

2005 Annual Report

Erie County Water Authority

water,
our most
precious
resource

enjoyment

life

health

safety

protection

prosperity

well-being



www.ecwa.org



Success Continues at ECWA

This past year was one of solid performance and success at the Erie County Water Authority (ECWA). In fact, as you will learn from the “Highlights of the Past Decade” in this report, the ECWA is continuing on the course we have charted to achieve more efficient operations and a strong financial position for the future, which has benefited customers.

Over the last ten years we have successfully implemented a business strategy based on the core principal of doing more with less. As a result, we have reduced our number of employees, increased our number of customers and the size of our service district, and have decreased our debt - all while keeping increases in our rate structure below the rate of inflation.

This consistent level of performance was aptly honored this past year with various awards, including the Association of Metropolitan Water Agencies’ Gold Award for Competitiveness Achievement and the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. These awards recognized our effective business management practices that have allowed us to efficiently meet the needs of our growing customer base.

None of the ECWA’s success would be possible without the hard work and dedication of our employees and the guidance of our professional management team to whom we owe our appreciation for their performance around the clock, everyday, 365 days a year.

It is in celebration of our successful efforts at reliably delivering a product of the highest quality to our more than 540,000 consumers and our contributions to the quality of life in Western New York that we submit the 52nd Annual Report of the Erie County Water Authority.

Respectfully,

Board of Commissioners
Frank E. Swiatek, Chairman
Robert J. Lichtenthal, Jr., Vice-Chairman
Acea Mosey-Pawlowski, Treasurer



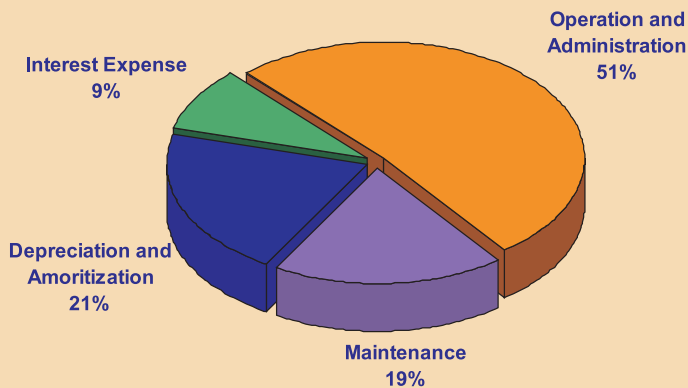
Financial Highlights

2005

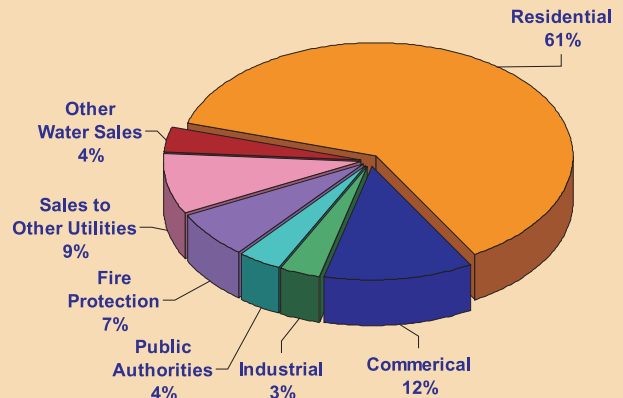
2004

Operating revenue	\$54,238,666	\$48,982,522
Operating expenses	\$41,831,636	\$39,654,104
Total assets	\$352,395,325	\$345,626,839
Outstanding debt service	\$116,723,553	\$129,019,566

2005
Expenses



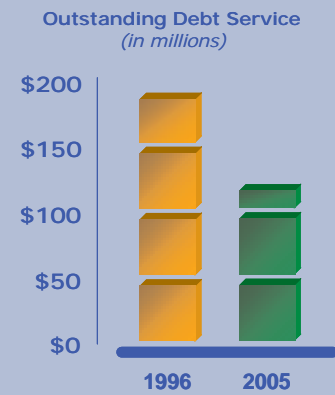
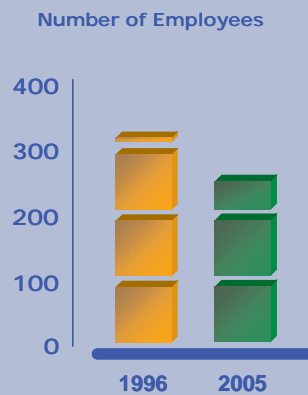
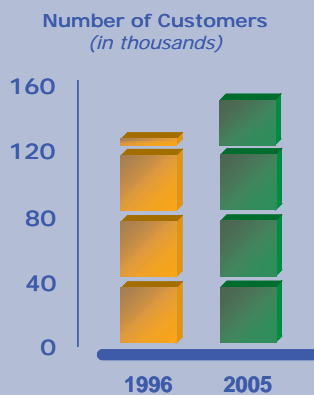
2005
Water Sales Revenue





Highlights of the Past Decade

	1996	2005
Number of customers	121,731	155,057
Number of employees	322	256
Number of customers per employee	378	606
Outstanding debt service	\$190,928,231	\$116,723,553
Debt service per customer	\$1,568	\$752
Operating expenses per customer	\$289.79	\$269.78
Number of fire hydrants	11,709	15,742
Miles of water mains	1,819	2,327
Water rate (per 1,000 gallons)	\$2.11	\$2.56
Water rate if based on inflation	\$2.11	\$2.64





ECWA Management Team

The Erie County Water Authority is an organization of dedicated professionals who take great pride in creating a work environment that achieves excellence through dedication, professionalism and a progressive vision. The Board of Commissioners and senior management would like to thank all of ECWA's employees for another year of dedicated, professional service.



Robert J.
Lichtenthal, Jr.
Vice-Chairman



Frank E.
Swiatek
Chairman



Acea
Mosey-Pawlowski
Treasurer



Wesley
Dust
Executive Engineer



Robert A.
Mendez
Executive Director



Edward J.
Kasprzak
Deputy Director



Organization Profile

The Erie County Water Authority is an independent, public benefit corporation created in 1949 under the jurisdiction of the Public Authorities Law of the State of New York.

The ECWA is not an agency of New York State nor Erie County government. The organization functions as a self-sustaining business enterprise and pays for all operating expenses from revenues generated from the sale of water to its customers. As a not-for-profit entity, all revenues received must be used for operating expenses, capital improvements and paying outstanding debts.

The ECWA was created and operates solely for the benefit of the more than 540,000 consumers throughout Western New York that rely on its product and dependable service 24 hours a day, 365 days a year.



Erie County Water Authority

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295 Main Street
Buffalo, New York 14203

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Web site: www.ecwa.org

Erie County Water Authority Comprehensive Annual Financial Report

for the Year Ended December 31, 2005



Erie County, New York

ERIE COUNTY WATER AUTHORITY

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2005

350 Ellicott Square Building
295 Main Street
Buffalo New York 14203

Prepared By:
The Finance Department
Erie County Water Authority

ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
Table of Contents

Introductory Section

Letter of Transmittal 1

GFOA Certificate of Achievement 7

Members of the Board of Commissioners 8

Organizational Chart 9

Financial Section

Report of Independent Auditors 10

Management’s Discussion and Analysis (MD&A) 11

Financial Statements

 Statement of Net Assets 24

 Statement of Revenues, Expenses and Changes in Net Assets 25

 Statement of Cash Flows 26

 Notes to Financial Statements 28

Statistical Section

Summary Comparison of the Statement of Net Assets 43

Summary Comparison of the Statement of Net Assets (chart) 44

Summary Comparison of the Statement of Revenues, Expenses and Changes in Net Assets 45

Summary Comparison of the Statement of Operating Revenues to Operating Expenses 46

Sources of Revenue 47

Water Sales 48

Residential Rate History Compared to Inflation 49

Collection Rates 50

(continued)

ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
Table of Contents

(concluded)	
Largest Customers	51
Debt Service Coverage Ratio.....	52
Debt Service Maturity Schedule	53
Debt Principal and Interest Payments.....	54
Principal Outstanding by Issuance.....	54
Operating Statistics per Customer	55
Annual Capital Expenditures.....	56
Waterline Replacements and Improvements	57

INTRODUCTORY SECTION



Erie County Water Authority

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716-849-8484 • FAX 716-849-8467

March 24, 2006

The Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Honorable Mark C. Poloncarz
Erie County Comptroller
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members of the Erie County Legislature and County Comptroller Poloncarz:

The Comprehensive Annual Financial Report (CAFR) of the Erie County Water Authority for the fiscal year ended December 31, 2005 is respectfully submitted.

INTRODUCTION

Management representation. This report was prepared by the Finance Department of the Erie County Water Authority (the Authority) in conformance with current accounting and financial reporting principles promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Board of Commissioners and management of the Authority.

Drescher & Malecki LLP have issued an unqualified (“clean”) opinion on the Erie County Water Authority’s financial statements for the year ended December 31, 2005. The independent auditor’s report is located at the front of the financial section of this report.

We believe the information as presented is accurate in all material respects, and is presented in a manner designed to fairly set forth the financial position and results of operations of the Authority. We further acknowledge the Authority’s responsibility for the design and implementation of programs and internal controls to provide reasonable assurance that fraud is prevented and detected. There are no significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Authority’s ability to record, process, summarize and report financial data.

Organization of report. The CAFR is organized into three basic sections:

1. The **INTRODUCTORY SECTION** is intended to familiarize the reader with the organizational structure of the Erie County Water Authority and the nature and scope of the services provided.
2. The **FINANCIAL SECTION** includes the independent auditor’s report on the basic financial statements, Management’s Discussion and Analysis (MD&A) of the Authority’s overall financial position and results of operations and the audited financial statements, including the accompanying note disclosures. This letter is designed to complement the MD&A and should be read in conjunction with it. The Erie County Water Authority’s MD&A and its basic financial statements, including notes, can be found on pages 11 through 42.



3. The STATISTICAL SECTION contains comprehensive statistical data on the Erie County Water Authority's operations. The Erie County Water Authority's Statistical Section can be found on pages 43 through 57.

ORGANIZATION PROFILE

The Erie County Water Authority is a Public-Benefit Corporation formed in 1949 to provide a potable water supply to the residents of Western New York. The Authority was created by an Act of the State Legislature, codified in Sections 1050 through 1073 of Title 3 (the "Erie County Water Authority Act") of Article 5 of the Public Authorities Law of the State of New York (as amended), to, among other things, finance, construct, operate and maintain a water supply and distribution system to benefit the residents of the County of Erie, New York. The Authority became operational in 1953. The Authority is financially self-sustaining, paying all operating expenses from revenues generated from the sale of water to 155,057 customers. The Erie County Water Authority is not an agency of New York State, nor an agency of Erie County government.

The Erie County Water Authority is governed by a Board of Commissioners. The Board consists of three members appointed by the Chairman of the Legislature of Erie County, subject to confirmation by a majority of said Legislature. Each Board member is appointed for a three-year term and continues to hold office until a successor is confirmed. The three-year terms of office are staggered. The enabling state legislation provides that the members of the Authority shall consist of a Chair, a Vice-Chair and Treasurer who shall be members of the Board of Commissioners, and a Secretary, who need not be a member of the Board of Commissioners. The Board establishes policy and is responsible for the overall operations of the Authority.

The Erie County Water Authority is organized into the following departments: Production, Water Quality, Distribution, Engineering, Finance, Administration, Legal and Office of the Secretary. The Legal Department and the Office of the Secretary answer directly to the Board of Commissioners. The remaining departments are under the supervision and administrative control of the Executive Director.

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 from a municipality and is responsible for the operation and maintenance of the assets while the municipality is responsible for the improvement and replacement of assets; and on a bulk sale basis where the Authority contracts with the municipal customer to provide water while the municipality owns the assets and is responsible for their operation, maintenance, improvements and replacement, as well as billings and customer collections.

The Erie County Water Authority's water supply comes from Lake Erie and the Niagara River. Annually, the Authority treats and distributes approximately 26.4 billion gallons of high-quality water for residential, commercial, and industrial use in thirty-two municipalities as well as the Seneca Nation of Indians. The municipalities are located in Erie County and parts of Chautauqua, Cattaraugus and Western Genesee Counties. Before water is delivered, the Erie County Water Authority rigorously treats it to remove harmful contaminants. Two treatment plants handle that process: the Sturgeon Point Water Treatment Plant in the Town of Evans, New York and the Van de Water Treatment Plant on the upper Niagara River in the Town of Tonawanda, New York. These two water treatment plants, along with 32 pumping stations (23 pumping stations owned by the Authority), 39 water storage tanks (20 water storage tanks owned by the Authority), 4 process tanks owned by the Authority, 2,327 miles of waterlines (1,045 miles owned by the Authority), 15,742 fire hydrants (7,072 owned by the Authority) and a water quality laboratory, serve more than 540,000 people in Western New York, 24 hours a day, 365 days a year. The

water produced and delivered by the Erie County Water Authority has always met or exceeded the most stringent water quality standards mandated by federal, state, and local government regulations, and the last year was no exception.

FINANCIAL INFORMATION

Budgetary Controls. Although not legally obligated to adopt a budget, the Authority believes that budget preparation and implementation are important in maintaining fiscal responsibility and accountability, and it is a good business practice to conduct the budgetary process annually. Operating and capital budgets are prepared by management and approved by the Board of Commissioners. The purpose of the budget process is to authorize and control expenditures, evaluate projected revenue to determine the Authority's ability to meet its obligations under various bond covenants and to provide analysis for planning purposes.

Each department head evaluates and specifically identifies their operating and maintenance needs for the coming year. A capital budget is also prepared for the coming year and the next succeeding four years. A series of budget hearings are held with each department head, the Executive Director, the Deputy Director and the Budget Director. A final budget is prepared for review by the Board of Commissioners, and subsequently approved by the Board of Commissioners. In addition, the Authority's budget is reviewed annually by a professional engineer to evaluate the reasonableness of the budget with respect to the Authority generating sufficient revenue to meet current operating and maintenance expenses, debt service, maintaining the required debt coverage ratio and providing adequate resource for capital needs. The current operating and maintenance budget and capital budget have been reviewed and found to meet these requirements.

Financial Reporting. Financial statements, consisting of a Balance Sheet, Income Statement and Cash Flow Statement, and an investment report are prepared monthly, usually within two weeks of the last day of the month. A monthly presentation is made to the Board of Commissioners, comparing actual results of operations with budget. If unforeseen circumstances arise which alter the projections used in the budget process, a revision may be prepared by the Budget Director at the request of the Executive Director for consideration and approval by the Board of Commissioners.

The Authority retains an independent audit firm to review the Authority's financial statements at the end of the fiscal year. A copy of the independent audit firm's opinion on the Authority's financial statements is contained in this report on page 10.

OTHER RELEVANT INFORMATION

Meetings of the Board of Commissioners. The Board of Commissioners takes an active role in establishing policy and in carrying out its responsibility of oversight of the Authority. The Board of Commissioners holds public meetings on a regular two-week schedule. The Board of Commissioners schedules work sessions with management as needed. Also, the Treasurer meets weekly with the Comptroller to review and approve checks for disbursement.

External Oversight. In addition to annual review by an independent audit firm, the Authority is subject to periodic audits by the Office of the New York State Comptroller and the Erie County Comptroller. The most recent review by the New York State Comptroller's Office was conducted during the last calendar quarter of 2004, and resulted in no material findings. In 2005, the Authority was selected for a state wide study of vehicle purchases, use and recordkeeping by the New York State Comptroller's Office. To date, no results have been released by the Comptroller's Office.

Operations. The Authority publishes a Board approved Tariff which establishes policies relating to water service. It includes charges and fees for water and provisions relating to system hookups, extensions of mains, public and private fire protection services and such other matters of importance in servicing its customers and accounts.

In addition, an internal policy and procedures manual is maintained. It contains sections relating to employment policies, compensation, fringe benefits, cash management, By-Laws of the Erie County Water Authority, a code of ethics, insurance requirements for vendors, procurement and rules of the work environment. These policies have been approved by the Board of Commissioners by formal resolution and are implemented by all operating units of the Authority.

The procurement policy outlines procedures which must be followed for construction contracts, purchasing materials and supplies and obtaining professional services. The Authority's enabling state legislation requires that all construction projects exceeding \$5,000 must be competitively bid. The Board of Commissioner's intent is to openly promote fair competition and to acquire the best quality of goods and services at the most reasonable price from responsible providers.

