** – The RP-2000 Mortality Table for annuitants and non-annuitants with projected mortality improvements; specifically, a modified SMCR projection 1.430(h)(3)-1 for 2014 valuations.

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

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

**Election percentages** – 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 LMHP. Actual claims experience from LMHP was used to develop retiree claim costs.

## 9. NET POSITION AND RESERVES

The Authority financial statements utilize a net position presentation. Net position is categorized into net investment in capital assets, restricted and unrestricted.

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

	December 31,	
	2014	2013
Capital assets, net of accumulated depreciation	\$ 354,995,016	\$ 354,952,617
Related debt:		
Water revenue bonds issued for capital assets	(74,973,384)	(83,158,384)
Bond premium	(1,305,932)	(1,608,168)
Net investment in capital assets	\$ 278,715,700	\$ 270,186,065

**Restricted net position**—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, 2014 and 2013, net position was restricted for the following purposes:

- **Debt Service Reserve Account** — During 1998, the Authority established a Debt Service Reserve Account as required by the Series 1998 bond resolution. The bond resolution requires a reserve amount equal to the average of the next four installments of debt service. The required amount was determined by EPC and must remain on deposit until the bonds mature.

During 2003, per the 2003F bond resolution the Authority established a Debt Service Reserve Account from a portion of the 2003F bond proceeds. The required debt service reserve is based on ten percent of the total principal of the loan. The required amount was determined by EPC and must remain on deposit until the bonds mature.

During 2007, the Authority established a Debt Service Reserve Account as required by the Series 2007 bond resolution. The Authority established 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, 2008 and 2012 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 position**—This category represents the amount of net position the Authority has not restricted for any project or other purpose. Management intends to utilize a portion of unrestricted net position to finance the Authority's projected five-year capital spending, which will require future financing in excess of \$100,000,000.

When an expense is incurred for purposes for which both restricted and unrestricted amounts 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 also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2014 and 2013 aggregated \$274,752 and \$273,844. Future minimum annual rentals to be paid under such leases are not significant.

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 ensure continued compliance with these regulatory standards.

The Authority is involved in litigation and other matters arising from 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 adequately and conservatively. 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.

## 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2015, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

**ERIE COUNTY WATER AUTHORITY**  
**Schedule of Funding Progress—Other Postemployment Benefit Plan**  
**Year Ended December 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio ^	Budgeted Covered Payroll	Ratio of UAAL to Budgeted Covered Payroll
January 1, 2014	\$ -	\$ 45,566,345	\$ 45,566,345	-	\$ 15,140,745	3.01
January 1, 2012	-	41,810,183	41,810,183	-	14,873,087	2.81
January 1, 2010	-	49,748,261	49,748,261	-	15,102,780	3.29

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^As described in note 8 to the financial statements, the Authority's plan is unfunded.

See independent auditors' report.



**INDEPENDENT AUDITORS' 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Erie County Water Authority (the "Authority") as presented for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 26, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 26, 2015

Draft

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH SECTION 2925(3)(f) OF THE  
NEW YORK STATE PUBLIC AUTHORITIES LAW**

**The Board of Commissioners  
Erie County Water Authority**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the business-type activities of the Erie County Water Authority (the "Authority"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 26, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with Section 2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended December 31, 2014. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above rules and regulations.

The purpose of this report is solely to express the scope and results of our testing. This communication is not suitable for any other purpose.

March 26, 2015

**ERIE COUNTY  
WATER AUTHORITY**  
*Schedule of Overhead Percentage for the  
Year Ended December 31, 2014 and  
Independent Auditors' Report*

Draft

## **INDEPENDENT AUDITORS' REPORT**

The Board of Commissioners  
Erie County Water Authority

We have audited the overhead components included in the accompanying schedule of overhead percentages of the Erie County Water Authority (the "Authority") for the year ended December 31, 2014.

### **Management's Responsibility for the Schedule**

The Authority's management is responsible for the preparation and fair presentation of the schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the schedule overhead percentages presents fairly, in all material respects, the overhead percentages of the Authority for the year ended December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Erie County Water Authority as of and for the year ended December 31, 2014, and our report thereon dated March 26, 2015, expressed an unmodified opinion on those financial statements.

March 26, 2015

Draft

**ERIE COUNTY WATER AUTHORITY**  
**Overhead Percentage**  
**Year Ended December 31, 2014**

<b>2014 Operating and Maintenance Expenses and Construction Costs</b>	
Operating and maintenance expenses, gross of capitalized costs	\$ 43,993,755
Construction costs	<u>10,811,976</u>
Total operating and maintenance expenses and construction costs	<u>\$ 54,805,731</u>

Construction percentage (1) 19.73%

**Composition of Overhead**

Design	\$ 1,183,271
Construction - less renewals & replacements	336,381
New services - less payments to repair contractor	484,015
Restoration - less payments to restoration contractor	256,510
Administration - without administrative credits	196,696
Central Purchasing	101,444
Information Services - Service Center	644,665
Comptroller	246,237
Accounting	680,492
Legal	605,571
Secretary to the Authority	287,830
Information Services - Elliott Square	291,385
General expense less retiree health insurance	<u>1,249,618</u>
Total overhead	<u>\$ 6,564,115</u>

Construction percentage multiplied by total overhead \$ 1,294,957

Overhead percentage (2) 11.90%

(1) Construction costs divided by total expenditures

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

**ERIE COUNTY**  
**WATER AUTHORITY**  
*Schedule of Cash and Investments and Schedule of  
Income from Cash and Investments for the  
Year Ended December 31, 2014 and  
Independent Auditors' Report*

Draft



## **INDEPENDENT AUDITORS' REPORT**

The Board of Commissioners  
Erie County Water Authority

We have audited the accompanying schedule of cash and investments of the Erie County Water Authority (the "Authority") as of December 31, 2014, and the related schedule of income from cash and investments for the year then ended, and the related notes to the schedules.

