

Erie County Water Authority

2000 Annual Report

MESSAGE FROM THE COMMISSIONERS

Our Vision:

The Erie County Water Authority is united in its effort to produce a product and to provide a service so excellent as to merit recognition by its customers and its peers and to create a work place that instills pride in all its employees and rewards dedication and professionalism.

Respectfully submitted to the:

*Honorable George E. Pataki
Governor of the State of New York*

*Honorable H. Carl McCall
Comptroller of the State of New York*

*Honorable Joel A. Giambra
County Executive of Erie County*

*Honorable Nancy A. Naples
Comptroller of Erie County*

*Honorable Charles M. Swanick
Chairman, Erie County Legislature*

*Honorable Ronald B. Stafford
Chairman, Senate Finance Committee*

*Honorable Herman D. Farrell
Chairman of the Assembly
Ways and Means Committee*

*Honorable Members of the
New York State Legislature*

*Honorable Members of the
Erie County Legislature*

The Erie County Water Authority was created by a special act of the New York State Legislature to ensure that the people and industry of Erie County would have a plentiful supply of water for the future.

Since it began operations in 1953, the Authority has produced and reliably delivered water of the highest quality at rates that are among the lowest in the state.

As an independent, public-benefit corporation, the Authority receives no tax revenues from the federal, state, county or local governments. The Authority is financially self-sustaining, paying all operating expenses from revenues generated by the efficient delivery of water.

Throughout the last forty-seven years, the Authority has significantly enhanced the quality of life and has promoted economic development throughout Erie County and beyond by meeting the growing need for safe, clean water in the community's we serve.

As we enter the new millennium, we are confident that the Authority has positioned itself to continue to achieve its mission of providing a high-quality product and reliable, cost-effective service at especially reasonable rates to the more than 530,000 people that rely on us everyday, 24 hours a day, 365 days a year.

We look forward to bringing our most abundant, our most precious, and our most natural resource into the homes, the businesses, and the lives of the people of Western New York well into the future.

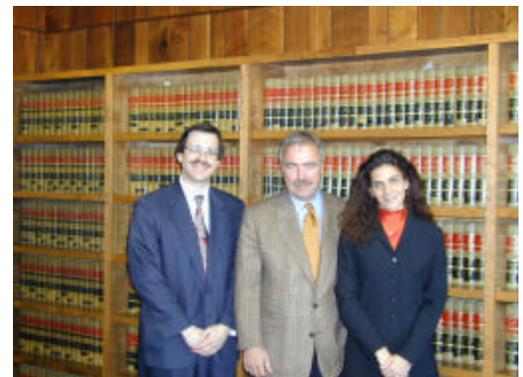
As such, it is with pleasure that we submit this report on the Water Authority's 47th year of operation and public service.

From left to right

Robert J. Lichtenthal, Jr.,
Chairman

Mark G. Patton,
Vice-Chairman

Acea Mosey-Pawlowski,
Treasurer



ADMINISTRATION

The Administration Department made a presentation on “New Technologies and Procurement” at the 2000 New York State Water Authorities Conference hosted by ECWA

The Administration Department contains four business units, Central Purchasing, Stores, Information Services and Data Processing. During the past year, each unit successfully worked to assist the Authority in its ongoing transition from a low tech to a high tech corporation. With the continued integration of new service areas into the Authority’s system, the Administration Department provided increased services throughout the year.

The Central Purchasing unit continued to manage the electronic purchasing system by electronically archiving all documents related to the thousands of purchases made during the year. The use of state and county contracts increased for the sixth consecutive year, which further enhanced savings at the Authority. The Authority’s *Purchasing Guidelines and Procedures* were revised and a standing committee oversaw the implementation of the recommendations. The Erie County Comptroller, in a recent audit of the Authority, applauded these efforts, affirming the improvements that have been made in the policies and procedures used to purchase goods and services since the Authority was last audited in 1996.



Information Services is responsible for secretarial services at the Authority. During the past year, staff was trained in the latest software and computer technology. As a result, data entry and file management and retrievals were conducted more efficiently on behalf of the Authority’s many business units. The unit also converted thousands of documents from recent municipal acquisitions into the Authority’s system.

Data Processing continued to accomplish major enhancements to the Authority’s information system. The mainframe AS/400 computer was updated to OS/400 version 4 Release 5 and added disk storage capacity was completed on both units. The backup disaster plan was improved and network hubs were replaced to make new equipment more serviceable. The Business Office was converted to personal computers from terminals allowing for better information access and paving the way for web enabled customer services.

In addition, water production facilities were linked with dial up services allowing greater connectivity with the main operation center. The latest anti-virus software, Client Access Express, was installed on the Authority’s 140 personal computer workstations, and improvements were completed on backup electrical generating equipment to insure smooth operations of computer and security systems in the case of electrical failures. Data Processing also resolved 2514 help desk calls and service requests from Authority personnel last year.

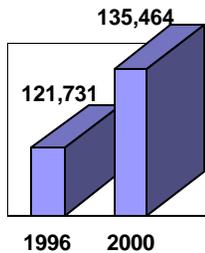
The unit will continue to improve the Authority’s service delivery both internally and externally.

BUSINESS OFFICE

The Authority values each and every one of its customers and is committed to providing them with professional, courteous service.

The Business Office is responsible for overseeing the Authority's communication with customers on the rules and regulations of the Authority, financial charges, and direct services. To accomplish these tasks, the Department is divided into four units; Billing, Collections, Customer Service and Reception, and Mail Room. The bulk of the operation involves producing and mailing bills for water usage and services and maintaining a phone bank to respond to customer inquiries for service or account information.

The Authority's Customer Service Representatives are professionally trained and provide customers with efficient, reliable service. Most communication is in the form of phone calls. Last year, 71,451 calls were answered. This figure was less than 1999 even though the Authority added 7,300 new customers to its service area. In addition, the office processed 39,450 work orders and serviced 1,325 walk in customers.



■ ECWA Customers

The Authority's customer base continues to increase through consolidation efforts with local municipalities

The Billing Unit prepares and mails quarterly and monthly bills and read-by-mail post cards for more than 135,000 active accounts. These accounts represent more than 530,000 people that are serviced by the Authority. In 2000, a total of 537,058 water bills and 418,520 read-by-mail post cards for meter readings were mailed. The Authority's read by mail program had a return rate of 70 percent last year, an increase of 6.5 percent from 1999 and one of the highest return rates among local utilities.



To improve efficiency in billing operations, the Authority purchased a new Pitney Bowes Mailing System. Upgrades were also made to customer information screens on the AS400 computer system, which improved an already established quality response time.

DISTRIBUTION

The Distribution Department is responsible for maintaining the Authority's extensive distribution system. It is made up of three business units, including the Line Maintenance Unit, the Mechanics Shop and the Meter Shop.