ECONOMIC CONDITION AND OUTLOOK

The local economy, which is generally dictated by the financial health of New York State, Erie County and the City of Buffalo, is facing trying times. Budgetary stress has been experienced due to a declining population, declines in taxing capacity, increasing costs of health care and social services programs, pension cost and cyclical pressures from commodity price increases.

Due primarily to migration from urban areas, the Authority experiences a modest growth rate of one percent per year in its customer base. This normal growth has been augmented when the Authority has acquired village, town and city systems. This growth in our account base has been offset, however, by a steady decrease in overall consumption due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water.

In order to help stabilize water rates, the Authority, over the past eight years, has been able to use its unrestricted cash to reduce the total amount of outstanding debt, either by executing bond call provisions or in-substance defeasances. The Board of Commissioners has committed to an informal program of paying for capital improvements by adopting a "pay as you go" approach, or, if external financing is required, use the assistance of the New York State Environmental Facilities Corporation (EFC) to reduce the cost of debt financing. The prudent practices of the Erie County Water Authority are reflected in the operating results, reported over a ten year period in the Statistical Section of this report. As an example, the Authority increased net income by \$3,993,502 over last year, reporting a record high net income before contributions in aid of construction of \$10,152,594 in 2005.

LONG TERM FINANCIAL PLANNING

The Authority has been exposed to cost increases primarily for employee health care costs and pension costs. To mitigate the negative cost pressures, the Authority has reduced its workforce from 322 budgeted positions in 1996 to 256 budgeted positions in 2006. Through its membership in the Labor Management Healthcare Coalition, which negotiates with, and selects, healthcare providers for Coalition members, the Authority has converted to a single health care provider – BlueCross BlueShield of WNY. Consequently, we have seen the trend in health care costs stabilize by using one health care provider. The Authority maintains a seat on the Labor Management Healthcare Coalition, giving the Authority more control over its future healthcare costs. Personnel and fringe benefit costs account for approximately sixty-one percent of the Authority's operating and maintenance expenses.

The Authority has joined a consortium of other municipal power users in an effort to lower costs. The consortium was formed to secure lower prices for electricity purchases through aggregation of purchases in the open market. Erie County, who acts as the lead agency in the consortium, purchases electricity by competitive bid and bills the Authority on a monthly basis. The Authority is also investigating and pursuing favorable changes in State Law which could result in the Erie County Water Authority receiving power allocations and/or reduced commodity costs.

Security risks, disasters, and power outages have highlighted a need for infrastructure enhancements and redundancy throughout the system. Federal appropriations have been requested from various legislative committees to begin installing such infrastructure in vital areas.

The biggest fiscal challenge on the horizon is to generate sufficient cash flow to help meet the infrastructure needs of the system. The Board of Commissioners has subscribed to the practice of a modest increase in annual water rates. It believes that, except for grants or other Federal or State funding, a “pay as you go” approach is a better alternative than securing open market, external financing which pushes the financial impact of improvements far into the future.

MAJOR INITIATIVES

Internally, departments are encouraged to establish standards for providing excellent customer service, and to set and monitor goals each year. The Authority recently participated in an industry wide benchmarking survey prepared by the American Productivity and Quality Center using Qualserve performance indicators for water and wastewater utilities. The survey compared water utilities from the northeast, midwest, south and western regions of the United States, as well as one water utility in Canada. The Authority’s participation in the survey was an excellent opportunity to determine what aspects of the operation are working well and where attention needs to be focused to achieve more favorable results.

The Authority has received the Association of Metropolitan Water Agencies’ (AMWA) 2005 Gold Award for Competitiveness Achievement. The award, which is AMWA’s top utility management honor, recognizes the accomplishments of public water utilities that apply competitive business strategies and effective management practices to meet the expectations of drinking water consumers and municipal leaders.

The Erie County Water Authority has promoted consolidation of water systems to those municipalities who have either managed or owned separate water treatment and/or delivery systems. The Authority believes that through the economy-of-scale, the cost of potable water can be kept at a reasonable price for its rate payers and as an attractive tool for economic development purposes.

AWARDS AND ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the dedicated service of the entire staff of the Finance Department. We wish to express our appreciation to the Finance Department staff and all other members of the Authority who assisted and contributed to the preparation of this report. We would also like to extend our congratulations on the receipt of a Certificate of Achievement for Excellence in Financial Reporting for the 2004 report, which is presented on page 7.

As it looks toward the future, the Erie County Water Authority is well positioned to continue to efficiently meet the demand for safe, clean drinking water in the communities that it serves.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'F. Swiatek', written in a cursive style.

Frank E. Swiatek, Chair

A handwritten signature in black ink, appearing to read 'Robert J. Lichtenthal, Jr.', written in a cursive style.

Robert J. Lichtenthal, Jr., Vice-Chair

A handwritten signature in black ink, appearing to read 'Acea Mosey-Pawlowski', written in a cursive style.

Acea Mosey-Pawlowski, Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Erie County Water Authority,
New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Payne

President

Jeffrey R. Emer

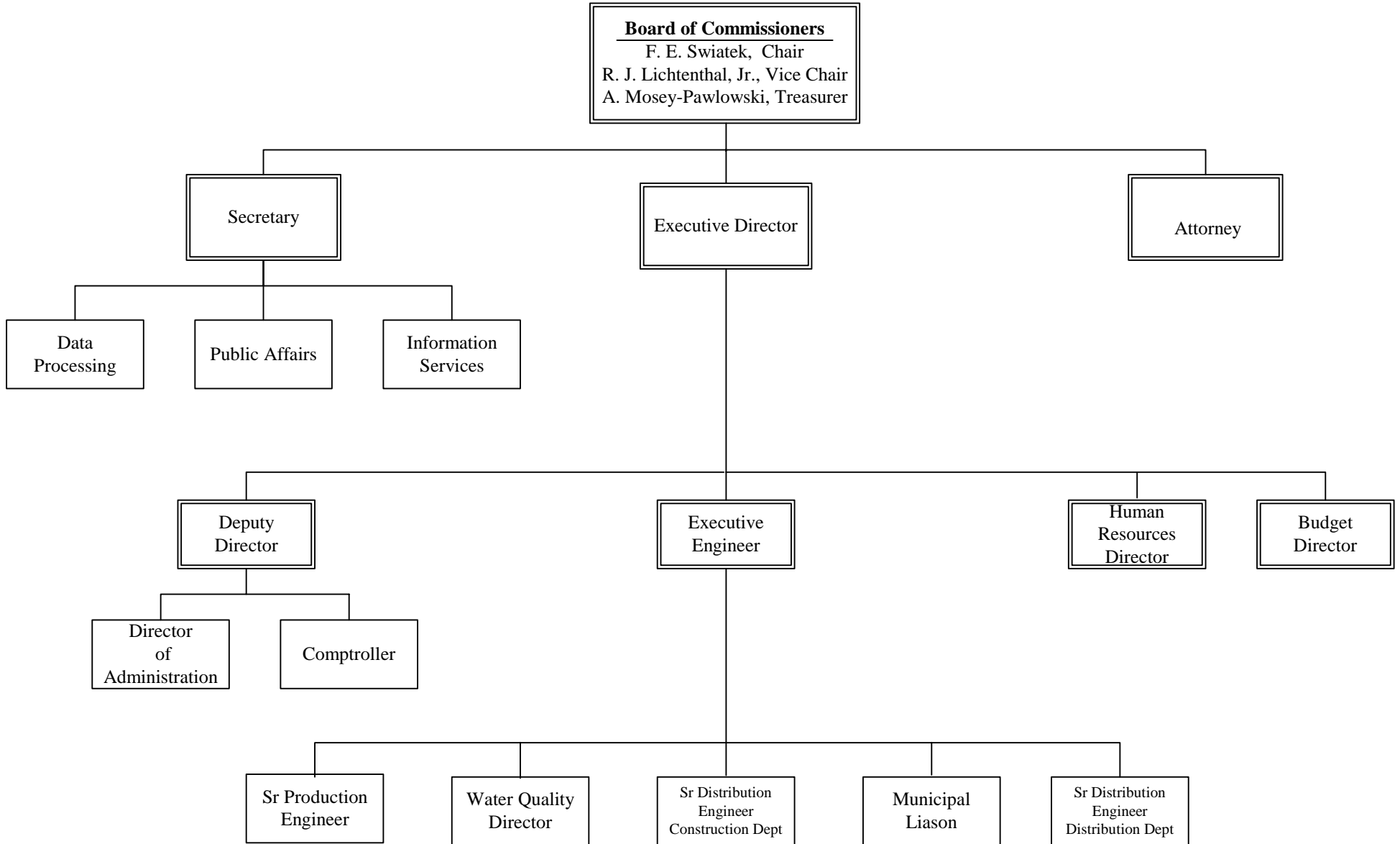
Executive Director

ERIE COUNTY WATER AUTHORITY
Members of the Board of Commissioners

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

Board Members on 12/31/2005	Most Recent Appointment Date
Frank E. Swiatek, Chair	April 2004
Robert J. Lichtenthal, Jr., Vice-Chair	April 2005
Acea Mosey-Pawlowski, Treasurer	April 2003

**ERIE COUNTY WATER
AUTHORITY
Organizational Chart**



FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Commissioners
Erie County Water Authority

We have audited the accompanying financial statements of the Erie County Water Authority (the "Authority"), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2005 and 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 11 through 23, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory and statistical sections as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Authority. The introductory and statistical sections are the responsibility of the management of the Authority. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, which appears to read 'Drescher & Malecki LLP'.

March 24, 2006

ERIE COUNTY WATER AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004

Management provides the following discussion and analysis (MD&A) of the Erie County Water Authority's (the "Authority") financial activities and statements for its fiscal years ended December 31, 2005 and 2004. 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 legally required to adopt a budget; therefore, comparative budgetary information is not included in this report.

Financial Highlights

- The Authority's net assets increased \$11,641,691 and \$9,329,998 as a result of activity for the years ended December 31, 2005 and 2004, respectively. For 2005, \$10,152,594 is net income and \$1,489,097 represents capital contributions (contributions in aid of construction), comparatively for 2004, \$6,159,092 is net income and \$3,170,906 represents capital contributions.
- The assets of the Authority exceeded its liabilities by \$255,035,983 and \$243,394,292 (net assets) at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, unrestricted net assets were \$29,784,800 and \$31,578,842, respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness decreased \$7,340,000 and \$6,500,000 during 2005 and 2004, respectively.

Overview of the Financial Statements

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

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

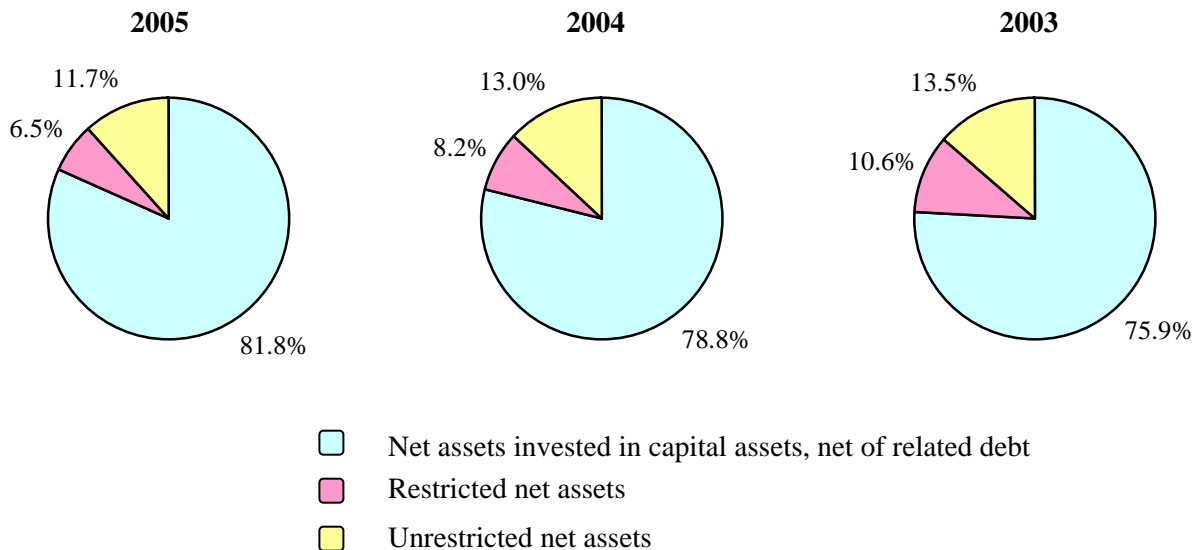
Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$255,035,983 at December 31, 2005, as compared to \$243,394,292 at December 31, 2004 and \$234,064,294 at December 31, 2003, as presented below in Table 1:

Table 1 - Condensed Statements of Net Assets

	2005	2004	Increase/(Decrease)	
			Dollars	Percent
Current assets	\$37,302,972	\$35,341,560	\$1,961,412	5.5
Noncurrent assets	<u>315,092,353</u>	<u>310,285,279</u>	<u>4,807,074</u>	1.5
Total assets	<u>352,395,325</u>	<u>345,626,839</u>	<u>6,768,486</u>	2.0
Current liabilities	16,924,363	15,950,316	974,047	6.1
Noncurrent liabilities	<u>80,434,979</u>	<u>86,282,231</u>	<u>(5,847,252)</u>	(6.8)
Total liabilities	<u>97,359,342</u>	<u>102,232,547</u>	<u>(4,873,205)</u>	(4.8)
Invested in capital assets, net of related debt	208,606,705	191,922,943	16,683,762	8.7
Restricted	16,644,478	19,892,507	(3,248,029)	(16.3)
Unrestricted	<u>29,784,800</u>	<u>31,578,842</u>	<u>(1,794,042)</u>	(5.7)
Total net assets	<u>\$ 255,035,983</u>	<u>\$ 243,394,292</u>	<u>\$ 11,641,691</u>	4.8
	2004	2003	Increase/(Decrease)	
			Dollars	Percent
Current assets	\$35,341,560	\$33,704,255	\$1,637,305	4.9
Noncurrent assets	<u>310,285,279</u>	<u>308,317,224</u>	<u>1,968,055</u>	0.6
Total assets	<u>345,626,839</u>	<u>342,021,479</u>	<u>3,605,360</u>	1.1
Current liabilities	15,950,316	14,940,648	1,009,668	6.8
Noncurrent liabilities	<u>86,282,231</u>	<u>93,016,537</u>	<u>(6,734,306)</u>	(7.2)
Total liabilities	<u>102,232,547</u>	<u>107,957,185</u>	<u>(5,724,638)</u>	(5.3)
Invested in capital assets, net of related debt	191,922,943	177,687,304	14,235,639	8.0
Restricted	19,892,507	24,758,568	(4,866,061)	(19.7)
Unrestricted	<u>31,578,842</u>	<u>31,618,422</u>	<u>(39,580)</u>	(0.1)
Total net assets	<u>\$ 243,394,292</u>	<u>\$ 234,064,294</u>	<u>\$ 9,329,998</u>	4.0

At December 31, 2005, the largest portion of the Authority's net assets (81.8%) consists of the Authority's investment in capital assets, as compared to 78.8% and 75.9% at December 31, 2004 and 2003, respectively. This amount is presented net of any outstanding debt which was used to acquire such capital assets. The second largest portion of net assets (11.7%, 13.0%, and 13.5% at December 31, 2005, 2004 and 2003, respectively) consists of unrestricted net assets. These assets are not limited in any way with regards to how and what they may be used for. The remainder of net assets (6.5%, 8.2%, and 10.6% at December 31, 2005, 2004 and 2003, respectively) is restricted for various purposes.