### **Management's Responsibility for the Schedules**

The Authority's management is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the schedule of cash and investments and schedule of income from cash and investments referred to above present fairly, in all material respects, the cash and investments of the Authority as of December 31, 2014 and income from investments for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Erie County Water Authority as of and for the year ended December 31, 2014, and our report thereon dated March 26, 2015 expressed an unmodified opinion on those financial statements.

March 26, 2015

Draft

**ERIE COUNTY WATER AUTHORITY**  
**Schedule of Cash and Investments**  
**Year Ended December 31, 2014**

	<u>Market Value</u>	<u>Amortized Cost</u>
<b>Working Funds:</b>		
<b>Extension and improvement accounts:</b>		
Money market funds	\$12,081,484	\$12,081,484
Certificates of deposit	3,127,000	3,127,000
<b>Total extension and improvement Accounts</b>	<u>15,208,484</u>	<u>15,208,484</u>
<b>Operating and Maintenance Accounts:</b>		
NOW accounts	12,780,667	12,780,667
Money market funds	11,447,313	11,447,313
State and Local Government Series treasury bonds	549,983	549,983
<b>Total operating and maintenance accounts</b>	<u>24,777,963</u>	<u>24,777,963</u>
<b>Customer Deposit Accounts:</b>		
NOW accounts	443,716	443,716
Money market funds	363,514	363,514
<b>Total customer deposit accounts</b>	<u>807,230</u>	<u>807,230</u>
<b>Employee Pension Contribution Account:</b>		
NOW accounts	14,778	14,778
<b>Total employee pension contribution accounts</b>	<u>14,778</u>	<u>14,778</u>
<b>Total working fund investments</b>	<u>40,808,455</u>	<u>40,808,455</u>
<b>Fiscal Agent Funds:</b>		
<b>Debt service reserve accounts:</b>		
Money market funds	22	22
State and Local Government Series treasury bonds	8,903,158	8,903,158
<b>Total debt service reserve accounts</b>	<u>8,903,180</u>	<u>8,903,180</u>
<b>Debt service accounts:</b>		
Money market funds	788,969	788,969
U.S. treasury securities	1,542,797	1,542,834
<b>Total debt service accounts</b>	<u>2,331,766</u>	<u>2,331,803</u>
<b>Total fiscal agents funds</b>	<u>11,234,946</u>	<u>11,234,983</u>
<b>Total</b>	<u>\$ 52,043,401</u>	<u>\$ 52,043,438</u>

The accompanying notes are an integral part of these schedules.

**ERIE COUNTY WATER AUTHORITY**  
**Schedule of Income from Cash and Investments**  
**Year Ended December 31, 2014**

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<b>Working Funds:</b>	
Extension and improvement account	\$ 27,346
Operating and maintenance account	40,685
Customer deposit account	559
Employee pension contribution account	<u>1</u>
Total working fund investments	<u>68,591</u>
<b>Fiscal Agent Funds:</b>	
Debt service reserve	287,006
Debt service	<u>1,184</u>
Total fiscal agent funds	<u>288,190</u>
Net decrease in the fair market value of investments	<u>(113)</u>
Total income from investments	<u>\$ 356,668</u>

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The accompanying notes are an integral part of these schedules.

**ERIE COUNTY WATER AUTHORITY**  
**Notes to the Schedules of Cash and Investments and**  
**Income from Cash and Investments**  
**Year Ended December 31, 2014**

**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 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 lessee 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 the Bond Resolutions relating to the Series 1998D, Series 2003P, Series 2007, Series 2011 and Series 2012 Bonds. At December 31, 2014, the Authority had invested approximately all of its funds in the following:

Security	Yield Rate
US Government obligations	0.00% - 4.81%
Cash equivalents (including money market funds)	.00% - .15%
Certificates of deposit	.20% - .60%

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-backed securities) or face value (money market funds). 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.

**V. - COMMUNICATIONS AND BILLS**

**VI. - UNFINISHED BUSINESS (NONE)**

**VII. - NEW BUSINESS**

**VIII. - ADJOURNMENT**

Motion by Mr. Jann, second by Mr. Schad and carried that the meeting adjourn.

A handwritten signature in dark ink, appearing to read "Matthew J. Baudo". The signature is fluid and cursive, with the first name "Matthew" and last name "Baudo" clearly distinguishable.

**Matthew J. Baudo**  
**Secretary to the Authority**

SLZ