The Line Maintenance Unit maintains over 2,100 miles of waterlines, 14,268 hydrants, 18,000 valves, and numerous appurtenances. Last year, Line Maintenance crews repaired 1,534 waterline breaks and performed 15,065 work orders on hydrants and valves.

The Mechanics Shop, which maintains the entire Authority fleet of approximately 130 vehicles and construction equipment, efficiently handled 1,361 preventive maintenance items and repairs.



The Meter Shop reads, repairs, tests, changes and installs all residential and large commercial meters in the distribution system. Currently, there are 135,000 residential meters and 730 large commercial meters in service. Of the residential meters, 55 percent have been changed to remote read, a process where the meter is read with a hand-held computer from outside the home.

With remote meters, access to a customer's home is not required to obtain a reading. As for large commercial meters, 78 percent have been changed to more accurate, current production meters. Besides scheduled maintenance and meter changes, Meter Shop personnel processed more than 16,000 additional work orders in 2000.

Due to its continued emphasis on preventive maintenance, the Distribution Department used only a fraction of its annual work time for emergency repairs last year. As a result, average repair time for leaks decreased which eliminated several hundred-man hours and reduced payroll costs.



Remote meter reading has reduced the hours needed to determine service volume and has resulted in greater customer satisfaction

ENGINEERING

The Engineering Department is responsible for the study, design and construction of major capital improvements to the Authority's water treatment, transmission, pumping, storage and distribution systems. It also manages construction inspection activities, the Authority's GIS mapping system and the restoration of excavation sites resulting from maintenance and repair of transmission and distribution lines, valves and hydrants.

Engineering's emphasis on planning plays a vital role in the Authority's ability to provide quality water and quality service at affordable rates to an ever-growing customer base.

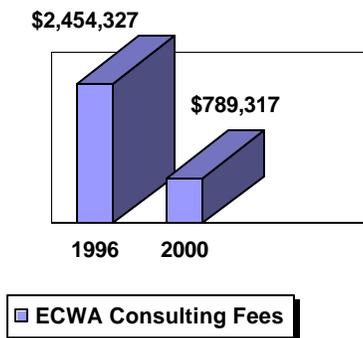
The department's professional engineers continue to reduce the Authority's use of outside consultants by performing design work "in house." This cost cutting measure allows the Authority to allocate more money for operational and capital improvements.

In 2000, the Authority completed several projects on time and under budget. Engineering supervised the design and construction of waterline improvements throughout ECWA's service area, including Kenville Road and Alaska Street in Cheektowaga, Campus Drive in Amherst, South Shore Boulevard, Dorrance Avenue and Willett Road in Lackawanna and French Road in West Seneca. These projects saw the installation of approximately 14,300 linear feet of 8-inch waterline to replace existing 6-inch waterlines. These line replacements totaled \$2.3 million and were substantially completed during the past year.

The Authority also continued maintenance on its water storage tanks by repainting the interiors and exteriors of six tanks. Completed tanks include the Sturgeon Point Washwater Tank, the Scherff Road Tank in Orchard Park, and the Pleasantview Tank in Lancaster. The Cole Road Tank in Orchard Park and the Eden 3 and Eden 4 Tanks will be completed in 2001. The total cost for refurbishing the tanks will be roughly \$2.1 million.

The Engineering Department also oversees the installation of new small (3/4" - 2") and large (4" and larger) customer service connections. Last year, 1,017 small services and 46 large services were installed.

Another significant accomplishment in 2000 was the deployment of the Authority's GIS mapping system to field personnel. Currently, eight employees utilize laptop computers in the field equipped with GIS. As a result, repairs are performed more efficiently.



MUNICIPAL LIAISON

The Authority's Municipal Liaison continued to work closely with local governments in a spirit of inter-municipal cooperation to assist communities with their current and future water supply needs. The Authority enhanced its relationships with local elected officials by actively participating in the Association of Erie County Governments. During the past year, the Authority also worked with representatives from Genesee County and helped finalize the agreement for the Genesee County Public Water Supply Program. The project, which will develop an integrated public water transmission system in Genesee County, is a collaborative effort between New York State, Genesee County, the Monroe County Water Authority and the Erie County Water Authority. Under the agreement, the Authority will provide water to Western Genesee County.

The Authority also continued its participation in the Southern Tier West (Cattaraugus, Chautauqua and Allegany Counties) Regional Planning Board Technology Committee. This committee deals with Geographic Information Systems (GIS) and electronic commerce issues. During the past year, the Authority worked aggressively to coordinate the licensing and distribution of its GIS base map to local governments and their engineering and land planning consultants, including providing data from the Authority's electronic mapping system for the Hamlet of Versailles in Cattaraugus County. Versailles is planning to install a public water distribution system and will receive water through the Seneca Nation's connection into the Authority's Inter-Community Transmission main.

In 2000, the Authority completed several projects to accommodate increased demand throughout its service area. Improvements to existing facilities included

the replacement of existing mains in Amherst and West Seneca, construction of new mains to service new residential developments in Alden, Amherst, Boston, Eden, Lancaster, Orchard Park and West Seneca, new commercial/industrial developments in Lancaster, Newstead and Orchard Park, and new water districts in Alden, Marilla and Newstead. The Municipal Liaison also participated in planning activities for potential new water districts in Aurora, Boston, Eden, Colden, Holland and Wales.

Authority personnel join Town of Clarence officials at a press conference announcing the transfer of ownership of the Town's water system to the Authority

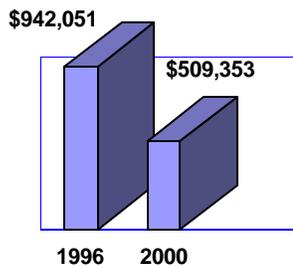


PRODUCTION

The Production Department operates and maintains the Authority's two water treatment plants, 21 pumping stations and 40 water storage tanks.

In 2000, the Production Department treated and delivered 24,208,170,000 gallons of water. This amount was slightly ahead of 1999 due to service area additions in eastern and southern Erie County. Production accomplished its goals for the year well within budget and at personnel levels equal to last year's total. All capital budget projects were completed with the exception of several multi-year projects that require staging.

Internal operational upgrades were made in areas such as chemical dosage control, energy use management, and filter backwashing procedures. After a yearlong study utilizing the Authority's Pilot Plant, a new filter media design was selected and installation in two existing filters was completed. The new media replaces previous media installed in 1966 and 1972 and will serve to enhance the Authority's treated water quality with greater particulate removal.