The Authority's liabilities totaled \$97,359,342, \$102,232,547 and \$107,957,185 at December 31, 2005, 2004 and 2003, respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority has had a relatively consistent current ratio of 2.20, 2.22 and 2.26 at December 31, 2005, 2004 and 2003, respectively. Such a ratio implies that the Authority has sufficient assets on hand to cover its liabilities that will come due in the ensuing year

A comparison of current assets as compared to current liabilities of the Authority at December 31, 2005, December 31, 2004 and December 31, 2003 follows:

Table 2 - Comparison of current assets and current liabilities

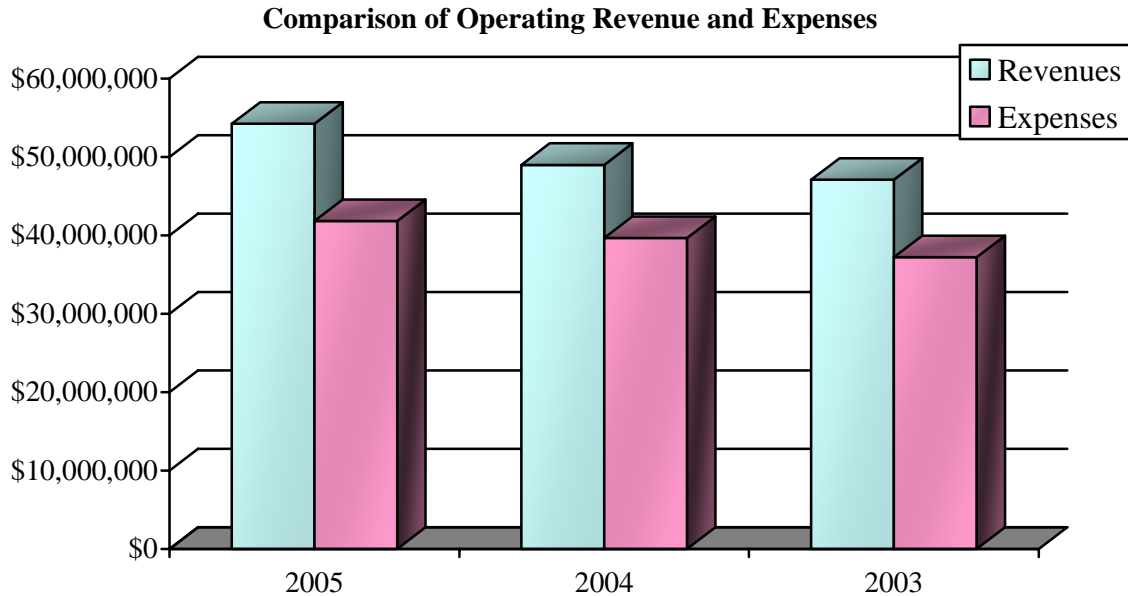
	2005	2004	2003
Current assets	\$37,302,972	\$35,341,560	\$33,704,255
Current liabilities	16,924,363	15,950,316	14,940,648
Ratio of current assets to current liabilities	2.20	2.22	2.26

Table 3, as presented, below, shows the changes in net assets for the years ending December 31, 2005, December 31, 2004 and December 31, 2003:

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

	Year Ended December 31,	
	2005	2004
Operating revenue	\$ 54,238,666	\$ 48,982,522
Operating expenses:		
Operation and administration	23,694,959	22,049,930
Maintenance	8,587,928	8,272,622
Depreciation and amortization	9,548,749	9,331,552
Total operating expenses	<u>41,831,636</u>	<u>39,654,104</u>
Operating income	<u>12,407,030</u>	<u>9,328,418</u>
Nonoperating revenues (expenses):		
Interest income	1,796,187	1,188,823
Interest capitalization during construction	99,076	143,381
Interest expense	<u>(4,149,699)</u>	<u>(4,501,530)</u>
Total nonoperating revenues (expenses)	<u>(2,254,436)</u>	<u>(3,169,326)</u>
Net income before contributions in aid of construction	10,152,594	6,159,092
Contributions in aid of construction	<u>1,489,097</u>	<u>3,170,906</u>
Change in net assets	11,641,691	9,329,998
Total net assets - beginning of year	<u>243,394,292</u>	<u>234,064,294</u>
Total net assets - end of year	<u>\$ 255,035,983</u>	<u>\$ 243,394,292</u>
	Year Ended December 31,	
	2004	2003
Operating revenue	\$ 48,982,522	\$ 47,073,542
Operating expenses:		
Operation and administration	22,049,930	20,559,926
Maintenance	8,272,622	7,476,448
Depreciation and amortization	9,331,552	9,168,087
Total operating expenses	<u>39,654,104</u>	<u>37,204,461</u>
Operating income	<u>9,328,418</u>	<u>9,869,081</u>
Nonoperating revenues (expenses):		
Interest income	1,188,823	1,191,949
Interest capitalization during construction	143,381	365,823
Interest expense	<u>(4,501,530)</u>	<u>(4,605,235)</u>
Total nonoperating revenues (expenses)	<u>(3,169,326)</u>	<u>(3,047,463)</u>
Net income before contributions in aid of construction	6,159,092	6,821,618
Contributions in aid of construction	<u>3,170,906</u>	<u>3,424,130</u>
Change in net assets	9,329,998	10,245,748
Total net assets - beginning of year	<u>234,064,294</u>	<u>223,818,546</u>
Total net assets - end of year	<u>\$ 243,394,292</u>	<u>\$ 234,064,294</u>

The following chart depicts operating revenue growth from \$48,982,522 in 2004 to \$54,238,666 in 2005 (10.7%) and from \$47,073,542 in 2003 to \$48,982,522 in 2004 (4.1%), while operating expenses increased from \$39,654,104 in 2004 to \$41,831,636 in 2005 (5.5%) and from \$37,204,461 in 2003 to \$39,654,104 in 2004 (6.6%).



A summary of operating revenue for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 is presented as Table 4:

Table 4 - Summary of Operating Revenue

	2005	2004	Increase/(decrease)	
			Dollars	Percent
Water sales:				
Residential	\$33,370,134	\$29,894,743	\$3,475,391	11.6
Commercial	6,589,277	6,096,444	492,833	8.1
Industrial	1,847,582	1,639,787	207,795	12.7
Public authorities	1,980,744	1,708,476	272,268	15.9
Fire protection	3,560,805	3,348,559	212,246	6.3
Sales to other utilities	4,550,195	4,674,682	(124,487)	(2.7)
Other water sales	1,906,305	1,251,430	654,875	52.3
Total water sales	53,805,042	48,614,121	5,190,921	10.7
Other operating income:				
Rents from water towers	419,872	353,887	65,985	18.6
Miscellaneous	13,752	14,514	(762)	(5.3)
Operating revenue	<u>\$54,238,666</u>	<u>\$48,982,522</u>	<u>\$5,256,144</u>	10.7

	2004	2003	Increase/(decrease)	
			Dollars	Percent
Water sales:				
Residential	\$29,894,743	\$28,482,355	\$1,412,388	5.0
Commercial	6,096,444	5,757,113	339,331	5.9
Industrial	1,639,787	1,490,969	148,818	10.0
Public authorities	1,708,476	1,673,422	35,054	2.1
Fire protection	3,348,559	3,172,430	176,129	5.6
Sales to other utilities	4,674,682	4,681,735	(7,053)	(0.2)
Other water sales	<u>1,251,430</u>	<u>1,419,298</u>	<u>(167,868)</u>	<u>(11.8)</u>
Total water sales	48,614,121	46,677,322	1,936,799	4.1
Other operating income:				
Rents from water towers	353,887	326,573	27,314	8.4
Miscellaneous	<u>14,514</u>	<u>69,647</u>	<u>(55,133)</u>	<u>(79.2)</u>
Operating revenue	<u>\$48,982,522</u>	<u>\$47,073,542</u>	<u>\$1,908,980</u>	4.1

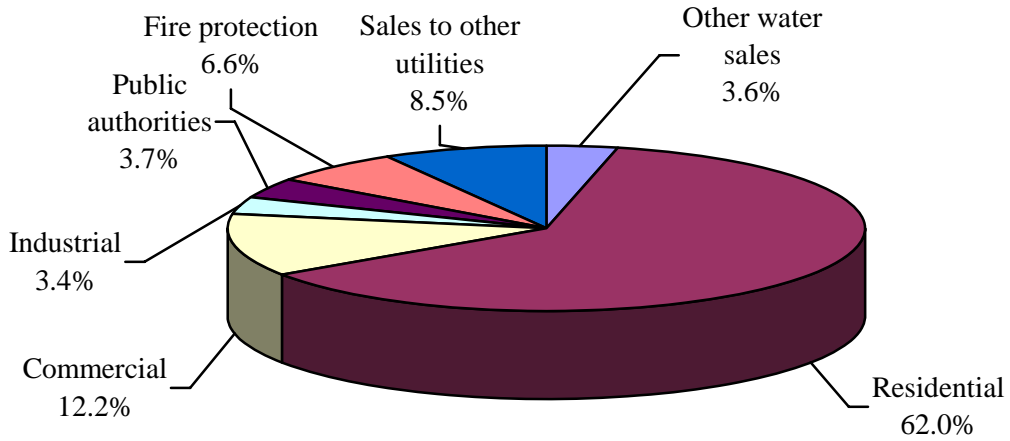
Water sales represent the vast majority of revenue for the Authority, 99.2%, 99.2% and 99.2% of total revenue for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Overall operating revenue increased \$5,256,144 during the year ended December 31, 2005 due primarily to a 2.0% rate increase on January 1, 2005. There was also a 7.6% increase, or 1,353,951 thousand gallons (TG), in consumption of water from 2004 due to a very hot and dry spring and summer. This generated an additional \$3,100,000 in revenue in 2005. A full year of billing to City of Tonawanda customers, acquired in August of 2004, added an additional \$1,000,000 in revenue in 2005 over 2004.

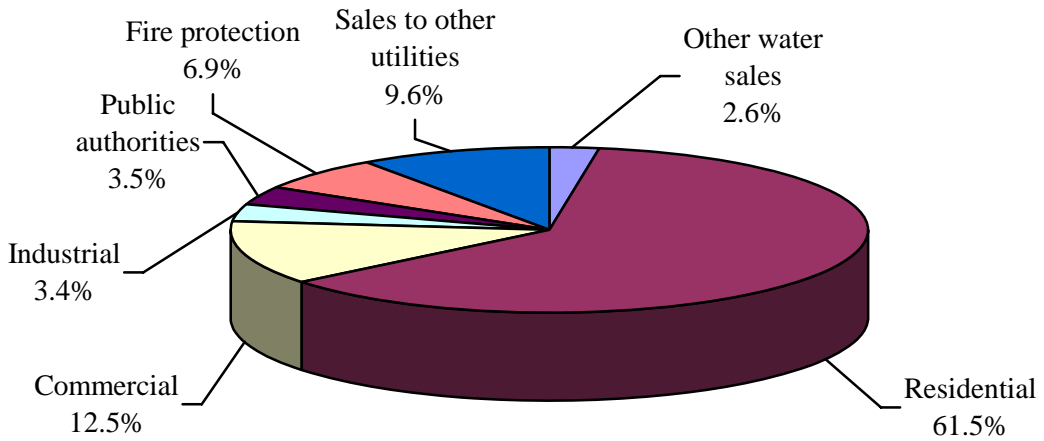
During the year ended December 31, 2004 overall operating revenues increased \$1,908,980 due primarily to a 6.8% rate increase on January 1, 2004. There was an overall decrease in the production of water by 1,299,380 TG, or 5.1% from 2003. A wet spring and summer resulted in decreased production of 1,183,300 TG, or 7.8% through July of 2004 compared to the same period in 2003. This decrease was mitigated by the addition of 6,136 accounts when the Authority acquired the City of Tonawanda water supply and distribution system.

As presented in the illustrations on the following page, residential water sales represent the largest portion of water sales for the Authority, which was 62.0%, 61.5% and 61.0% of total water sales for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 12.2%, 12.5% and 12.3% of total water sales, for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

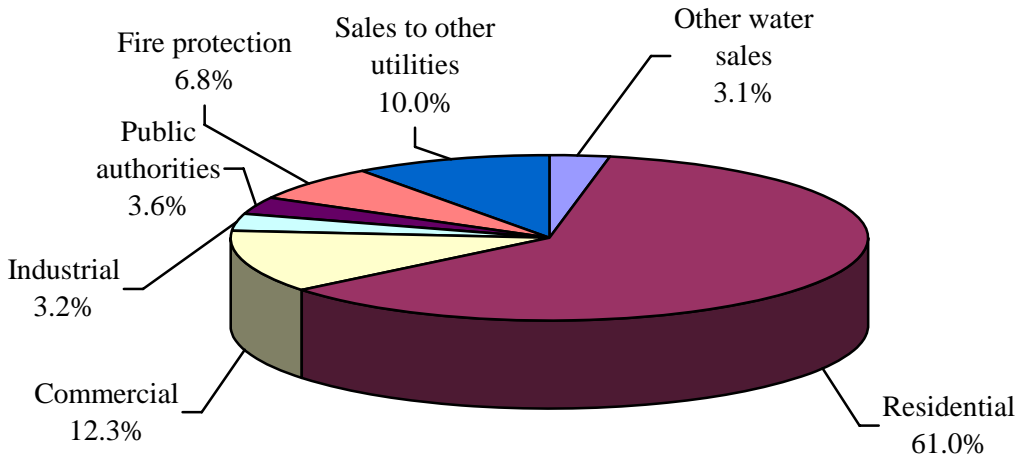
2005 Water Sales Revenue



2004 Water Sales Revenue

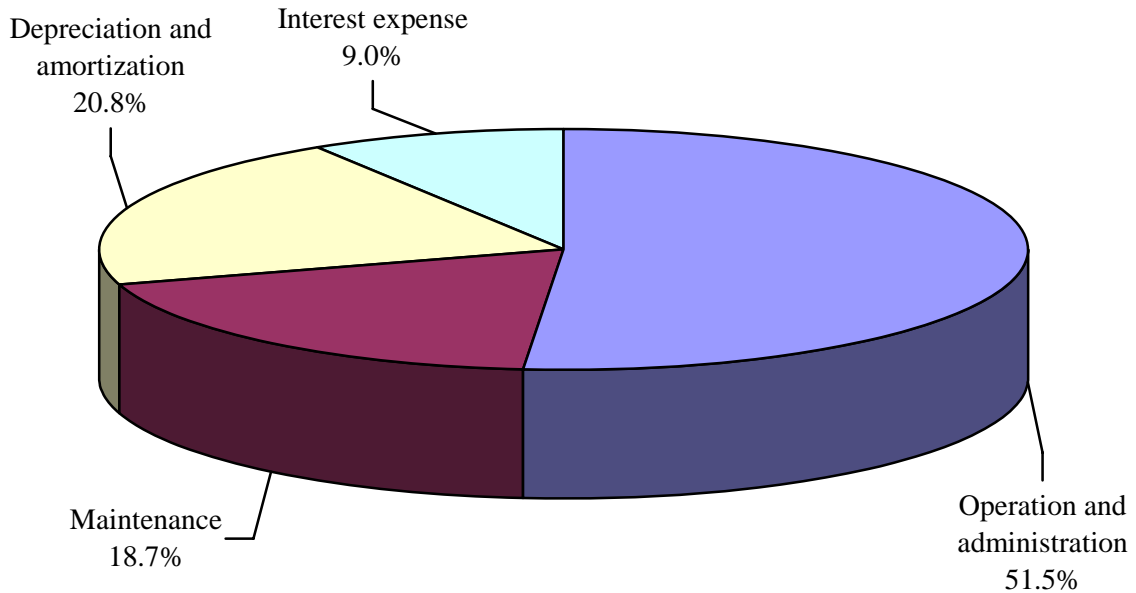


2003 Water Sales Revenue

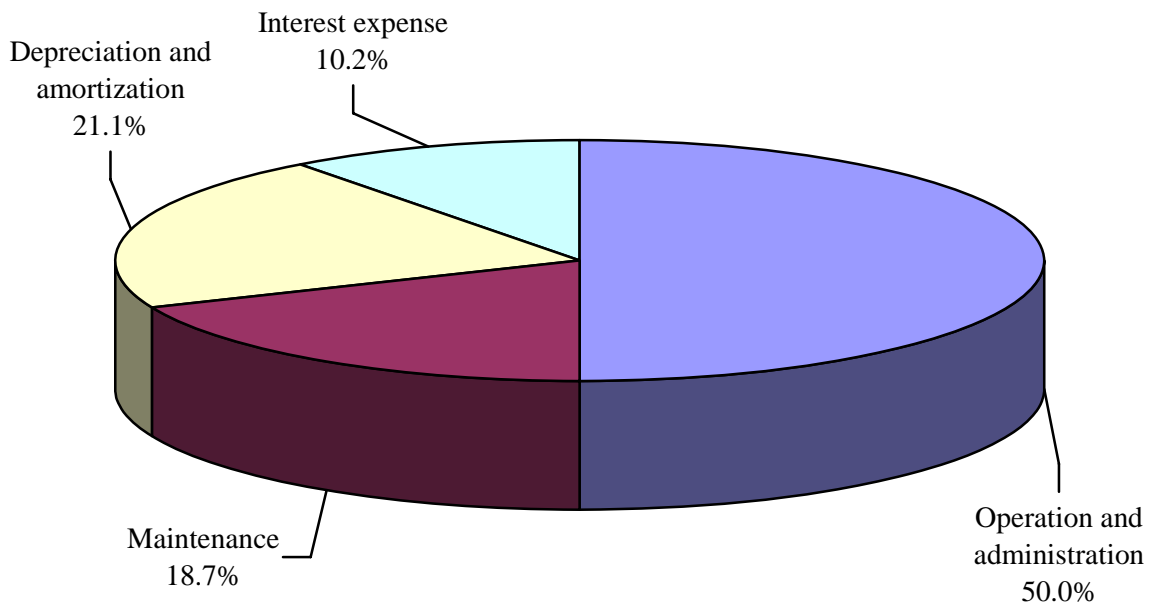


As illustrated below, operation and administration expenses are the largest expense and account for 51.5%, 50.0% and 49.2% of the Authority's expenses for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were 20.8%, 21.1% and 21.9% for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

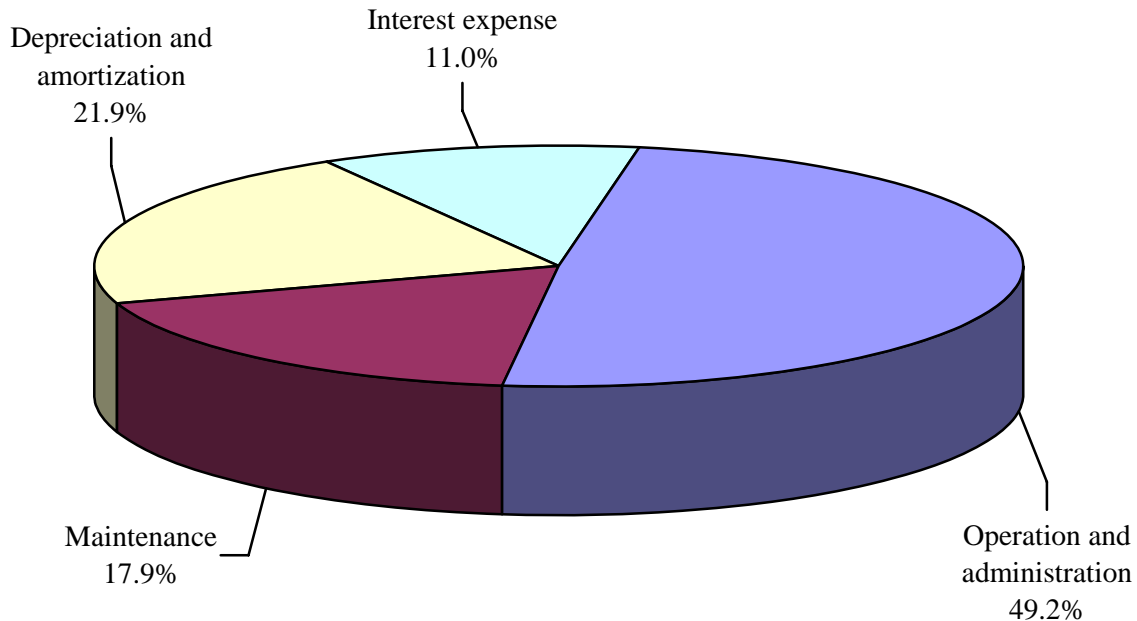
2005 Expenses



2004 Expenses



2003 Expenses



During the year ended December 31, 2005, operation and administration and maintenance expenses increased a total of \$1,960,335 due primarily to a 30.3% increase in power costs of \$1,437,691. Increased production and general rate increases in utility costs caused the increase. Wage and salary costs remained somewhat level with just a 1.7% increase over 2004. The increase was due to normal contractual increases. Although there was a 13% increase in the cost of health insurance benefits in October of 2004, fringe benefit costs decreased 1.6% in 2005. This is largely due to a contract settlement with the American Federation of State, County and Municipal Employees (AFSCME) union which resulted in the Authority using one health care provider – Labor Management Health Care, and a reduction in workers' compensation costs.

Comparably, during the year ended December 31, 2004, operation and administration and maintenance expenses increased a total of \$2,286,178 due primarily to wage and salary costs which increased \$1,408,125 from contract settlements with both the Civil Service Employees Association, Inc. (CSEA) and AFSCME resulting in increases of 2.75% and 2.0%, respectively. The increase in total wages was compounded by increases in the employee's base salary due to retroactive increases of 2.5% for CSEA and of 2.0% for AFSCME for 2003. Non-represented employees also received a current year increase of 2.75%.

Contributions in aid of construction were \$1,489,097 for the year ended December 31, 2005 compared to \$3,170,906 for the year ended December 31, 2004. During 2004, the City of Tonawanda conveyed their water supply and distribution systems and the Town of Concord conveyed a portion of their water supply and distribution systems to the Authority. The Authority accepted such water and distribution systems. Thereby, the Authority assumed responsibility for the operation, maintenance and improvements to these water systems now and in the future. Accordingly, in 2004, the Authority recorded notable contributions in aid of construction from the City of Tonawanda in the amount of \$1,164,423 and from the Town of Concord in the amount of \$490,162, with the balance provided by new service installations. The asset values were recorded at estimated fair value as of the date of acquisition. Contributions in aid of construction in 2005 resulted entirely from new service installations and the completion of several builder, contractor and developer projects.

Table 5 presents a summary of the Authority's cash flow activities for the years ended December 31, 2005, December 31, 2004 and December 31, 2003:

Table 5 - Summary of Cash Flow Activities

	2005	2004	Increase/(decrease) Dollars
Cash flows from:			
Operating activities	\$ 22,384,970	\$ 17,799,643	\$ 4,585,327
Investing activities	6,725,033	7,556,846	(831,813)
Less capital and related financing activities	<u>28,279,140</u>	<u>24,751,404</u>	<u>3,527,736</u>
Net increase in cash and cash equivalents	830,863	605,085	225,778
Cash and cash equivalents, beginning of year	<u>26,739,288</u>	<u>26,134,203</u>	<u>605,085</u>
Cash and cash equivalents, end of year	<u>\$ 27,570,151</u>	<u>\$ 26,739,288</u>	<u>\$ 830,863</u>
	2004	2003	Increase/(decrease) Dollars
Cash flows from:			
Operating activities	\$ 17,799,643	\$ 18,056,610	\$ (256,967)
Investing activities	7,556,846	(8,261,238)	15,818,084
Less capital and related financing activities	<u>24,751,404</u>	<u>9,540,547</u>	<u>15,210,857</u>
Net increase in cash and cash equivalents	605,085	254,825	350,260
Cash and cash equivalents, beginning of year	<u>26,134,203</u>	<u>25,879,378</u>	<u>254,825</u>
Cash and cash equivalents, end of year	<u>\$ 26,739,288</u>	<u>\$ 26,134,203</u>	<u>\$ 605,085</u>

The Authority's available cash and cash equivalents increased by \$830,863 for the year ended December 31, 2005, compared to an increase of \$605,085 and \$254,825 for the year ended December 31, 2004 and 2003, respectively. During, the year ended December 31, 2005, cash from operating activities increased \$4,585,327 due primarily to an increase in water sales resulting from the combination of a 2.0% rate increase, a 7.6% increase in consumption and a full year of billing to City of Tonawanda customers. Cash used in capital and related financing activities increased \$3,527,736 due to the completion of more water system improvements and general capital spending in 2005 compared to 2004 and due to the acquisition in 2004 of water supply and distribution systems in the City of Tonawanda and the Town of Concord. No comparable contributions in aid of construction were received in 2005.

During the year ended December 31, 2004, cash used in capital and related financing activities increased by \$15,210,857 due to a positive cash flow of \$15,544,443 from the proceeds of the sale of revenue bonds that occurred during the year ended December 31, 2003 and did not occur in the year ended December 31, 2004. The \$15,818,084 difference in investing activities between 2004 and 2003 resulted primarily because of payments for capital projects and related project expenditures during 2004.

Capital Assets

The Authority's investment in capital assets, as of December 31, 2005 amounted to \$293,829,470 (net of accumulated depreciation), as compared to \$283,879,654 and \$275,574,009 as of December 31, 2004 and 2003. This investment includes land, buildings and structures, mains and hydrants, equipment, construction in progress and other (service installations, office furniture and equipment, etc.). The Authority's greatest investment in capital assets is in buildings and structures and mains and hydrants.

Presented below, in Table 6, 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 6 - Summary of Capital Assets (Net of Depreciation)

	2005	2004	Increase/(decrease)	
			Dollars	Percent
Land	\$ 2,300,935	\$ 2,200,935	\$ 100,000	4.5
Construction work in progress	4,658,392	1,859,624	2,798,768	150.5
Total capital assets, not being depreciated	6,959,327	4,060,559	2,898,768	71.4
Buildings and structures	183,880,434	180,889,906	2,990,528	1.7
Mains and hydrants	194,409,658	185,129,612	9,280,046	5.0
Equipment	33,561,338	31,417,518	2,143,820	6.8
Other	42,818,879	41,267,595	1,551,284	3.8
Total capital assets, being depreciated	454,670,309	438,704,631	15,965,678	3.6
Less accumulated depreciation	167,800,166	158,885,536	8,914,630	5.6
Total capital assets, being depreciated, net	286,870,143	279,819,095	7,051,048	2.5
Total capital assets	\$ 293,829,470	\$ 283,879,654	\$ 9,949,816	3.5
	2004	2003	Increase/(decrease)	
			Dollars	Percent
Land	\$ 2,200,935	\$ 2,193,933	\$ 7,002	0.3
Construction work in progress	1,859,624	6,028,366	(4,168,742)	(69.2)
Total capital assets, not being depreciated	4,060,559	8,222,299	(4,161,740)	(50.6)
Buildings and structures	180,889,906	173,833,731	7,056,175	4.1
Mains and hydrants	185,129,612	175,154,449	9,975,163	5.7
Equipment	31,417,518	28,870,117	2,547,401	8.8
Other	41,267,595	39,970,507	1,297,088	3.2
Total capital assets, being depreciated	438,704,631	417,828,804	20,875,827	5.0
Less accumulated depreciation	158,885,536	150,477,094	8,408,442	5.6
Total capital assets, being depreciated, net	279,819,095	267,351,710	12,467,385	4.7
Total capital assets	\$ 283,879,654	\$ 275,574,009	\$ 8,305,645	3.0

Debt Administration

At December 31, 2005, the Authority had \$79,507,273 in water revenue bond principal outstanding, as compared to \$86,847,273 and \$93,347,273 at December 31, 2004 and 2003. Long-term debt outstanding decreased \$7,340,000 during the year ended December 31, 2005, as compared to \$6,500,000 during the year ended December 31, 2004, as a result of making scheduled payments on the Series 1993 Fourth Resolution (FR), Series 1998B, Series 1998D and Series 2003F bond issues.

The Authority's issuances of Series 1998B, Series 1998D and Series 2003F were through the New York State Environmental Facilities Corporation and are rated based on the Environmental Facilities Corporation's rating. The remaining issuances, Series 1992FR, Series 1993A, Series 1993B and Series 1993FR, were rated by Moody's at Aaa (insured). Additional information on the Authority's long-term debt can be found in Note 5 of the financial statements.

Economic Factors

The local economy has experienced a steady decline in population and business. However, through emigration from unserved areas to suburban areas, where the Authority does provide water, the Authority has actually experienced about a one percent growth in its customer base. This growth in our account base has been offset, however, by a steady decrease in overall consumption due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water.

As noted earlier, the Authority's largest source 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 as follows:

Meters read and billed quarterly (To Nearest 1,000 Gallons)			
	2005	2006	
First 300,000 gallons per quarter	\$ 2.56	\$ 2.70	per 1,000 gallons
Next 1,950,000	2.28	2.40	per 1,000 gallons
Next 5,250,000	2.09	2.20	per 1,000 gallons
Over 7,500,000	1.83	1.93	per 1,000 gallons

Meters read and billed monthly (To Nearest 1,000 Gallons)			
	2005	2006	
First 100,000 gallons per month	\$ 2.56	\$ 2.70	per 1,000 gallons
Next 650,000	2.28	2.40	per 1,000 gallons
Next 1,750,000	2.09	2.20	per 1,000 gallons
Over 2,500,000	1.83	1.93	per 1,000 gallons

Size of Meter (inches)	Quarterly Minimum Charge (\$)		Allowance per Quarter (gallons)	Monthly Minimum Charge (\$)	
	2005	2006		2005	2006
5/8	\$ 23.04	\$ 24.30	9,000	\$ 7.68	\$ 8.10
3/4	30.72	32.40	12,000	10.24	10.80
1	53.76	56.70	21,000	17.92	18.90
1 1/4	69.12	72.90	27,000	23.04	24.30
1 1/2	99.84	105.30	39,000	33.28	35.10
2	161.28	170.10	63,000	53.76	56.70
3	307.20	324.00	120,000	102.40	108.00
4	506.88	534.60	198,000	168.96	178.20
6	973.20	1,026.00	390,000	324.40	342.00
8	1,520.40	1,602.00	630,000	506.80	534.00
10	2,136.00	2,250.00	900,000	712.00	750.00
12	2,888.40	3,042.00	1,230,000	962.80	1,014.00
20	6,405.30	6,744.00	2,820,000	2,135.10	2,248.00
24	8,537.10	8,988.00	3,840,000	2,845.70	2,996.00

For 2006, the Authority imposes a minimum charge of \$160.80 per hydrant per annum for lease managed districts and \$229.08 per hydrant per annum for direct service areas—the same amounts as 2005.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Edward J. Kasprzak, Deputy Director, Erie County Water Authority, 350 Ellicott Square Building, 295 Main Street Buffalo, New York 14203-2494.