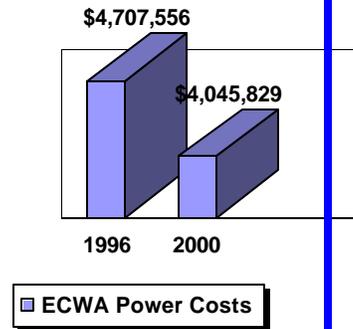
■ ECWA Chemical Costs

The implementation of Supervisory Control and Data Acquisition system (SCADA) technology continues to expand its uses and benefits in the Authority's filter plants. The system in place at Sturgeon Point now controls three quarters of the plant's operations with work on automating the filter operation tied to the



ongoing filter media replacement project. The phased implementation of the SCADA system to control and monitor the Van De Water Plant is currently underway and will be completed in 2001.

The Authority also converted its electric accounts from power commodity purchases through the respective utility to a buying cooperative through the Erie County Department of Public Works. The plan is administered by Lepcorp, an energy-purchasing corporation that secures and schedules electric power commodity purchases for the Authority and dozens of other municipalities in Western New York. This arrangement saved the Authority \$472,455 in operating revenue last year alone.



The Authority is committed to the safety of its customers and the environment. The Production Department is responsible for ensuring that safety. During the past year, Production completed two construction projects with environmental value to its facilities. Emergency shutoff valves were purchased for chlorine tank room manifolds at three station locations. These valves automatically shut down chlorine tanks if a leak were to occur. The second project was the construction of two truck unloading facilities at both treatment plants. The Authority now complies with the New State York Department of Environmental Conservation rule for containment of bulk tank trucks that unload registered bulk substances on Authority property.

The Department also aggressively researched treatment chemicals to determine the best for the Authority's plants and the population it serves. Six primary coagulant chemicals were researched, pilot tested and analyzed. Results indicated the Authority's continued use of Stern Pac was the best product for its plants and a four-year contract was approved.

The Production Department will continue to pursue technologically advanced methods to manage the Authority's system with increased efficiency, improved productivity, and reduced power costs.

The Authority's Van De Water Treatment Plant delivers an average of 17.5 million gallons a day to customers in northern Erie County



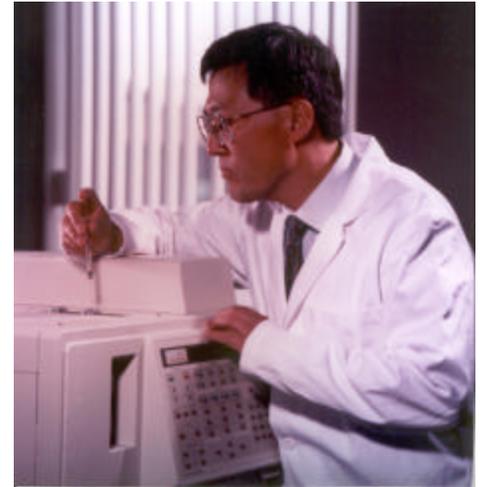
WATER QUALITY

The Water Quality Department continues to remain a leader in innovative water treatment strategies both statewide and nationally. The Authority's state of the art Water Quality lab tests our water 24 hours a day, 365 days a year. In 2000, the Authority conducted more than 70,000 tests for 145 regulated contaminants. The Authority has always "MET" or "EXCEEDED" all federal and state water quality regulations, and last year was no exception.

The Authority's lab is recognized as one of the most well equipped labs in the United States and Canada that is capable of testing for *Giardia* and *Cryptosporidium*. Currently, the Authority tests for these protozoa for several public water suppliers throughout North America. In 2000, the Authority netted \$201,820 for all *Giardia* and *Cryptosporidium* analysis. New York City recently renewed its contract with the Authority totaling more than \$1.3 million in revenue over the next four years.

The newly installed Laboratory Information Management System (LIMS) has drastically improved the department's data collection and reporting. The system receives all laboratory-generated data and produces all necessary reports on weekly, monthly, quarterly and annual bases. It has helped the department produce invoices for water agencies under contract with the Authority more accurately and efficiently.

In 2000, Water Quality completed a preliminary version of the "Sample Site Plan" for the Bacteriology Laboratory, as required by the Erie County Health Department. The plan establishes formal relationships with customers throughout the Authority's service area used as collection sites for its sampling program.



The Authority's Annual Water Quality Report was rated the "best in New York State" by the Citizens Campaign for the Environment

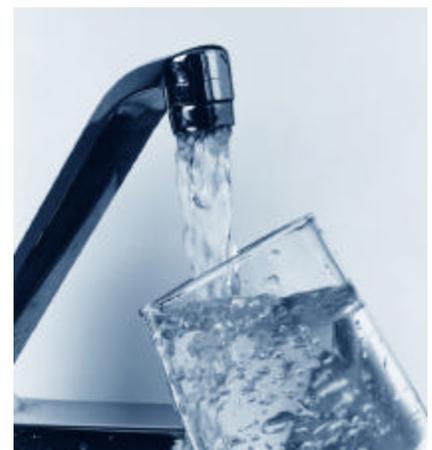
To continue to achieve its primary goal of providing high-quality water in a cost effective manner, the Authority is always researching new technologies and alternative treatment methods. Much of this work is performed at the Sturgeon Point Pilot Treatment Plant. This model treatment plant saves the Authority valuable time and resources by allowing extensive research to be conducted prior to implementing changes to its system.

During the past year, the Water Quality Department has investigated comprehensive methodologies for detection of E.coli 0157.H7 and Biodegradable Dissolved Organic Carbon (BDOC). The Department also completed an evaluation of Nichem powdered activated carbon (PAC), which is used in taste and odor removal. Based on pilot test results and bid prices, Nichem PAC was awarded a contract with the Authority.

A Flocculation testing program also began last year. This project, along with several others, will proceed throughout 2001 and is focused on optimizing the flocculation mixing intensities and baffle arrangements at the Sturgeon Point Treatment Plant.

The Water Quality Department is also responsible for producing the Authority's Annual Water Quality Report (AWQR). The report is required under the Safe Drinking Water Act and is mandated by the Environmental Protection Agency and the New York State Department of Health. The Authority direct mailed 154,954 reports to customers and posted the report on its web site for public comment. The Authority's 1999 AWQR received a grade of "A+" and was recognized as the best in New York State by the Citizens Campaign for the Environment, a grassroots advocacy organization that evaluates and grades water quality reports from public water suppliers throughout the country.

The Authority's Water Quality Department maintains a highly trained staff and uses state of the art technology to improve treatment and testing capabilities to assure the delivery of safe, clean water to every customer's tap.



HUMAN RESOURCES

The Human Resources Department manages all post-hire activities, including labor relations, benefits administration, union contract negotiations, employee training programs, safety and other human resource policies and procedures.

Training and safety continue to be top priorities at the Authority. In recent years, Human Resources has instituted a proactive policy regarding work place safety programs to benefit the Authority's employees and the community. The Department continues to maintain a safety program that is based on federal regulations (OSHA), state law (PESH), analysis of Authority operations, and incidence records.