BASIC FINANCIAL STATEMENTS

ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

	December 31,	
	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,570,151	\$ 26,739,288
Customer accounts receivable, less allowance for doubtful accounts	5,659,968	4,694,486
Materials and supplies	1,678,678	1,590,281
Interest receivable and other assets	2,394,175	2,317,505
Total current assets	37,302,972	35,341,560
Noncurrent assets:		
Long-term investment	3,384,675	5,077,699
Restricted cash, cash equivalents, and investments	16,644,478	19,892,507
Deferred charges	1,233,730	1,435,419
Capital assets, not being depreciated	6,959,327	4,060,559
Capital assets, being depreciated, net of accumulated depreciation	286,870,143	279,819,095
Total noncurrent assets	315,092,353	310,285,279
Total assets	352,395,325	345,626,839
LIABILITIES		
Current liabilities:		
Accounts payable	5,451,440	5,005,568
Advances for construction	405,959	373,930
Construction retention	511,205	201,435
Interest and other accrued liabilities	6,712,739	3,029,383
Water revenue bonds - current portion	3,843,020	7,340,000
Total current liabilities	16,924,363	15,950,316
Noncurrent liabilities:		
Compensated absences	1,789,519	1,665,520
Long-term interest payable	2,981,207	5,109,438
Water revenue bonds—long-term	75,664,253	79,507,273
Total noncurrent liabilities	80,434,979	86,282,231
Total liabilities	97,359,342	102,232,547
NET ASSETS		
Invested in capital assets, net of related debt	208,606,705	191,922,943
Restricted	16,644,478	19,892,507
Unrestricted	29,784,800	31,578,842
Total net assets	\$ 255,035,983	\$ 243,394,292

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

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

	Year Ended December 31,	
	2005	2004
Operating revenue	\$ 54,238,666	\$ 48,982,522
Operating expenses:		
Operation and administration	23,694,959	22,049,930
Maintenance	8,587,928	8,272,622
Depreciation and amortization	9,548,749	9,331,552
Total operating expenses	41,831,636	39,654,104
Operating income	12,407,030	9,328,418
Nonoperating revenues (expenses):		
Interest income	1,796,187	1,188,823
Interest capitalization during construction	99,076	143,381
Interest expense	(4,149,699)	(4,501,530)
Total nonoperating revenues (expenses)	(2,254,436)	(3,169,326)
Net income before contributions in aid of construction	10,152,594	6,159,092
Contributions in aid of construction	1,489,097	3,170,906
Change in net assets	11,641,691	9,329,998
Total net assets—beginning of year	243,394,292	234,064,294
Total net assets—end of year	\$ 255,035,983	\$ 243,394,292

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

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

	Year Ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 53,432,651	\$ 48,868,470
Payments to contractors	(11,989,143)	(11,243,948)
Payments to employees including fringe benefits	<u>(19,058,538)</u>	<u>(19,824,879)</u>
Net cash provided by operating activities	<u>22,384,970</u>	<u>17,799,643</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(18,987,106)	(17,560,673)
Principal paid on revenue bond maturities	(7,340,000)	(6,500,000)
Interest paid on revenue bonds, net of amount capitalized	(3,473,160)	(3,798,059)
Advances for construction	32,029	(63,578)
Contributions in aid of construction	<u>1,489,097</u>	<u>3,170,906</u>
Net cash used by capital and related financing activities	<u>(28,279,140)</u>	<u>(24,751,404)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(253,101,878)	(260,554,333)
Proceeds from sale or maturity of investments	258,042,931	266,932,087
Interest received	<u>1,783,980</u>	<u>1,179,092</u>
Net cash provided (used) by investing activities	<u>6,725,033</u>	<u>7,556,846</u>
Net increase in cash	830,863	605,085
Cash and cash equivalents - beginning of year	<u>26,739,288</u>	<u>26,134,203</u>
Cash and cash equivalents - end of year	<u>\$ 27,570,151</u>	<u>\$ 26,739,288</u>

(continued)

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

(concluded)

	Year Ended December 31,	
	2005	2004
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ 12,407,030	\$ 9,328,418
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,347,060	9,057,539
Amortization expense	201,689	274,013
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(965,482)	(367,980)
(Increase) decrease in material and supplies	(88,397)	(78,505)
(Increase) decrease in other assets	(64,463)	(890,181)
Increase (decrease) in accounts payable	445,872	430,520
Increase (decrease) in other accrued liabilities	1,019,143	(77,526)
Increase (decrease) in accrued retirement contribution	(41,481)	-
Increase (decrease) in accrued compensated absences	123,999	123,345
Total adjustments	9,977,940	8,471,225
Net cash provided (used) by operating activities	\$ 22,384,970	\$ 17,799,643

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, 2005 and 2004

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 or those of any other state or federal regulatory agency. 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 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 the City of Buffalo, Town of Tonawanda and Town of Grand Island; and, has fulfilled this mandate by providing water to over 540,000 residents of Erie County operating on one of the three bases set forth above - direct service, leased managed service or bulk service. The Authority has had a regional outlook for many years as evidenced by service expansion throughout the county and by the Inter-Community Transmission main built in the early 1990's to expand water service to the Seneca Nation of Indians and some Chautauqua County customers. In August of 2002, the Authority began providing water to some parts of Western Genesee County. In addition, the Authority began to provide direct service to the City of Tonawanda and parts of the Town of Concord in 2004.

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 Government Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing government accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected not to apply all Financial Accounting Standards Board statements and interpretation issued after November 30, 1989.

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

Revenues from providing water services are reported as operating revenues. Operating revenues are recorded as water service is supplied. Water supplied, but not billed, as of the calendar year-end is estimated based upon historical usage and has been accounted for as earned but unbilled revenue. Billings in advance of water supplied are accounted for as a reduction to earned but unbilled revenue. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the system are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

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

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

Payments of accrued vacation time and sick leave are dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management estimates \$94,185 is a current liability and believes that sufficient resources will be available for the payments of accrued vacation time and sick leave when such payments become due.

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

Cash and cash equivalents—For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to be all unrestricted cash accounts and short-term investments purchased with an original maturity of generally three months or less.

Investment securities—Investments are carried at market value based on quoted market prices 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.

Long-term investment—The long-term investment is accounted for at cost plus accrued income. See further discussion at Note 2.

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

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

Interest receivable and other assets—This account consists primarily of interest earned from securities and investments not yet received and prepayments. Prepayments are certain payments reflecting costs applicable to future accounting periods.

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

Depreciation of capital assets is computed using the straight-line method based upon annual rates established in accordance with PSC guidelines: buildings and structures, 15 – 76 years, mains and hydrants, 64 – 100 years, equipment, 5 – 43 years, and other, 4 – 50 years. Depreciation expense approximated 2.1% and 2.2% of the original cost of average depreciable property for years ended December 31, 2005 and 2004, respectively.

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

Debt issuance costs—Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method. This cost has been amortized over the term of the bonds issued. During 2005 and 2004, \$201,689 and \$209,835, respectively, was amortized as an expense.

Advances for 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—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 conveyed to the Authority by municipalities and others.

Risk management—The Authority limits its risk exposure to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters through various insurance policies. Insurance coverage and “deductibles” have remained relatively stable from the previous year. Insurance premiums for the years ended December 31, 2005 and 2004 totaled \$1,410,343 and \$1,830,120, respectively. There were no settlements that significantly exceeded insurance coverage for each of the last three years. There were no significant unpaid claims outstanding as of December 31, 2005 and 2004.

Reclassifications—Certain amounts relating to the financial statements as of and for the year ended December 31, 2004 have been reclassified in order to be consistent with the current year’s presentation.

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

Future impacts of accounting pronouncements—The Authority has completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (“GASB”) Statement 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, and GASB Statement No. 47, *Accounting for Termination Benefits*, effective for the year ending December 31, 2006; GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the year ending December 31, 2007 and believes adopting these statements will not have a material impact on its financial position and the results of operations when GASB Statement Nos. 43, 46 and 47 are adopted. The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1*, effective for the year ending December 31, 2006; and GASB Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*, effective for the year ending December 31, 2008. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 44 and 45 will have on its financial position and results of operations when such statements are adopted.

2. CASH AND INVESTMENTS

Deposits—All uninsured bank deposits are fully collateralized.

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

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

As of December 31, 2005 and 2004, the Authority had the following unrestricted cash and cash equivalents:

	December 31, 2005		December 31, 2004	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Unrestricted cash and cash equivalents:				
Cash and cash equivalents	\$25,174,567	\$25,174,567	\$24,244,142	\$24,244,142
Discounted commercial paper	2,389,963	2,395,584	2,495,146	2,495,146
Total unrestricted cash and cash equivalents	\$27,564,530	\$27,570,151	\$26,739,288	\$26,739,288

Restricted cash, cash equivalents, and investments—Cash has been deposited into various trust funds with a fiscal agent to satisfy certain legal covenants. Further, the amounts have been invested into various investments in compliance with the Authority’s investment guidelines. The following is a brief synopsis of restricted cash:

Restricted for future construction—Cash restricted for future construction was established to maintain the construction reserve fund, which is used for committed funding for future capital expenditures.

Restricted for debt service reserve—The Authority restricts cash for debt service reserve fund as required by various bond resolutions to maintain a specified amount of funds to meet future debt service requirements.

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

As of December 31, 2005 and 2004, the Authority had the following restricted cash and cash equivalents:

	December 31, 2005		December 31, 2004	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Restricted for future construction:				
Cash and cash equivalents	\$ 4,657,277	\$ 4,657,277	\$ 7,027,158	\$ 7,027,158
U.S. Treasury securities	-	-	395,650	395,655
Total restricted for future construction	<u>4,657,277</u>	<u>4,657,277</u>	<u>7,422,808</u>	<u>7,422,813</u>
Restricted for debt service reserve:				
Cash and cash equivalents	95,108	95,108	217,604	217,604
U.S. Treasury securities	3,267,116	3,267,116	3,267,116	3,267,116
Discounted commercial paper	3,734,184	3,742,740	3,593,027	3,593,032
Total restricted for debt service reserve	<u>7,096,408</u>	<u>7,104,964</u>	<u>7,077,747</u>	<u>7,077,752</u>
Restricted for debt service:				
Cash and cash equivalents	100,468	100,468	5,909	5,909
U.S. Treasury securities	4,772,526	4,781,769	5,380,113	5,386,033
Total restricted debt service	<u>4,872,994</u>	<u>4,882,237</u>	<u>5,386,022</u>	<u>5,391,942</u>
Total restricted cash and cash equivalents	<u>\$ 16,626,679</u>	<u>\$ 16,644,478</u>	<u>\$ 19,886,577</u>	<u>\$ 19,892,507</u>

Custodial Credit Risk—In the case of deposits, this is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. For 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, 2005 and 2004, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution’s trust department or agent in the Authority’s name and all of the Authority’s restricted cash in the form of investments was registered in the Authority’s name.

Long-term investment—During 1990, the Authority entered into a zero coupon bond agreement with AIG Matched Funding Corp. 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 in conformance with the agreement shall be deposited into the capital fund to be used solely for future capital expenditures. At December 31, 2005 and 2004, the zero coupon bond investment balance is \$3,384,675 and \$5,077,699, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately \$119,000. The second year will be approximately \$49,000, and the third and final year will be approximately \$21,000. On December 1, 2005, the Authority received \$2,258,703 as the sixth guaranteed annual payment from this investment. Varying amounts will be received on the first of December for each year through 2008. The total amount to be received in future years is approximately \$4.0 million.

3. ACCOUNTS RECEIVABLE

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

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

Following fifteen (15) days from the letter date, an unpaid account is sent to a collector who schedules a visit to the customer with an “unpaid bill” notice. After the account is posted, the customer has three (3) working days to either pay the bill in full, or submit a partial payment (25%-33%) with a signed promissory agreement for the remaining balance. The agreement is normally kept to a term of 90 days, with some exceptions to 180 days. A final bill that remains unpaid in a non-lien area is referred to an outside collection agency. The agency keeps a predetermined portion of any collected monies. The outstanding balances of an unpaid final bill in a lien area are not referred to an outside agency, instead they are sent to the proper town for a tax lien. Allowances for doubtful accounts at December 31, 2005 and 2004 total \$467,535 and \$351,964, respectively.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance 1/1/2005	Additions	Deletions	Balance 12/31/2005
Capital assets, not being depreciated:				
Land	\$ 2,200,935	\$ 100,000	\$ -	\$ 2,300,935
Construction work in progress	<u>1,859,624</u>	<u>18,042,300</u>	<u>(15,243,532)</u>	<u>4,658,392</u>
Total capital assets, not being depreciated	4,060,559	18,142,300	(15,243,532)	6,959,327
Capital assets in service, being depreciated:				
Buildings and structures	180,889,906	2,990,528	-	183,880,434
Mains and hydrants	185,129,612	9,326,706	(46,660)	194,409,658
Equipment	31,417,518	2,733,921	(590,101)	33,561,338
Other	<u>41,267,595</u>	<u>1,558,438</u>	<u>(7,154)</u>	<u>42,818,879</u>
Total capital assets, being depreciated	438,704,631	16,609,593	(643,915)	454,670,309
Less accumulated depreciation:				
Buildings and structures	(79,276,612)	(4,758,632)	-	(84,035,244)
Mains and hydrants	(38,891,025)	(1,867,528)	51,129	(40,707,424)
Equipment	(16,766,164)	(1,605,000)	374,147	(17,997,017)
Other	<u>(23,951,735)</u>	<u>(1,115,900)</u>	<u>7,154</u>	<u>(25,060,481)</u>
Total accumulated depreciation	<u>(158,885,536)</u>	<u>(9,347,060)</u>	<u>432,430</u>	<u>(167,800,166)</u>
Total capital assets being depreciated, net	<u>279,819,095</u>	<u>7,262,533</u>	<u>(211,485)</u>	<u>286,870,143</u>
Total capital assets, net	<u>\$ 283,879,654</u>	<u>\$ 25,404,833</u>	<u>\$ (15,455,017)</u>	<u>\$ 293,829,470</u>

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance 1/1/2004	Additions	Deletions	Balance 12/31/2004
Capital assets, not being depreciated:				
Land	\$ 2,193,933	\$ 7,002	\$ -	\$ 2,200,935
Construction work in progress	<u>6,028,366</u>	<u>14,596,844</u>	<u>(18,765,586)</u>	<u>1,859,624</u>
Total capital assets, not being depreciated	8,222,299	14,603,846	(18,765,586)	4,060,559
Capital assets in service, being depreciated:				
Buildings and structures	173,833,731	7,056,175	-	180,889,906
Mains and hydrants	175,154,449	10,034,275	(59,112)	185,129,612
Equipment	28,870,117	3,043,915	(496,514)	31,417,518
Other	<u>39,970,507</u>	<u>1,482,711</u>	<u>(185,623)</u>	<u>41,267,595</u>
Total capital assets, being depreciated	417,828,804	21,617,076	(741,249)	438,704,631
Less accumulated depreciation:				
Buildings and structures	(74,690,612)	(4,586,000)	-	(79,276,612)
Mains and hydrants	(37,201,533)	(1,748,604)	59,112	(38,891,025)
Equipment	(15,555,175)	(1,614,494)	403,505	(16,766,164)
Other	<u>(23,029,774)</u>	<u>(1,108,441)</u>	<u>186,480</u>	<u>(23,951,735)</u>
Total accumulated depreciation	<u>(150,477,094)</u>	<u>(9,057,539)</u>	<u>649,097</u>	<u>(158,885,536)</u>
Total capital assets being depreciated, net	<u>267,351,710</u>	<u>12,559,537</u>	<u>(92,152)</u>	<u>279,819,095</u>
Total capital assets, net	<u>\$ 275,574,009</u>	<u>\$ 27,163,383</u>	<u>\$ (18,857,738)</u>	<u>\$ 283,879,654</u>

Depreciation expense for the years ended December 31, 2005 and 2004 totaled \$9,347,060 and \$9,057,539, respectively.

5. LONG-TERM DEBT

Summary of long-term debt—the following is a summary of the long-term debt and water revenue bonds, for the Authority at December 31, 2005:

Series	Final Annual Installment Payment Due	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding 12/31/2005
Series 1992FR	6/1/2008	2006	6.20-6.30%	\$ 50,269,710	\$ 4,472,830
Series 1993A	12/1/2016	2009	Variable	27,500,000	27,500,000
Series 1993B	12/1/2016	2009	Variable	15,000,000	15,000,000
Series 1998B	12/15/2017	1998	3.65-5.20% (*)	7,780,931	5,200,000
Series 1998D	10/15/2019	2000	3.90-5.15% (*)	16,859,700	12,935,000
Series 2003F	7/15/2023	2004	0.79-4.50% (*)	15,544,443	14,399,443
					79,507,273
		Less portion due within one year			(3,843,020)
					\$ 75,664,253

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

The Series 1992 Fourth Resolution (FR) 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 (FR) 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. Interest on the Capital Appreciation Bonds will total \$6,632,170 upon maturity.

As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance at March 11, 1993, the Authority entered into an interest rate swap in connection with its \$27,500,000 and \$15,000,000 Series 1993A and 1993B water revenue bonds. The intention of the swap was to stabilize the Authority's interest rate on the Series 1993A and 1993B water revenue bonds.

Terms. Under the swap, the Authority pays the counterparty, A.I.G. Financial Products Corp., a fixed payment of 5.24% and 5.89%, for the Series 1993A and 1993B, respectively. The Authority would receive in return, from the counterparty, an amount equal to the interest that would accrue if the variable rate of interest exceeded the fixed rate of interest of 5.24% and 5.89%, respectively. The floating rate paid by the counterparty will, at all times, equal the variable interest rate on the Series 1993A and 1993B water revenue bonds. The variable interest rate was 3.45% at December 31, 2005 for the Series 1993A and 1993B and 1.94% at December 31, 2004 for the Series 1993A and 1993B. 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.

Fair value. Because interest rates have declined since execution of the swap, the Authority's swaps had negative fair values of \$ 4,448,257 and \$ 3,058,698 for the Series 1993A and 1993B, respectively, as of December 31, 2005. These values have been prepared based on market rates at the close of business on December 31, 2005. The fair value is consistent with the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk. As of December 31, 2005, the Authority was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair value of the swaps favor the Authority, the Authority would be exposed to credit risk in the amount of the swaps' fair values. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA-, in the case of Standard & Poor's assigned rating, or below Aa3, in the case of Moody's Investors Service assigned rating, the fair value of the swap will be fully collateralized by the counterparty. Collateral would be posted with a third-party custodian.

Termination risk. The Authority or counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If at the time of termination the swaps have negative fair values, the Authority would be liable to the counterparty for a payment equal to the swaps' fair values.