For the sixth consecutive year, Authority employees completed more than 4,000 hours of safety training in areas such as fire extinguisher training, backhoe safety, operation of heavy equipment, and work-site safety set up. Human Resources also updated the Authority's Respiratory Protection program. The program, which is mandated by the state due to the Authority's use of chlorine at its treatment plants, now includes an annual quantitative fitness test and an extensive medical evaluation performed by a certified physician.

The Authority also continues to offer voluntary training programs, such as defensive driving and first-aid CPR, and provides assistance to employees to participate in educational training, licensing programs, and professional associations to maintain their skills at the highest possible levels.

Human Resources ongoing training efforts have been instrumental in reducing operating costs and providing better service to the Authority's customers.

SECRETARY TO THE AUTHORITY

In an effort to take a more proactive approach to customer, community, and media relations, the Office of Secretary to the Authority expanded last year with the addition of a Public Affairs Officer to develop information and communication programs about the Authority, its operations, and the role it plays in enhancing the quality of life in the community.

The Public Affairs Officer oversaw inquiries from customers, teachers, students, and the media, conducted tours of the Authority's treatment plants, assisted the Secretary in planning the 2000 New York State Water Authorities Conference hosted by the Authority, produced an enhanced and more customer friendly Consumer Confidence Report, and actively participated in community events.

At the request of the Board of Commissioners, in its desire to create a more diversified workforce, the Office of the Secretary also organized the Authority's first ever pre-civil service training program. The program, financed by the Authority and administered by Erie Community College, is designed to better prepare minorities for civil service job opportunities at the Authority. The program targeted the position of Customer Service Representative and included a major community outreach effort. As a result, more than 1,000 individuals took the examination, the most ever for this title, and roughly 700 participated in three pre-exam training sessions.

The Authority will continue to enhance its public relations programs. Publics that are well informed are the Authority's best allies in supporting the organization and necessary improvements to maintain the highest drinking water standards.

CHAIRMAN'S REPORT: FULFILLING OUR MISSION

The Erie County Water Authority was created nearly fifty years ago by a special act of the New York State Legislature and was given a basic mission: provide a plentiful supply of safe, clean water to suburban Erie County.

Although the mission was essential, it would be difficult to implement. Under the Authority's predecessor, the Western New York Waterworks Company, water service in Erie County was a patchwork of systems ranging from areas completely serviced by the "Company" to local municipal suppliers and distribution systems to private wells. To better serve residents, and provide them with a high-quality product at an affordable rate, the Authority realized it had to work at integrating the County's public water systems. The Authority proved quite successful over the last several decades in achieving this goal, however, during the early 1990's the Authority lost focus of its original purpose.

The Authority refocused on this mission in 1996, when a new Board of Commissioners and management team assumed control of the organization and began implementing much needed reforms.

I am pleased to report that with the many financial and operational challenges of the past four years behind us, the Authority has redefined the vital role it plays in the communities we serve.

During the past year, the Authority continued implementing the reforms initiated four short years ago. Staff reductions and operational changes have significantly reduced costs. The Erie County Comptroller's Office recently conducted an audit of the Authority's purchasing practices as a follow-up to a 1997 audit, and found that all previous recommendations had been implemented and that the Authority has made major organizational improvements, further benefiting our customers.

These efforts combined to produce a surplus for fiscal year 2000 that will be used to meet capital improvement needs on a pay-as-you-go basis. I am also proud to report that there was no rate increase for any customer for the third straight year.

The Authority also continued its efforts towards consolidating the region's public water suppliers. During the past year, the Authority completed the acquisition of the Town of Clarence's water system and entered a Lease Management agreement with the Town of Newstead. These integrations have allowed us to take another monumental step in reaching an agreement with Genesee County and the Monroe County Water Authority for the Authority to supply bulk water to the western portion of Genesee County. In addition, a series of meetings have been held between the Authority and the City of Buffalo, the largest municipality in Erie County, which have furthered discussions of how both entities can work collaboratively to benefit the region.

While these events were significant, the Authority is also presently holding discussions with nearly a dozen local governments in Erie County to assist them in their desire to join the Authority's system.

As we move forward in 2001, the Erie County Water Authority is dedicated to fulfilling its mission with renewed enthusiasm.

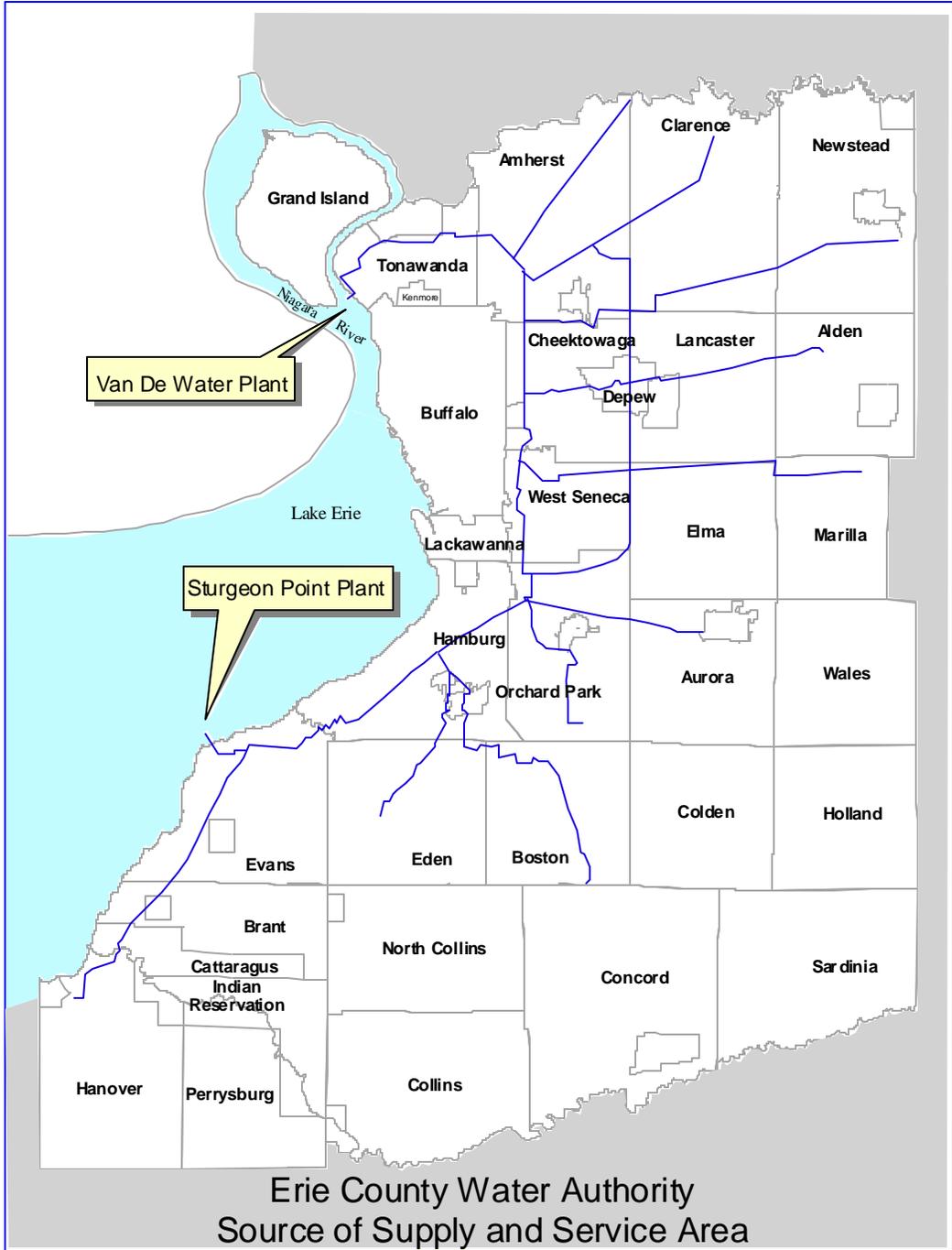
It has been my honor to serve our customers this past year as Chairman of the Board of Commissioners.