Swap payments and associated debt. As rates vary, variable-rate bond interest payments and net swap payments (fixed rate minus variable rate) will vary. Using rates as of December 31, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their terms, are as follows:

Year ending December 31	Principal	Interest	Net Swap Amount	Total
2006	\$ -	\$ 1,466,250	\$ 858,250	\$ 2,324,500
2007	-	1,466,250	858,250	2,324,500
2008	-	1,466,250	858,250	2,324,500
2009	4,300,000	1,466,250	858,250	6,624,500
2010	4,600,000	1,317,900	771,530	6,689,430
2011-2015	27,200,000	4,022,700	2,356,890	33,579,590
2016	6,400,000	220,800	129,510	6,750,310
Total	<u>\$42,500,000</u>	<u>\$11,426,400</u>	<u>\$6,690,930</u>	<u>\$60,617,330</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. In order to redeem these bonds the Authority would be required to unwind the swap agreements.

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 Clean Water and Drinking Water Revolving Funds Revenue Bonds Series 1998B and Series 1998D in 1998. The 1998B and 1998D bonds in the amounts of \$7,780,931 and \$16,859,700, respectively, representing the Authority's portion of these financings, were issued to cover the costs of the construction of two new clearwell water tanks and a new pumping station at the Authority's Sturgeon Point plant. Payments are made to the bondholders as follows:

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

The bonds bear different rates of interest ranging from 3.65% to 5.20% over their respective installment payment dates ending on December 15, 2017 and October 15, 2019, respectively.

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

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

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

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

Prior to 1993, the Authority completed a plan of restructuring for 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 \$23,483,827 at December 31, 2005 with maturities ranging from the year 2006 to the year 2014.

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. The final maturity of these bonds was December 1, 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 were 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 Fourth Resolution and the Series 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. The principal outstanding is \$1,398,635 at December 31, 2005 with maturities in 2006 and 2007.

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

Year ending December 31,	Bond Principal	Capital Appreciation Interest	Accrued Compensated Absences*	Total
2006	\$ 3,843,020	\$ 2,734,285	\$ 94,185	\$ 6,671,490
2007	3,904,497	2,786,623	-	6,691,120
2008	1,929,756	194,584	-	2,124,340
2009	6,125,000	-	-	6,125,000
2010	6,470,000	-	-	6,470,000
2011-2015	37,465,000	-	-	37,465,000
2016-2020	15,655,000	-	-	15,655,000
2021-2023	4,115,000	-	-	4,115,000
Various	-	-	1,789,519	1,789,519
	<u>79,507,273</u>	<u>5,715,492</u>	<u>1,883,704</u>	<u>87,106,469</u>
Less portion due within one year	<u>3,843,020</u>	<u>2,734,285</u>	<u>94,185</u>	<u>6,671,490</u>
	<u>\$75,664,253</u>	<u>\$ 2,981,207</u>	<u>\$1,789,519</u>	<u>\$80,434,979</u>

* Payment of compensated absences is dependent upon many factors therefore, timing of future payments is not readily determinable. However management has estimated its current portion of such liabilities.

Annual interest payments due on water revenue bonds:

	<u>Interest Due on Bonded Debt</u>
2006	\$ 3,724,440
2007	3,668,058
2008	3,607,215
2009	3,541,734
2010	3,236,181
2011-2015	10,875,086
2016-2020	2,407,423
2021-2023	<u>440,651</u>
	31,500,788
Less portion due within one year	<u>3,724,440</u>
	<u>\$ 27,776,348</u>

Compensated Absences—as explained in Note 1, the Authority records the value of compensated absences. The annual budgets of operating funds provide funding for these benefits as they become payable. The value recorded in the statements of net assets at December 31, 2005 is \$1,883,704, as compared to \$1,753,179 at December 31, 2004. At December 31, 2005 management estimates \$94,185 is a current liability. The remainder has been recorded as a non-current liability due in more than one year since payment of compensated absences are dependent upon many factors and, therefore, timing of future payments is not readily determinable.

Summary of changes in long-term debt—the following is a summary of changes in water revenue bonds for the year ended December 31, 2005:

	<u>Balance 1/1/2005</u>	<u>Additions and Appreciation</u>	<u>Deletions</u>	<u>Balance 12/31/2005</u>
Series 1992FR	\$ 4,472,830	\$ -	\$ -	\$ 4,472,830
Series 1993A	27,500,000	-	-	27,500,000
Series 1993B	15,000,000	-	-	15,000,000
Series 1993FR	5,690,000	-	5,690,000	-
Series 1998B	5,545,000	-	345,000	5,200,000
Series 1998D	13,640,000	-	705,000	12,935,000
Series 2003F	14,999,443	-	600,000	14,399,443
Total bonds payable	<u>86,847,273</u>	<u>-</u>	<u>7,340,000</u>	<u>79,507,273</u>
Capital appreciation interest	5,109,438	606,054	-	5,715,492
Accrued compensated absences	1,753,179	218,180	87,655	1,883,704
Total long-term debt	<u>\$93,709,890</u>	<u>\$ 824,234</u>	<u>\$7,427,655</u>	<u>\$87,106,469</u>

6. PENSION PLAN

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

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

The Authority is required to contribute at an actuarially determined rate. The Authority's required contributions to the State Plan amounted to \$1,572,051, \$1,809,405, and \$1,309,653 in 2005, 2004 and 2003, respectively. The Authority's contributions were equal to 100 percent of the contributions required for each year. In May of 2003, the Governor signed into law legislation which establishes a minimum employer contribution of 4.5% of reported wages each fiscal year.

7. OTHER POSTEMPLOYMENT BENEFITS

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 \$770,920 and \$786,363 for 2005 and 2004, respectively. There were 99 retirees receiving health care benefits, at December 31, 2005 and December 31, 2004.

8. LABOR RELATIONS

Certain Authority employees are represented by either of two bargaining units, American Federation of State, County and Municipal Employees (AFSCME) or Civil Service Employees Association, Inc. (CSEA). The CSEA has a contract settled thru March 31, 2006 and the AFSCME has a contract settled thru March 31, 2008.

9. NET ASSETS, RESERVES AND DESIGNATIONS

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

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

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

For the years ending December 31, 2005 and 2004 net assets were restricted for the following purposes:

	December 31,	
	2005	2004
Future Construction Reserve Fund	\$ 4,657,277	\$ 7,422,813
Debt Service Reserve Fund	7,104,964	7,077,752
Debt Service Fund	4,882,237	5,391,942
	<u>\$16,644,478</u>	<u>\$19,892,507</u>

- ***Future Construction Reserve Fund***—The Future Construction Reserve Fund is used for committed funding for future capital expenditures. In 2004 the final drawdown of the series 2003F bond proceeds was made. In 2005 the excess proceeds were used for debt service. Receipts from the AIG Long Term Investment Contract are also included in the construction reserve fund since they are to be used for future capital expenditures. The Authority transfers monies into this Reserve Fund monthly based upon the current year's budget.
- ***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. The Authority established the Debt Service Reserve Fund based on 125% of the average annual debt service on 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 Fourth Resolution and Series 1993 Fourth Resolution bond resolutions to maintain a specified amount of funds to meet future debt service requirements. Of the permissible options, the Authority elected to purchase surety bonds. Surety bonds issued by AMBAC Indemnity Corporation have been deposited in the Reserve Fund in full satisfaction of the Reserve Fund requirements for the Series 1992 Fourth Resolution and Series 1993 Fourth Resolution Bonds.

During 1998, the Authority established a Debt Service Reserve Fund as required by the Series 1998B and 1998D bond resolutions. During 2003, per the 2003F bond resolution the Authority established a Debt Service Reserve Fund from a portion of the 2003F bond proceeds. For the Series 1998B and Series 1998D bonds, the Authority established the

debt service reserve as the average of the annual installments of debt service per the bond resolutions. For the Series 2003F bonds, the Authority established the debt service reserve based on ten percent of the total principal of the loan. The required amount was determined by EFC and must remain on deposit until the bonds mature.

- ***Debt Service Fund***—The 1992 Fourth Resolution, 1993A, 1993B, 1993 Fourth Resolution, 1998B, 1998D and 2003F 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.

Unrestricted net assets—This category represents net assets of the Authority not restricted for any project or other purpose.

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 water district municipalities pursuant to lease management agreements. Such agreements generally are for at least ten-year terms and automatically renew for additional ten-year terms unless terminated by either party one year prior to expiration of the term, the agreements provide that the municipalities obtain water exclusively from the Authority. Future maintenance and operating costs to be incurred by the Authority under such arrangements presently in effect are not determinable.

The Authority is subject to various laws and regulations, which primarily 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 2005 and 2004 aggregated \$297,088 and \$262,013, 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, the Authority has obtained various liability, property, and workers' compensation insurance policies which would mitigate any exposure to loss on the part of the Authority. 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.

STATISTICAL SECTION

(UNAUDITED)

This part of the Erie County Water Authority’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority’s overall financial health.

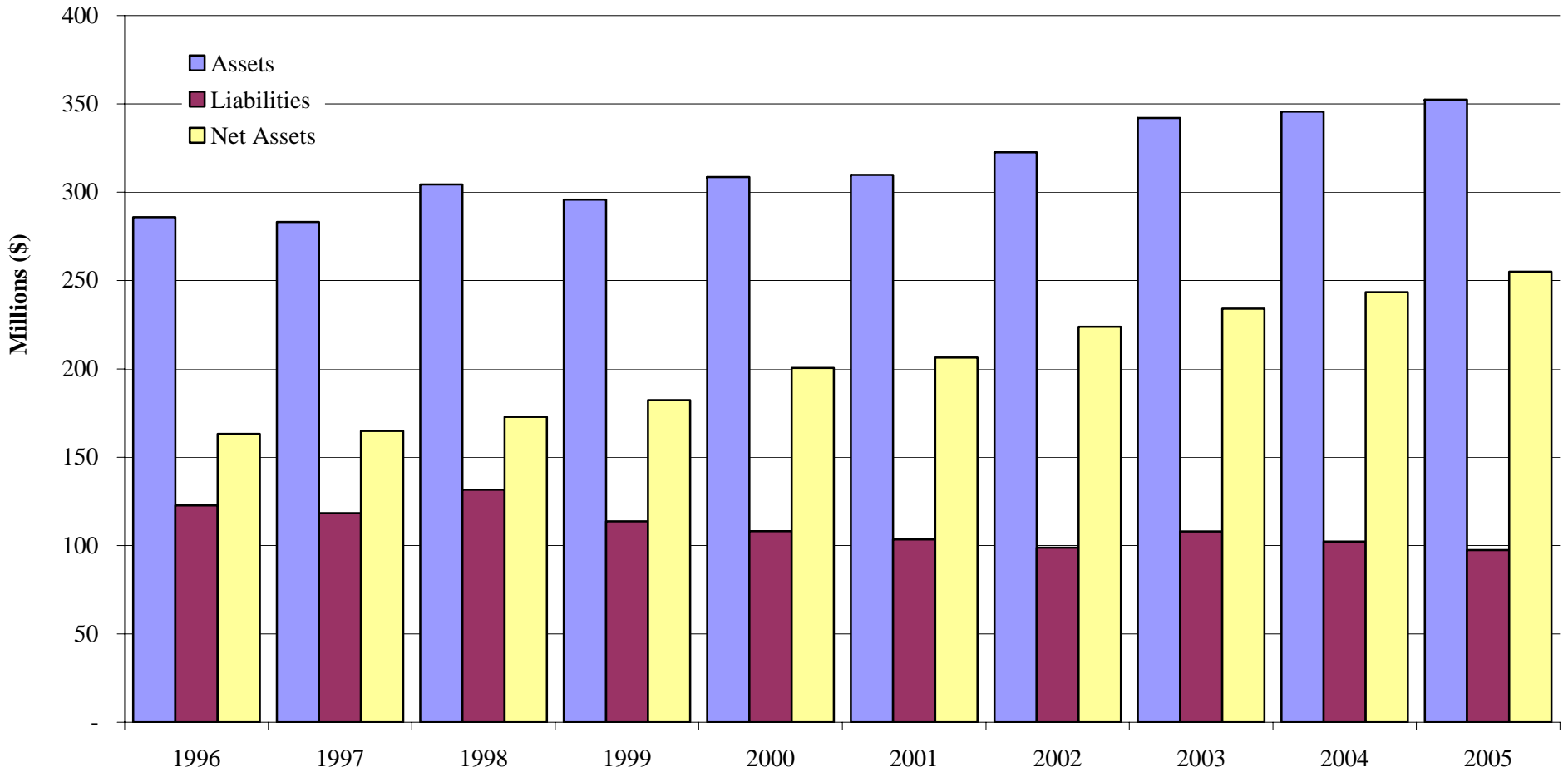
Contents	Page
Financial Trends	43
<i>These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time.</i>	
Revenue Capacity	47
<i>These schedules contain information to help the reader assess the Authority’s most significant revenue source, water sales.</i>	
Debt Capacity	54
<i>These schedules present information to help the reader assess the affordability of the Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information	55
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.</i>	
Operating Information	56
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs.</i>	

ERIE COUNTY WATER AUTHORITY
Summary Comparison of the Statements of Net Assets
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current assets	\$ 22,718,469	\$ 30,668,080	\$ 38,594,773	\$ 32,167,665	\$ 32,291,609	\$ 34,101,790	\$ 37,770,731	\$ 33,704,255	\$ 35,341,560	\$ 37,302,972
Noncurrent assets	<u>263,213,306</u>	<u>252,505,744</u>	<u>265,771,498</u>	<u>263,724,021</u>	<u>276,261,656</u>	<u>275,773,688</u>	<u>284,872,862</u>	<u>308,317,224</u>	<u>310,285,279</u>	<u>315,092,353</u>
Total assets	<u>285,931,775</u>	<u>283,173,824</u>	<u>304,366,271</u>	<u>295,891,686</u>	<u>308,553,265</u>	<u>309,875,478</u>	<u>322,643,593</u>	<u>342,021,479</u>	<u>345,626,839</u>	<u>352,395,325</u>
Current liabilities	11,316,614	11,947,813	12,687,046	11,709,700	14,441,120	14,640,158	15,007,426	14,940,648	15,950,316	16,924,363
Noncurrent liabilities	<u>111,419,117</u>	<u>106,436,537</u>	<u>118,903,239</u>	<u>101,903,657</u>	<u>93,614,150</u>	<u>88,843,783</u>	<u>83,817,621</u>	<u>93,016,537</u>	<u>86,282,231</u>	<u>80,434,979</u>
Total liabilities	<u>122,735,731</u>	<u>118,384,350</u>	<u>131,590,285</u>	<u>113,613,357</u>	<u>108,055,270</u>	<u>103,483,941</u>	<u>98,825,047</u>	<u>107,957,185</u>	<u>102,232,547</u>	<u>97,359,342</u>
Invested in capital assets, net of related debt	140,324,351	141,301,784	148,622,275	157,601,747	163,638,247	168,492,470	176,744,270	177,687,304	191,922,943	208,606,705
Restricted	25,162,486	14,883,081	18,588,728	11,718,710	14,648,635	13,768,476	14,551,908	24,758,568	19,892,507	16,644,478
Unrestricted	<u>(2,290,793)</u>	<u>8,604,609</u>	<u>5,564,983</u>	<u>12,957,872</u>	<u>22,211,113</u>	<u>24,130,591</u>	<u>32,522,368</u>	<u>31,618,422</u>	<u>31,578,842</u>	<u>29,784,800</u>
Total net assets	<u>\$163,196,044</u>	<u>\$164,789,474</u>	<u>\$172,775,986</u>	<u>\$182,278,329</u>	<u>\$200,497,995</u>	<u>\$206,391,537</u>	<u>\$223,818,546</u>	<u>\$234,064,294</u>	<u>\$243,394,292</u>	<u>\$255,035,983</u>

(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Summary Comparison of the Statements of Net Assets
Last Ten Fiscal Years