Sincerely,

Robert J. Lichtenthal, Jr.
Chairman



When the Authority began operations in 1953, it had a single water treatment facility, 33,234 customers, and 405 miles of waterlines. Today, the Authority has two water treatment plants, more than 135,000 customers and 2,100 miles of waterlines.



Report of Independant Accounts

March 23, 2000

To the Members of the
Erie County Water Authority

In our opinion, the accompanying balance sheet and the related statements of net income and earnings reinvested in the business and cash flows present fairly, in all material respects, the financial position of the Erie County Water Authority (the Authority) for the year ended December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Pricewaterhouse Coopers LLP

March 23, 2000

ERIE COUNTY WATER AUTHORITY

Balance Sheet

	December 31,	
	<u>2000</u>	<u>1999</u>
Assets		
Water plant, net	\$ 256,040,594	\$ 245,742,951
Invested reserve funds		
Future construction	3,905,792	2,236,327
Debt service reserve fund	5,759,357	5,666,133
Net increase in the fair market value of investments	<u>105,097</u>	<u>15,761</u>
	<u>265,810,840</u>	<u>253,661,172</u>
Current Assets:		
Cash and cash equivalents	15,047,157	20,630,835
Customers' accounts receivable, less allowance for doubtful accounts of \$289,173 and \$288,288, respectively	3,811,011	3,869,038
Debt service fund (at amortized cost)	4,878,389	3,800,489
Investments	4,992,310	500,000
Interest receivable and other assets	2,121,801	1,894,638
Materials and supplies	<u>1,440,941</u>	<u>1,472,665</u>
Total current assets	<u>32,291,609</u>	<u>32,167,665</u>
Unamortized bond discount and expense	1,777,742	1,974,699
Long-term investment	<u>8,673,074</u>	<u>8,088,150</u>
Total assets	<u>\$ 308,553,265</u>	<u>\$ 295,891,686</u>
Capitalization and Liabilities		
Capitalization:		
Earnings reinvested in the business	\$ 163,638,247	\$ 157,601,747
Contributions in aid of construction	<u>36,859,748</u>	<u>24,676,582</u>
Total equity	<u>200,497,995</u>	<u>182,278,329</u>
Water revenue bonds - long term	<u>87,333,747</u>	<u>94,189,178</u>
Total capitalization	<u>287,831,742</u>	<u>276,467,507</u>
Current liabilities:		
Accounts payable	4,341,286	2,613,461
Water revenue bonds - current	3,910,472	4,560,631
Interest and other accrued liabilities	3,806,941	2,087,224
Accrued retirement contributions	2,074,072	2,065,013
Construction retention	<u>308,349</u>	<u>383,371</u>
Total current liabilities	<u>14,441,120</u>	<u>11,709,700</u>
Accrued sick pay	1,431,705	1,387,558
Long-term interest payable	4,531,023	6,161,306
Advances for construction	<u>317,675</u>	<u>165,615</u>
Total capitalization and liabilities	<u>\$ 308,553,265</u>	<u>\$ 295,891,686</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Net Income and Earnings Reinvested in the Business

	Year ended December 31,	
	<u>2000</u>	<u>1999</u>
Operating revenues	\$ 43,013,977	\$ 45,788,920
Operating expenses:		
Operation and administration	19,911,620	19,507,029
Maintenance	5,849,456	6,296,978
Depreciation and amortization	<u>8,793,168</u>	<u>8,235,361</u>
Total operating expenses	<u>34,554,244</u>	<u>34,039,368</u>
Operating income before miscellaneous income and net interest charges	8,459,733	11,749,552
Net interest charges:		
Interest expense	5,327,781	6,466,867
Interest income	(2,886,249)	(3,062,430)
Amortization of investment premium/discount	-	35,797
Interest capitalization during construction	<u>(18,299)</u>	<u>(670,154)</u>
Net interest charges	<u>2,423,233</u>	<u>2,770,080</u>
Net income	<u>\$ 6,036,500</u>	<u>\$ 8,979,472</u>
Earnings reinvested in the business:		
Beginning of year	<u>157,601,747</u>	<u>148,622,275</u>
End of year	<u>\$ 163,638,247</u>	<u>\$ 157,601,747</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Statement of Cash Flows

	Year ended December 31,	
	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Net income	\$ 6,036,500	\$ 8,979,472
Adjustments to reconcile net income to net cash provided by (used for) operating activities -		
Depreciation and amortization	8,793,168	8,235,361
Interest expense, net	(715,983)	(346,480)
Allowance for funds used during construction	(18,299)	(670,154)
Change in:		
Debt service fund	(1,077,900)	(1,113,569)
Customers' accounts receivable	58,027	(483,978)
Materials and supplies	31,724	(169,103)
Other assets	(2,601,219)	(14,278,201)
Accounts payable	1,727,825	54,184
Accrued retirement contributions	9,059	70,247
Construction retention	(75,022)	(98,659)
Other liabilities	165,119	246,971
Sick pay accrual	<u>44,147</u>	<u>71,884</u>
 Net cash provided by operating activities	 <u>12,377,146</u>	 <u>497,975</u>
Cash flows from investing activities:		
Proceeds from the sale or maturity of investments	102,596,062	178,692,119
Purchase of investments	(106,378,457)	(156,387,854)
Net decrease (increase) in the fair value of investments	(89,336)	163,240
Cash transfer for investment	(99,890)	425,001
Additions to water plant, net of disposals	<u>(7,784,767)</u>	<u>(12,766,467)</u>
Net cash provided by (used for) investing activities	<u>(11,756,388)</u>	<u>10,126,039</u>
Cash flows from capital and related financing activities:		
Repayment of water revenue bonds	(7,503,414)	(18,418,692)
Increase in contributions in aid of construction	1,146,918	522,871
Increase (decrease) in advances for construction	<u>152,060</u>	<u>(69,923)</u>
Net cash (used for) capital and related financing activities	<u>(6,204,436)</u>	<u>(17,965,744)</u>
 Net increase (decrease) in cash and cash equivalents	 (5,583,678)	 (7,341,730)
Cash and cash equivalents:		
Beginning of year	<u>20,630,835</u>	<u>27,972,565</u>
End of year	<u>\$ 15,047,157</u>	<u>\$ 20,630,835</u>