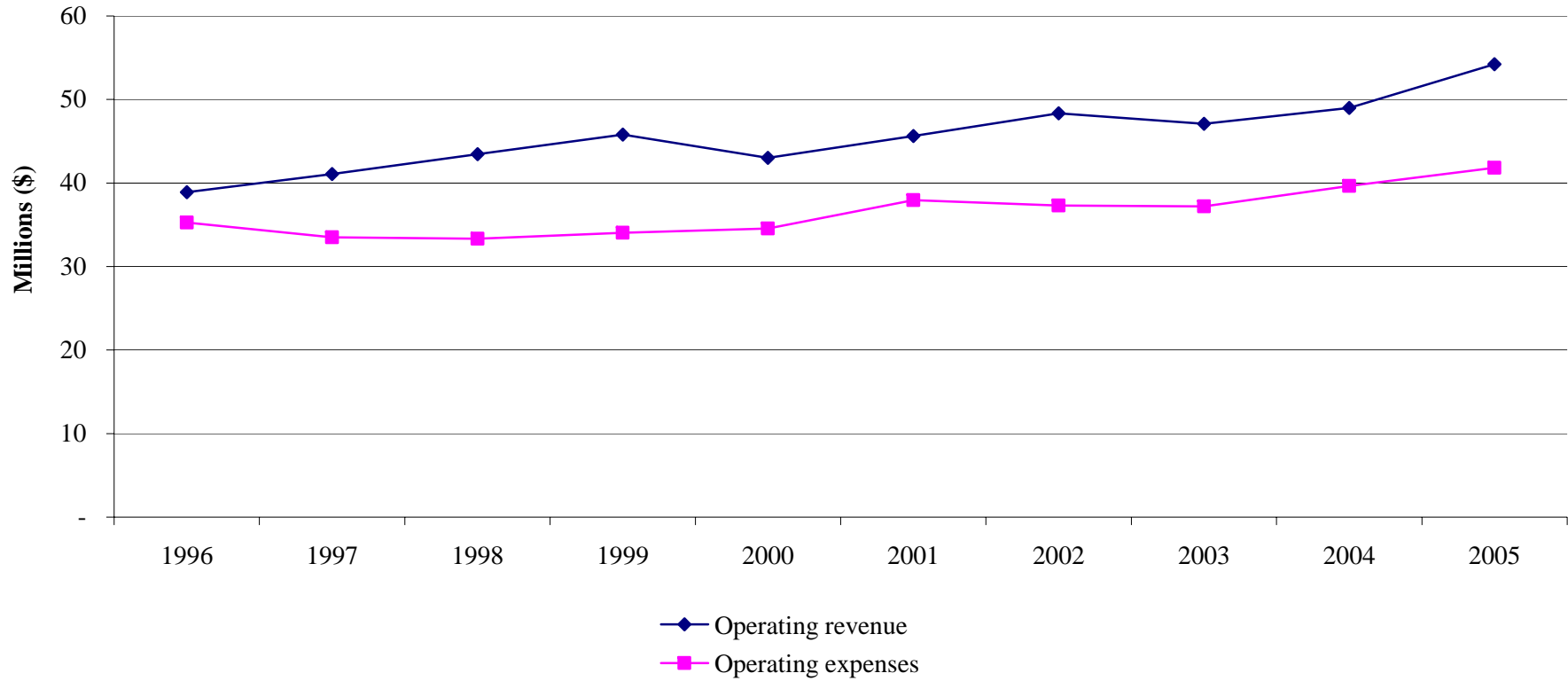
(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Summary Comparison of the Statements of Revenue, Expenses and Changes in Net Assets
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating revenues, water sales	\$ 38,886,056	\$ 41,089,230	\$ 43,460,852	\$ 45,788,920	\$ 43,013,977	\$ 45,633,628	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666
Operating expenses										
Production	10,634,335	9,980,062	9,577,248	9,578,566	8,647,310	9,915,731	10,088,719	10,732,803	10,619,126	12,393,279
Distribution	9,296,821	7,858,363	7,677,789	6,405,098	6,230,632	6,568,349	6,999,349	7,825,476	8,462,789	8,629,594
Administrative	8,104,599	7,819,517	7,236,869	9,820,343	10,883,134	12,408,260	11,118,955	9,478,095	11,240,637	11,260,014
Depreciation & amortization	<u>7,240,337</u>	<u>7,843,688</u>	<u>8,823,046</u>	<u>8,235,361</u>	<u>8,793,168</u>	<u>9,061,901</u>	<u>9,111,962</u>	<u>9,168,087</u>	<u>9,331,552</u>	<u>9,548,749</u>
Total operating expenses	35,276,092	33,501,630	33,314,952	34,039,368	34,554,244	37,954,241	37,318,985	37,204,461	39,654,104	41,831,636
Operating income	3,609,964	7,587,600	10,145,900	11,749,552	8,459,733	7,679,387	11,043,402	9,869,081	9,328,418	12,407,030
Nonoperating revenues (expenses)	<u>(3,186,693)</u>	<u>(6,610,167)</u>	<u>(2,825,410)</u>	<u>(2,770,080)</u>	<u>(2,423,233)</u>	<u>(2,825,164)</u>	<u>(2,791,602)</u>	<u>(3,047,463)</u>	<u>(3,169,326)</u>	<u>(2,254,436)</u>
Net income before contributions										
in aid of construction	423,271	977,433	7,320,490	8,979,472	6,036,500	4,854,223	8,251,800	6,821,618	6,159,092	10,152,594
Contributions in aid of construction	<u>424,326</u>	<u>615,998</u>	<u>666,021</u>	<u>522,871</u>	<u>12,183,166</u>	<u>1,039,319</u>	<u>9,175,209</u>	<u>3,424,130</u>	<u>3,170,906</u>	<u>1,489,097</u>
Change in net assets	847,597	1,593,431	7,986,511	9,502,343	18,219,666	5,893,542	17,427,009	10,245,748	9,329,998	11,641,691
Total net assets - beginning of year	<u>162,348,447</u>	<u>163,196,044</u>	<u>164,789,475</u>	<u>172,775,986</u>	<u>182,278,329</u>	<u>200,497,995</u>	<u>206,391,537</u>	<u>223,818,546</u>	<u>234,064,294</u>	<u>243,394,292</u>
Total net assets - end of year	<u>\$ 163,196,044</u>	<u>\$ 164,789,475</u>	<u>\$ 172,775,986</u>	<u>\$ 182,278,329</u>	<u>\$ 200,497,995</u>	<u>\$ 206,391,537</u>	<u>\$ 223,818,546</u>	<u>\$ 234,064,294</u>	<u>\$ 243,394,292</u>	<u>\$ 255,035,983</u>

(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Summary Comparison of the Statements of Operating Revenue to Operating Expenses
Last Ten Fiscal Years



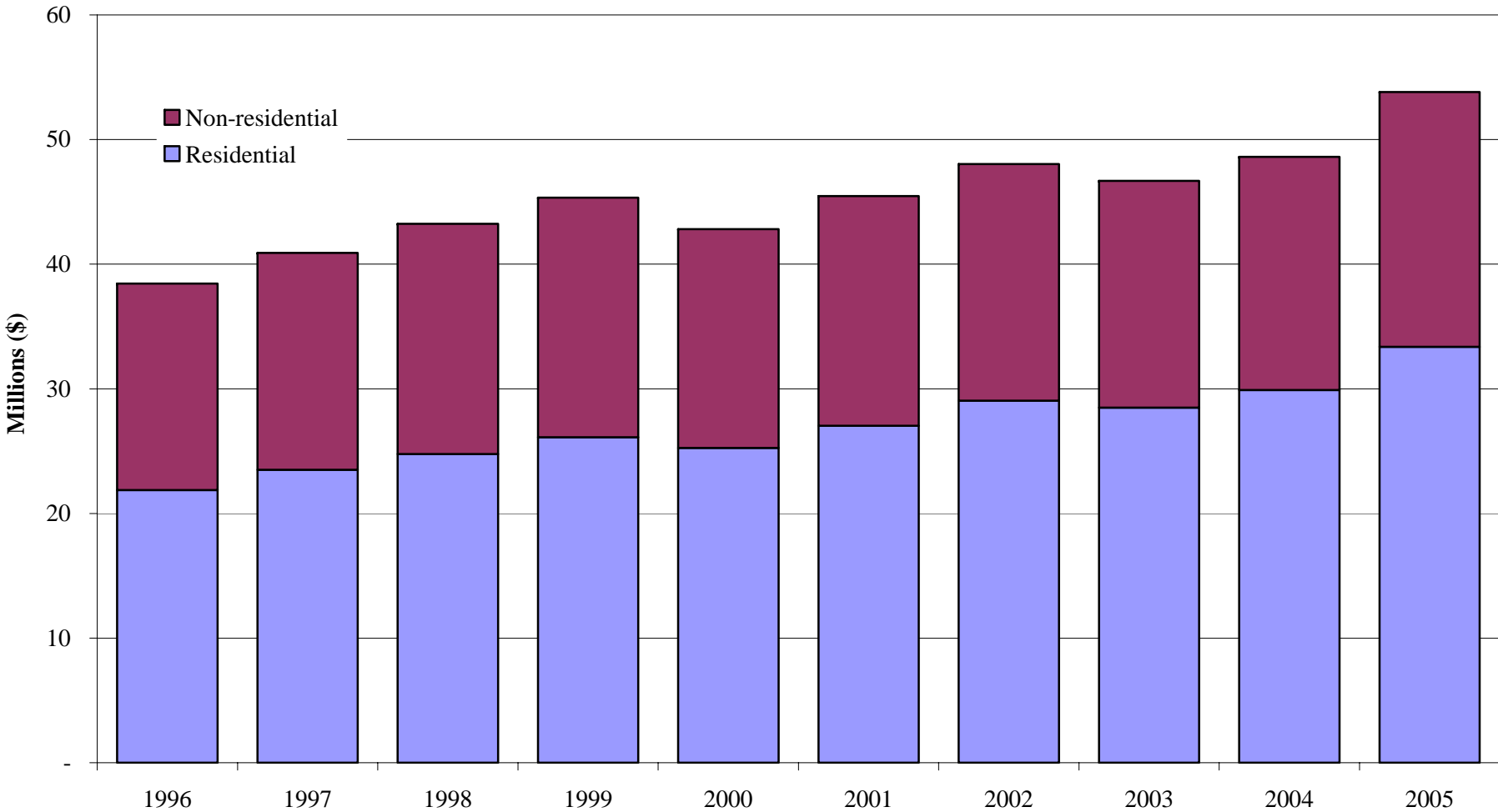
(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Sources of Revenue
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water sales										
Residential	\$ 21,880,531	\$ 23,493,838	\$ 24,764,366	\$ 26,120,470	\$ 25,265,112	\$ 27,042,922	\$ 29,052,911	\$ 28,482,355	\$ 29,894,743	\$ 33,370,134
Commercial	4,688,970	5,079,333	5,347,924	5,727,128	5,845,693	5,963,131	5,918,519	5,757,113	6,096,444	6,589,277
Industrial	1,646,993	1,622,649	1,603,666	1,640,706	1,596,887	1,472,354	1,577,883	1,490,969	1,639,787	1,847,582
Public authorities	1,339,296	1,235,978	1,434,027	1,483,320	1,594,522	1,710,179	1,829,221	1,673,422	1,708,476	1,980,744
Fire protection	1,950,727	2,172,703	2,326,106	2,543,075	2,843,889	2,912,188	3,038,519	3,172,430	3,348,559	3,560,805
Sales to other utilities	5,870,767	6,245,834	6,570,456	6,407,017	4,620,601	4,871,991	5,072,600	4,681,735	4,674,682	4,550,195
Other water revenue	<u>1,066,537</u>	<u>1,064,093</u>	<u>1,201,772</u>	<u>1,421,199</u>	<u>1,044,501</u>	<u>1,488,505</u>	<u>1,542,886</u>	<u>1,419,298</u>	<u>1,251,430</u>	<u>1,906,305</u>
Total water sales	38,443,821	40,914,428	43,248,317	45,342,915	42,811,205	45,461,270	48,032,539	46,677,322	48,614,121	53,805,042
Rents from water towers	-	54,250	71,361	83,113	132,667	159,614	299,550	326,573	353,887	419,872
Other operating revenue	<u>442,235</u>	<u>120,552</u>	<u>141,174</u>	<u>362,892</u>	<u>70,105</u>	<u>12,744</u>	<u>30,298</u>	<u>69,647</u>	<u>14,514</u>	<u>13,752</u>
Total operating revenue	<u>\$ 38,886,056</u>	<u>\$ 41,089,230</u>	<u>\$ 43,460,852</u>	<u>\$ 45,788,920</u>	<u>\$ 43,013,977</u>	<u>\$ 45,633,628</u>	<u>\$ 48,362,387</u>	<u>\$ 47,073,542</u>	<u>\$ 48,982,522</u>	<u>\$ 54,238,666</u>
Water sales as a percent of total operating revenue	98.9%	99.6%	99.5%	99.0%	99.5%	99.6%	99.3%	99.2%	99.2%	99.2%

(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Water Sales
Last Ten Fiscal Years

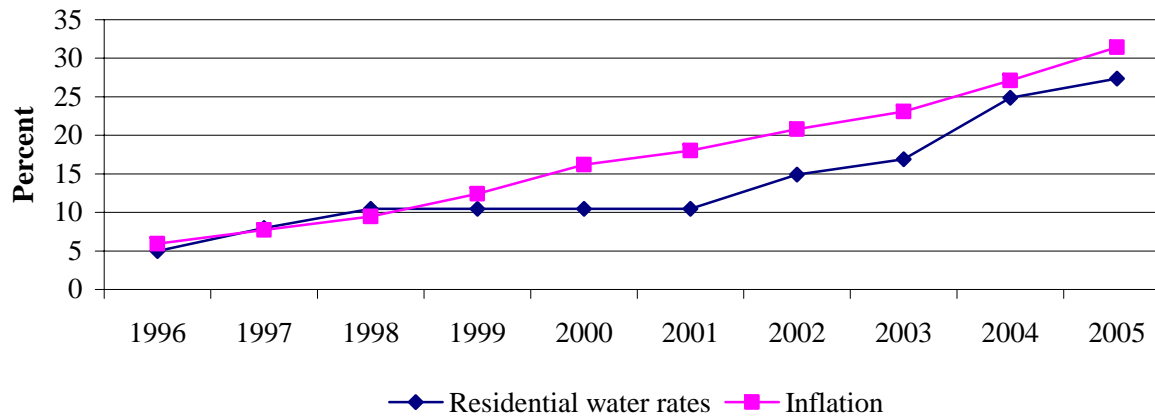


(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Residential Rate History Compared to Inflation
Last Ten Fiscal Years

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(Base Year)										
Residential rate	\$ 2.01	\$ 2.11	\$ 2.17	\$ 2.22	\$ 2.22	\$ 2.22	\$ 2.22	\$ 2.31	\$ 2.35	\$ 2.51	\$ 2.56
Percentage increase (%)	-	4.98	2.84	2.30	-	-	-	4.05	1.73	6.81	1.99
Cumulative increase (%)	-	4.98	7.96	10.44	10.44	10.44	10.44	14.92	16.91	24.87	27.36
Inflation rate (%)	2.54	3.32	1.70	1.61	2.68	3.39	1.55	2.38	1.88	3.26	3.42
Cumulative increase (%)	-	5.94	7.75	9.48	12.41	16.22	18.03	20.84	23.11	27.12	31.47

Cumulative Rate Changes

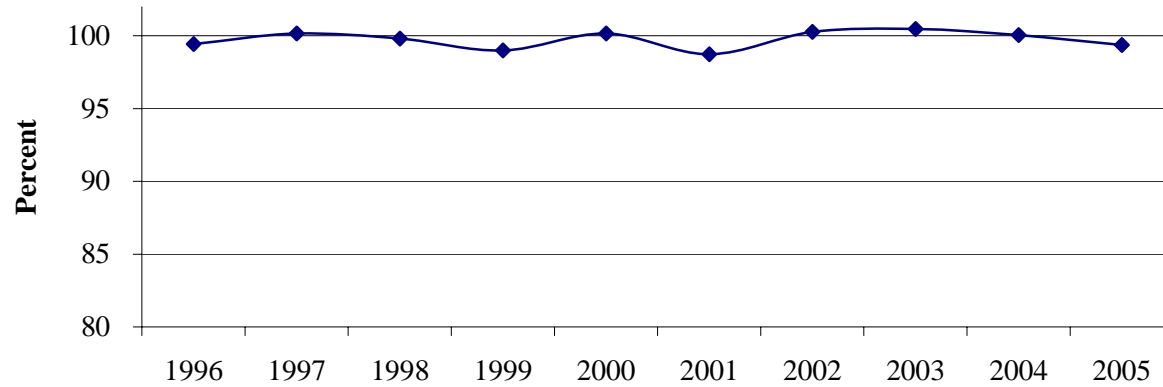


(Source: Erie County Water Authority Tariff and *InflationData.com*)