The accompanying notes are an integral part of these financial statements

ERIE COUNTY WATER AUTHORITY

Notes to Financial Statement

1. Organization and significant accounting policies

Organization

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

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

The Authority began with a mandate to provide potable water to all locations within Erie County, except Buffalo, Tonawanda and Grand Island, and has fulfilled this mandate by providing water to over 640,000 residents of Erie County operating on one of the three bases set forth above – direct service, lease managed service or bulk service. The Authority has had a regional outlook for many years as evidenced by our service expansion throughout the county and by the Inter-Community Transmission main built in the early 1990's to expand water service to the Cattaraugus Indian Reservation and some Chautauqua County customers. Recently the Authority has converted the Village of Depew and the Town of Clarence from bulk service to direct service and has added over ten thousand direct service customers to its operations and asset base. We have also agreed to provide water to residents of Western Genesee County in a shared venture with Monroe County Water Authority and the State of New York.

Basis of accounting

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

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

Water plant

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

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

Depreciation expense approximated 2.4% of the original cost of average depreciable property for the years ended December 31, 2000 and 1999.

Investment securities

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 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 income statement.

The Authority's deposits at December 31, 2000 were entirely covered by federal deposit insurance or by collateral held by the Authority's custodial banks in the Authority's name.

Materials and supplies

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

Accrued sick pay

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

Unamortized bond discount and expense

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

Long-term investment

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

Advances for construction and contributions in aid of construction

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

Contributions in aid of construction represent amounts received from individuals, governmental agencies, and others, to reimburse the Authority for construction costs incurred on capital projects or the original cost of water plant systems contributed to the Authority by municipalities and others. During the current year, the Authority recorded asset values and contributions in aid of construction from the Village of Depew and the Town of Clarence in excess of \$11,036,000 and assumed responsibility for the operation, maintenance and improvements to these water systems now and in the future.

Operating revenues

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

Statement of cash flows

For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to be all unrestricted cash accounts and short-term investments purchased with an original maturity of generally three months or less. Cash paid for interest on the water revenue bonds amounted to \$5,790,082 for 2000 (consisting of \$4,591,771 current interest and \$1,198,311 related to the partial defeasance of the 1992 and 1993 Capital Appreciation Bonds) versus \$6,630,789 for 1999 (consisting of \$5,574,356 current interest and \$1,056,433 related to the partial defeasance of the 1993 Capital Appreciation Bonds).

Income taxes

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

2. Water plant

	December 31,	
	<u>2000</u>	<u>1999</u>
	(in thousands)	
Buildings and structures	\$ 164,675	\$ 162,298
Mains and hydrants	146,588	130,943
Equipment	25,465	24,454
Land	2,194	2,194
Other	<u>35,861</u>	<u>32,001</u>
Water plant in service	374,783	351,890
Less accumulated depreciation	<u>122,751</u>	<u>107,973</u>
	252,032	243,917
Construction work in progress	<u>4,009</u>	<u>1,826</u>
	<u>\$ 256,041</u>	<u>\$ 245,743</u>

3. Water revenue bonds

Water revenue bonds are summarized as follows:

<u>Series</u>	<u>Final annual installment payment due</u>	<u>Year of earliest redemption</u>	<u>Interest rate</u>	<u>Original issue</u>	<u>Balance as of December 31,</u>	
					<u>2000</u>	<u>1999</u>
					(in thousands)	
Series 1992FR	12/01/08	2006	6.20-6.30%	50,270	4,473	5,871
Series 1993A	12/01/16	2009	Variable (*)	27,500	27,500	27,500
Series 1993B	12/01/16	2009	Variable (*)	15,000	15,000	15,000
Series 1993FR	12/01/05	1997	4.88-6.17%	43,886	21,181	26,383
Series 1998B	12/15/17	2008	3.65-5.20% (**)	7,781	6,835	7,136
Series 1998D	10/15/19	2009	3.90-5.15% (**)	16,860	<u>16,255</u>	<u>16,860</u>
					<u>\$ 91,244</u>	<u>\$ 98,750</u>
					<u>3,910</u>	<u>4,561</u>
Less portion due within one year					<u>\$ 87,334</u>	<u>\$ 94,189</u>

(*) The interest rate was 4.55% and 5.05% at December 31, 2000 and 1999, respectively.

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

FR Fourth Resolution

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

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

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

	<u>Interest</u>	<u>Principal</u>
1998B	June 15 and December 15	December 15
1998D	April 15 and October 15	October 15

The bonds bear a variable rate of interest from 3.65% to 5.20% over their respective installment payment dates ending on December 15, 2017 and October 15, 2019, respectively. The terms of the borrowings provide for an interest subsidy of approximately one-third of the stated interest rates shown above. The subsidy is generated from a United States Environmental Protection Agency grant to the EFC which EFC invests and credit the borrower with the earnings on the invested funds as an offset to the interest payable on the bonds.

Total principal and interest payments relating to Water Revenue Bonds for the next five years are summarized as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>CAB Interest</u>	<u>Current Interest</u>	<u>Total</u>
2001	3,910,472	1,734,528	4,342,651	9,987,651
2002	3,725,917	1,959,083	4,305,251	9,990,251
2003	5,805,000	-	4,196,668	10,001,668
2004	5,955,000	-	3,869,494	9,824,494
2005	<u>6,740,000</u>	<u>-</u>	<u>3,522,976</u>	<u>10,262,976</u>
	<u>\$ 26,136,389</u>	<u>\$ 3,693,611</u>	<u>\$ 20,237,040</u>	<u>\$ 50,067,040</u>

As provided by the respective bond resolutions, the Series 1993A Bonds and the Series 1993B Bonds are redeemable prior to maturity at the election of the Authority, at any time.

Prior to 1993, the Authority completed a plan of restructuring a significant portion of its debt through a series of bond issuances. The net proceeds from these issuances and certain existing funds were deposited with an escrow agent pursuant to refunding agreements, and invested in U.S. Government securities. The maturities of these invested funds and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased bonds as they mature. These advance refunding transactions effectively released the Authority from its obligation to repay these bonds and constituted in substance defeasances. The principal outstanding on the bonds defeased prior to 1993 is \$77,194,087 at December 31, 2000 with maturities ranging from the year 2001 to the year 2014.

Beginning in 1998 the Authority has significantly reduced its debt. On December 1, 1998, the Authority paid \$7,701,125 to discharge principal and accrued interest on the Series 1992 Bond Issue due December 1, 2017.

In November, 1999, the Authority defeased a portion of the 1993 Fourth Resolution Taxable Bonds. Available cash of \$13,684,547 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1993 Fourth Resolution Taxable Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. This transaction resulted in a difference of \$19,422 between cash put into escrow and the net carrying amount of the debt. This difference has been deferred and will be amortized as a component of interest expense over the remaining life of the debt. The principal outstanding is \$10,633,350 at December 31, 2000 with maturities ranging from the year 2001 to the year 2005.

In December 2000, the Authority defeased a portion of the 1992 Fourth Resolution Bonds and a portion of the 1993 Fourth Resolution Taxable Bonds. Securities and available cash of \$4,191,215 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1992 and 1993 Fourth Resolution Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1992 and 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. This transaction resulted in a difference of \$50,121 between cash and securities put into escrow and the net carrying amount of the debt. This difference has been deferred and will be amortized as a component of interest expense over the remaining life of the debt. The principal outstanding is \$2,944,959 at December 31, 2000 with maturities ranging from the year 2001 to the year 2007.

4. Debt service reserve fund

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

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

Additionally during 1998, the Authority established a debt service reserve fund as required by the Series 1998B and 1998D bond resolutions to maintain a specified amount of funds to meet future debt service requirements. These requirements state that the Authority must deposit funds equal to the lesser of ten percent of the total principal of the loan, the maximum annual debt service or 125% of the average annual debt service for the Series 1998B and 1998D Bonds. At December 31, 2000 and 1999, the combined debt service reserve fund amounted to \$5,759,357 and \$5,666,133 respectively.

5. Debt service fund

The 1992 Fourth Resolution, 1993A, 1993B, 1993 Fourth Resolution, 1998B and 1998D bond resolutions require that a specified amount of funds be maintained in the debt service fund. The requirements of the debt service fund state that the Authority must deposit funds to provide for monthly interest and principal payments to start not later than six months prior to the payment of interest and twelve months prior to the payment of principal. Accordingly, the Authority had funds set aside in the debt service fund amounting to \$4,878,389 and \$3,800,489 at December 31, 2000 and 1999, respectively.

6. Future construction reserve fund

The Authority is required by the water revenue bond resolutions to maintain, on deposit, funds in the amount of one-twelfth of the subsequent year's budgeted improvement and replacement expenditures, but not less than one-twelfth of one half of 1% of the total gross cost of water plant in service and under construction. Accordingly, as the budgeted expenditures exceeded one half of 1% of water plant, the Authority was required to have reserve funds for future construction set aside in the amount of \$840,877 and \$706,488 at December 31, 2000 and 1999 respectively. Additionally, certain funds provided by the Series 1992, Series 1993A and 1993B Bonds are required to be maintained in this fund to pay for future acquisition and construction costs.

During 2000, and for future years, the Board has committed to pay for capital costs from available operating funds in excess of reserve requirements and other defined financial commitments.

7. Investment securities

In March 1997, the GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (the Statement), which establishes standards of financial accounting and reporting for certain investments held by most governmental entities and all investments held by governmental external investment pools. Both the Statement of Net Income and Earnings Reinvested in the Business and the Balance Sheet for 2000 and 1999 contain investment income, including changes in the fair value of investments of \$105,097 and \$15,761 in 2000 and 1999, respectively.

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

- X Obligations of the United States Government;
- X Obligations of Federal Agencies which represent full faith and credit of the United States Government;
- X Bonds issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

- X Time deposits and money market accounts;
- X Commercial paper which matures not more than 270 days after the date of purchase; and
- X Municipal obligations of any state, instrumentality, or local governmental unit of such state.

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

	December 31, 2000		December 31, 1999	
	<u>Amortized</u>	<u>Market</u>	<u>Amortized</u>	<u>Market</u>
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Future construction fund				
Cash and equivalents	\$ 1,451,647	\$ 1,451,647	\$ 2,104,799	\$ 2,104,799
Mortgage-backed securities	1,817,132	1,831,220	2,448,867	2,464,210
Commercial Paper	<u>637,013</u>	<u>637,013</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,905,792</u>	<u>\$ 3,919,880</u>	<u>\$ 4,553,666</u>	<u>\$ 4,569,009</u>
Debt service reserve fund				
Cash and equivalents	\$ 370,037	\$ 370,037	\$ 372,046	\$ 372,046
U.S. Treasury securities	1,712,676	1,712,676	1,712,676	1,712,676
Mortgage-backed securities	2,701,316	2,722,189	396,900	398,640
Commercial Paper	<u>975,328</u>	<u>975,328</u>	<u>3,184,511</u>	<u>3,184,511</u>
Total	<u>\$ 5,759,357</u>	<u>\$ 5,780,230</u>	<u>\$ 5,666,133</u>	<u>\$ 5,667,873</u>
Debt service fund				
Cash and equivalents	<u>\$ 4,878,389</u>	<u>\$ 4,878,389</u>	<u>\$ 3,800,489</u>	<u>\$ 3,800,489</u>
Total	<u>\$ 4,878,389</u>	<u>\$ 4,878,389</u>	<u>\$ 3,800,489</u>	<u>\$ 3,800,489</u>
Operating and Maintenance Fund				
Cash and equivalents	\$ 6,740,311	\$ 6,740,311	\$ 7,765,281	\$ 7,765,281
Mortgage-backed securities	8,725,344	8,795,480	2,444,575	2,443,253
Commercial Paper	<u>4,573,812</u>	<u>4,573,812</u>	<u>8,603,640</u>	<u>8,603,640</u>
Total	<u>\$ 20,039,467</u>	<u>\$ 20,109,603</u>	<u>\$ 18,813,496</u>	<u>\$ 18,812,174</u>
Total	<u>\$ 34,583,005</u>	<u>\$ 34,688,102</u>	<u>\$ 32,833,784</u>	<u>\$ 32,849,545</u>
Market Value Less Amortized Cost		<u>\$ 105,097</u>		<u>\$ 15,761</u>

During the normal course of business, the operating and maintenance fund (O&M Fund) makes capital expenditure disbursements on behalf of the future construction fund. These disbursements are subsequently reimbursed by the future construction fund.

A reconciliation of the invested funds balance (at amortized cost) for the future construction fund to actual funds available for future construction is as follows:

	December 31,	
	<u>2000</u>	<u>1999</u>
Invested balance at cost	\$ 3,905,792	\$4,553,666
Less: Funds due to O&M fund for disbursements	<u>-</u>	<u>2,317,339</u>
Funds available for future construction	<u>\$ 3,905,792</u>	<u>\$ 2,236,327</u>

8. Long-term investment

During 1990, the Authority entered into a zero coupon bond agreement which requires the Authority to make monthly deposits into an investment account through December 2008. During 1997, the Board established a policy that all earnings and proceeds to be distributed per this agreement shall be deposited into the capital fund to be used solely for future capital expenses. At December 31, 2000 and 1999, the zero coupon bond investment balance is \$8,673,074 and \$8,088,150, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately \$555,000. The second year will be approximately \$456,000, the third year will be approximately \$363,000, the fourth year will be approximately \$277,000, and the fifth year will be approximately \$197,000. The total amount due for years thereafter is approximately \$189,000. On December 1, 2000 the Authority received \$650,273 as the first guaranteed annual payment from this investment. Varying amounts will be received each December 1 through 2008. The total amount to be received in future years is approximately \$13.8 million.

9. Pension plan and other post retirement benefits

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

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

The contribution requirements of the State Plan members and the Authority are established by the New York State Retirement and Social Security Law and may be amended by the State Legislature. The Authority's contribution to the State Plan amounted to \$182,174 and \$129,979 in 2000 and 1999, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits to retired employees. The Authority's employees covered by collective bargaining units may become eligible for these benefits if they reach normal retirement age while working for the Authority for at least 15 years. For exempt employees the Authority uses a formula based on years of service and age. The Authority recognizes the cost of providing health care benefits to retired employees by expensing the annual premiums, which totaled \$418,071 and \$380,508 for 2000 and 1999, respectively.

10. Deferred compensation plan

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

Section 457 of the Internal Revenue Code was recently amended by the Small Business Job Protection Act of 1996 to require that an eligible deferred compensation plan must, by January 1, 1999, provide that all amounts deferred and the income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. The Plan was amended effective October 1, 1997 to comply with the law, and the plan assets were placed into trust at that time.

11. Commitments and contingencies

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

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

The Authority is also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2000 and 1999 aggregated \$475,076 and \$454,426, respectively. Future minimum annual rentals to be paid under such leases are not significant.

The Authority is involved in litigation and other matters arising in its normal operating, financing, and investing activities. While the resolution of such litigation or other matters could have a material effect on earnings and cash flows in the year of resolution, 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.

COMMENTARY FROM THE EXECUTIVE DIRECTOR

The Authority closed out the Millennium by clearly demonstrating its commitment to ongoing efforts to implement sound fiscal management policies and operational changes that will continue to benefit our customers well into the future.

For the third consecutive year, there were no rate increases for residential or commercial customers. Hydrant fees also remained stable for the second year in a row. The Authority has stabilized rates by holding the line on spending, decreasing consulting expenses, prudent debt management and reducing payroll costs.

In December of 2000, the Authority completed an additional early bond defeasement of \$5.3 million. By reducing its debt load, the Authority has significantly decreased future debt payments, reduced the pressure to increase rates in the future, and restored fiscal integrity to the organization.

The Authority has also reformed its competitive bidding and purchasing procedures resulting in increased savings and improvements in the vendor selection process. The Erie County Comptroller recognized these efforts in a recent audit of the Authority's purchasing practices for the period January 1, 1999 to August 31, 2000. The Comptroller praised the work of the current Administration and stated, "the Water Authority has made significant progress" by implementing "good business practices."

As a result of these savings and improved business practices this past year, the Authority paid for all 2000 capital improvement projects from existing revenue rather than borrowed funds. This will also be achieved in 2001.

The Authority recognizes it plays a major role in the economic vitality of the community it serves. Therefore, the Authority continues to lead the effort to consolidate the region's public water suppliers. Our goal is to assist local governments in providing water less expensively and more efficiently.

Communities that continue to struggle with system upgrades and meeting increasingly stringent water quality standards are realizing that joining the Authority's system is a sound economic decision for them and their residents.

In cooperation with local elected officials, the Authority has taken over water service for the towns of Clarence and Newstead during the past year. Clarence is now a Direct Service customer of the Authority and is completely out of the water business. Newstead recently completed its conversion from a Bulk Sale to a Lease Managed customer. These consolidations have added 7,300 customers to the Authority's service area, but more important, they have resulted in significant savings for the towns and their ratepayers. Clarence, for example, has seen a 23 percent rate reduction and will save approximately \$1 million annually by allowing the Authority to own and operate its system and pay for all future capital improvements.

Authority personnel will continue to work with local municipalities to help them compete in this increasingly competitive industry while constantly improving the service we provide to our current customers.

The Authority remains committed to its primary goal of supplying high-quality water at an affordable rate. We at the Authority are confident that this goal will continue to be met with success and we thank you for your support of our efforts.

Sincerely,

Robert A. Mendez,
Executive Director



The Board of Commissioners would like to thank the employees of the Authority for their continued hard work and dedication during the past year...

William Advey, Jr.
Mark Alba
Thomas Albert
Anthony Alessi
John Allen
Alisia Allen
Gloria Alvarez
Randy Anders
Anthony Anzalone
David Barrett
Sabrina Baskerville
Stephen Battaglia
Joan Battaglia
Janne Battaglia
Matthew Baudo
Francis Babak
Paul Becker
Terrence Bedient
Thomas Beiter
Keith Bess
John Bialek
Paul Bigelow, Jr.
Gary Bluman
David
Bogdanowicz
William Boltz
James Borucki
Russell Bradley
Richard Brown
Randy Burgwardt
Edna Butzer
Beth Caccamise
Daniel Calderon
Michael Carlin
Ivan Carmichael
Timothy Carr
Joseph Cartonina
Christopher
Catuzza
Patrick Cavanaugh
Roy Chaffee
Donna Chegas
Steven Clark
Dana Coffelt
Margaret Conlon
James Connors
Timothy Cook
Kenneth Corkins
William Crowe
Robert Crowley
Joseph Cukierski
Helen Cullinan
Szvoren
Steven D'Amico
Thomas Damstetter
George Dance

Anthony Denson
Bart Dietz
Raymond Dittmer
James Dolce
Maryann Dopkin
Wesley Dust
Kevin Egan
James Ehrin
James Elardo
Timothy Elling
Patricia Fabozzi
William Faircloth,
Jr.
Justyna Falkowski
Robert Faraci, Sr.
Joseph Farrell
Stephen Ficzer
James Figler
Robert Filipiski
Brendan Finn
Dominic Fioretti
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