ERIE COUNTY WATER AUTHORITY
Collection Rates
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total billings	\$ 38,934,574	\$ 41,124,661	\$ 43,398,932	\$ 45,824,585	\$ 42,843,574	\$ 45,899,993	\$ 48,056,813	\$ 47,039,093	\$ 49,015,948	\$ 54,078,921
Collections	38,708,484	41,184,160	43,311,255	45,356,388	42,906,211	45,310,705	48,183,792	47,252,116	49,038,979	53,731,198
Collection rate (%)	99.42	100.14	99.80	98.98	100.15	98.72	100.26	100.45	100.05	99.36

Historical Collection Rate



(Source: Authority Financial and Business Office Records)

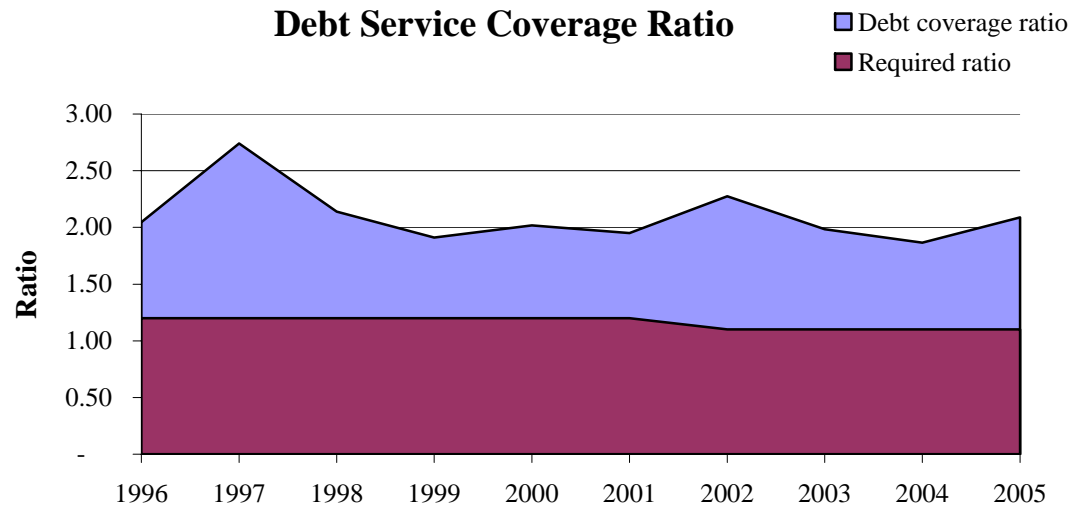
ERIE COUNTY WATER AUTHORITY
Largest Customers
Year End December 31, 2005

Non-Municipal Customers	Total Amount Billed in 2005	Municipal Customers	Total Amount Billed in 2005
International Steel	\$ 569,993	Town of Elma	\$ 1,028,672
State University of NY at Buffalo	452,276	Town of Evans	918,104
Developers Diversified	280,169	Village of East Aurora	544,002
Seneca Nation of Indians	247,319	Village of Williamsville	479,233
Benderson Development Co.	127,635	Village of Angola	295,265
Republic Engineered Products	127,029	Village of Blasdell	278,094
Delta Sonic Car Wash Systems	124,824	Village of Orchard Park	206,850
Uniland Development Co.	123,492	Monroe County Water Authority	206,410
Mayer Bros Apple Products Inc.	114,315	Village of Silver Creek	204,536
West Seneca Developmental Center	<u>109,921</u>	Town of Hanover	<u>134,414</u>
Total of Largest Non-Municipal Customers	<u>\$2,276,973</u>	Total of Largest Municipal Customers	<u>\$4,295,580</u>
Percent of total billings	4.2%	Percent of total billings	7.9%

(Source: Authority Business Office Records)

ERIE COUNTY WATER AUTHORITY
Debt Service Coverage Ratio
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating revenue	\$ 38,886,056	\$ 41,089,230	\$ 43,460,852	\$ 45,788,920	\$ 43,013,977	\$ 45,633,628	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666
Interest income	2,800,166	2,816,769	3,254,455	3,062,429	2,886,249	2,054,934	1,810,853	1,191,949	1,188,823	1,796,187
Operating expense less depreciation & amortization	<u>(28,035,755)</u>	<u>(25,657,942)</u>	<u>(24,491,905)</u>	<u>(25,804,007)</u>	<u>(25,761,076)</u>	<u>(28,892,340)</u>	<u>(28,207,023)</u>	<u>(28,036,374)</u>	<u>(30,322,552)</u>	<u>(32,282,887)</u>
Net revenue	13,650,467	18,248,057	22,223,402	23,047,342	20,139,150	18,796,222	21,966,217	20,229,117	19,848,793	23,751,966
Debt service	<u>6,668,631</u>	<u>6,657,600</u>	<u>10,382,163</u>	<u>12,058,831</u>	<u>9,979,103</u>	<u>9,644,694</u>	<u>9,661,533</u>	<u>10,190,804</u>	<u>10,642,769</u>	<u>11,379,335</u>
Debt coverage ratio	2.05	2.74	2.14	1.91	2.02	1.95	2.27	1.99	1.87	2.09



(Source: Internal Financial Statements and Bond Covenants)

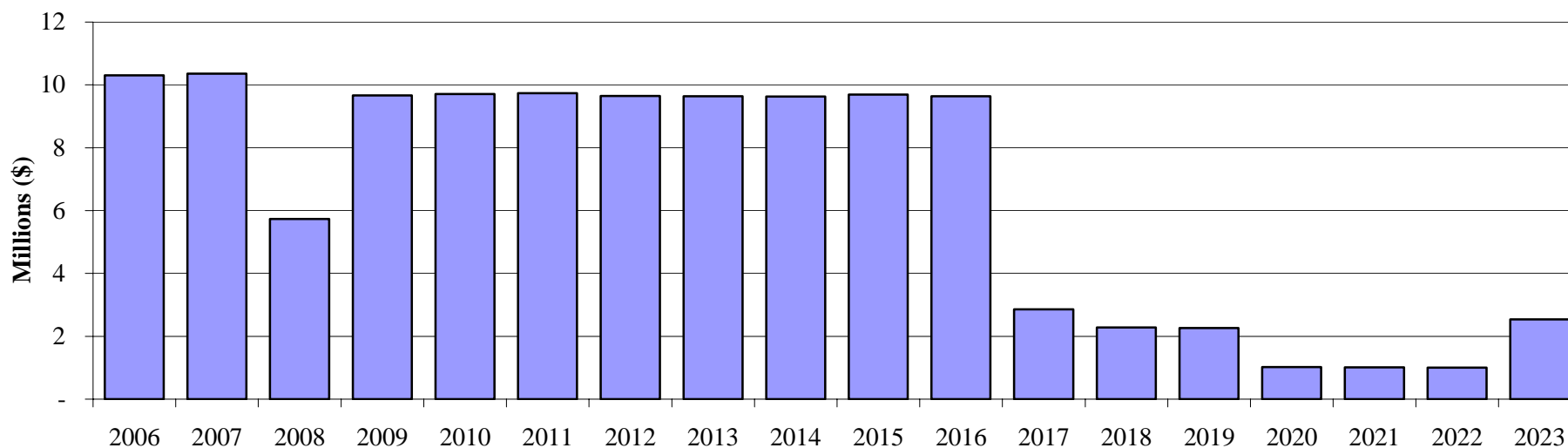
ERIE COUNTY WATER AUTHORITY
Debt Service Maturity Schedule
Year Ending December 31,

	Authority Issues				EFC Financings		Total Principal & Interest
	Capital Appreciation Bonds*		Variable Weekly & Current Interest Bonds		Serial Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	
2006	\$ 2,153,577	\$ 2,734,285	\$ -	\$ 2,324,500	\$ 1,689,443	\$ 1,399,940	\$ 10,301,745
2007	2,169,497	2,786,623	-	2,324,500	1,735,000	1,343,558	10,359,178
2008	149,756	194,584	-	2,324,500	1,780,000	1,282,715	5,731,555
2009	-	-	4,300,000	2,324,500	1,825,000	1,217,235	9,666,735
2010	-	-	4,600,000	2,089,430	1,870,000	1,146,751	9,706,181
2011	-	-	4,900,000	1,837,990	1,925,000	1,070,538	9,733,528
2012	-	-	5,100,000	1,570,180	1,985,000	989,414	9,644,594
2013	-	-	5,400,000	1,291,240	2,045,000	903,875	9,640,115
2014	-	-	5,700,000	995,930	2,120,000	813,662	9,629,592
2015	-	-	6,100,000	684,250	2,190,000	718,007	9,692,257
2016	-	-	6,400,000	350,310	2,270,000	617,037	9,637,347
2017	-	-	-	-	2,345,000	510,565	2,855,565
2018	-	-	-	-	1,885,000	399,318	2,284,318
2019	-	-	-	-	1,950,000	311,588	2,261,588
2020	-	-	-	-	805,000	218,604	1,023,604
2021	-	-	-	-	830,000	183,869	1,013,869
2022	-	-	-	-	855,000	147,432	1,002,432
2023	-	-	-	-	2,430,000	109,350	2,539,350
Total	<u>\$ 4,472,830</u>	<u>\$ 5,715,492</u>	<u>\$42,500,000</u>	<u>\$18,117,330</u>	<u>\$32,534,443</u>	<u>\$13,383,458</u>	<u>\$116,723,553</u>

* Capital appreciation bonds reflect balances as of 12/31/2005. Interest accretion will continue as the bonds approach maturity.

(Source: Official Bond Statements from Bond Issues)

ERIE COUNTY WATER AUTHORITY
Debt Principal and Interest Payments
Years Ending December 31,



Principal Outstanding by Issuance

	Series 1992FR	Series 1993A	Series 1993B	Series 1998B	Series 1998D	Series 2003F	Total
2006	\$2,153,578	\$ -	\$ -	\$ 360,000	\$ 725,000	\$ 604,442	\$ 3,843,020
2007	2,169,497	-	-	370,000	750,000	615,000	3,904,497
2008	149,756	-	-	380,000	775,000	625,000	1,929,756
2009	-	2,800,000	1,500,000	395,000	805,000	625,000	6,125,000
2010	-	3,000,000	1,600,000	405,000	830,000	635,000	6,470,000
2011-2015	-	17,600,000	9,600,000	2,260,000	4,635,000	3,370,000	37,465,000
2016-2020	-	4,100,000	2,300,000	1,030,000	4,415,000	3,810,000	15,655,000
2021-2023	-	-	-	-	-	4,115,000	4,115,000
Total	\$4,472,831	\$27,500,000	\$15,000,000	\$5,200,000	\$12,935,000	\$14,399,442	\$79,507,273

(Source: Official Statements from Bond Issues)

ERIE COUNTY WATER AUTHORITY
Operating Statistics per Customer
Last Ten Fiscal Years

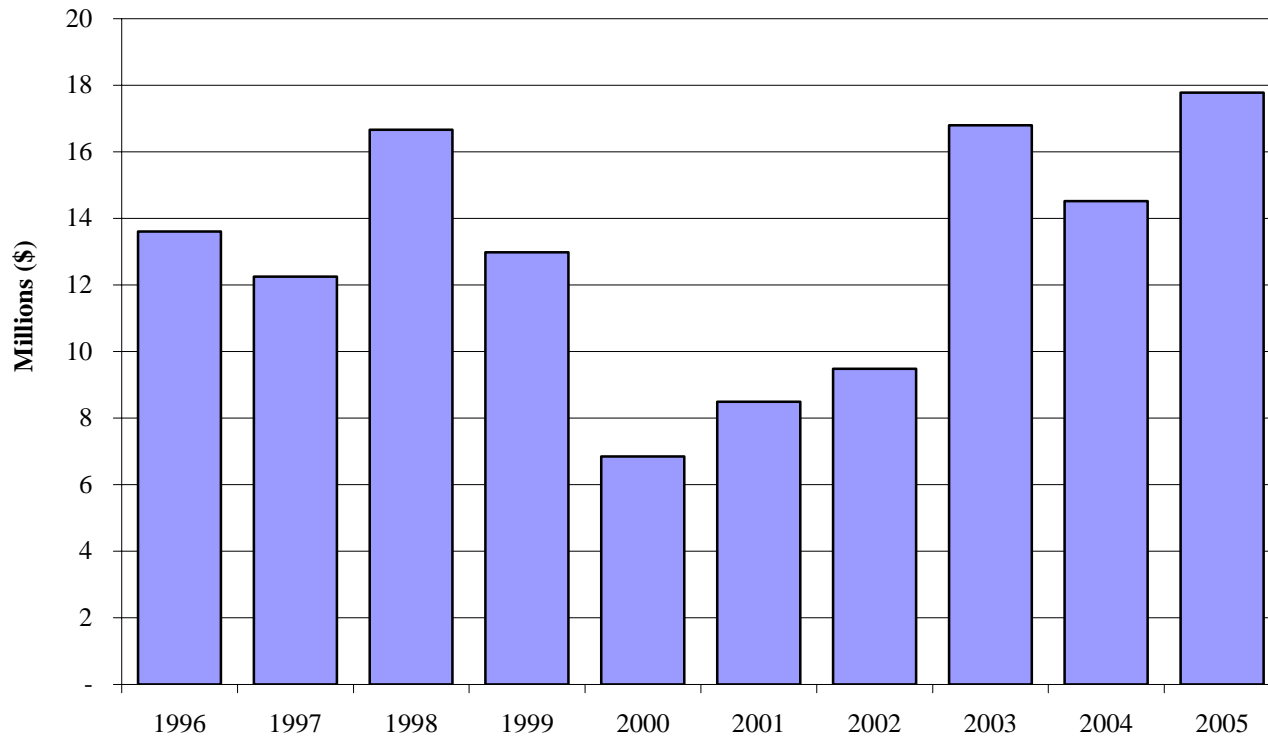
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Number of customers	121,731	123,099	123,784	133,794	135,464	136,478	137,777	143,500	153,495	155,057
Number of employees	322	289	280	270	268	269	263	253	252	256
Customers per employee	378	426	442	496	505	507	524	567	609	606
Total water output (million gallons)	23,624.8	23,054.8	22,809.9	24,198.4	24,208.1	25,555.2	25,855.7	25,489.3	24,189.9	26,401.9
Water output per customer (gallons)	194,073.8	187,286.7	184,271.8	180,863.1	178,705.0	187,247.8	187,663.4	177,625.8	157,594.1	170,272.2
Total water sales (million gallons)	18,878.8	18,386.3	18,943.2	19,910.0	18,424.3	19,395.1	19,438.8	18,440.2	17,849.3	19,203.3
Water sales per customer (gallons)	155,086.2	149,361.9	153,034.3	148,810.9	136,008.8	142,111.5	141,088.9	128,503.1	116,285.9	123,846.7
Total outstanding debt*	\$ 190,928,231	\$ 181,940,594	\$ 189,699,601	\$ 161,670,995	\$ 147,012,143	\$ 137,024,491	\$ 127,034,240	\$ 139,896,708	\$ 129,019,566	\$ 116,723,553
Outstanding debt* per customer	1,568.44	1,478.00	1,532.51	1,208.36	1,085.25	1,004.00	922.03	974.89	840.55	752.78
Total operating expenses	\$ 35,276,092	\$ 33,501,630	\$ 33,314,951	\$ 34,039,368	\$ 34,554,244	\$ 37,954,241	\$ 37,318,985	\$ 37,204,461	\$ 39,654,104	\$ 41,831,636
Operating expenses per customer	289.79	272.15	269.14	254.42	255.08	278.10	270.87	259.26	258.34	269.78
Total operating revenue	\$ 38,886,056	\$ 41,089,230	\$ 43,460,852	\$ 45,788,920	\$ 43,013,977	\$ 45,633,628	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666
Operating revenue per customer	319.44	333.79	351.10	342.23	317.53	334.37	351.02	328.04	319.11	349.80

*includes principal and interest

(Source: Authority Financial, Production and Business Office Records)

ERIE COUNTY WATER AUTHORITY
Annual Capital Expenditures
Last Ten Fiscal Years

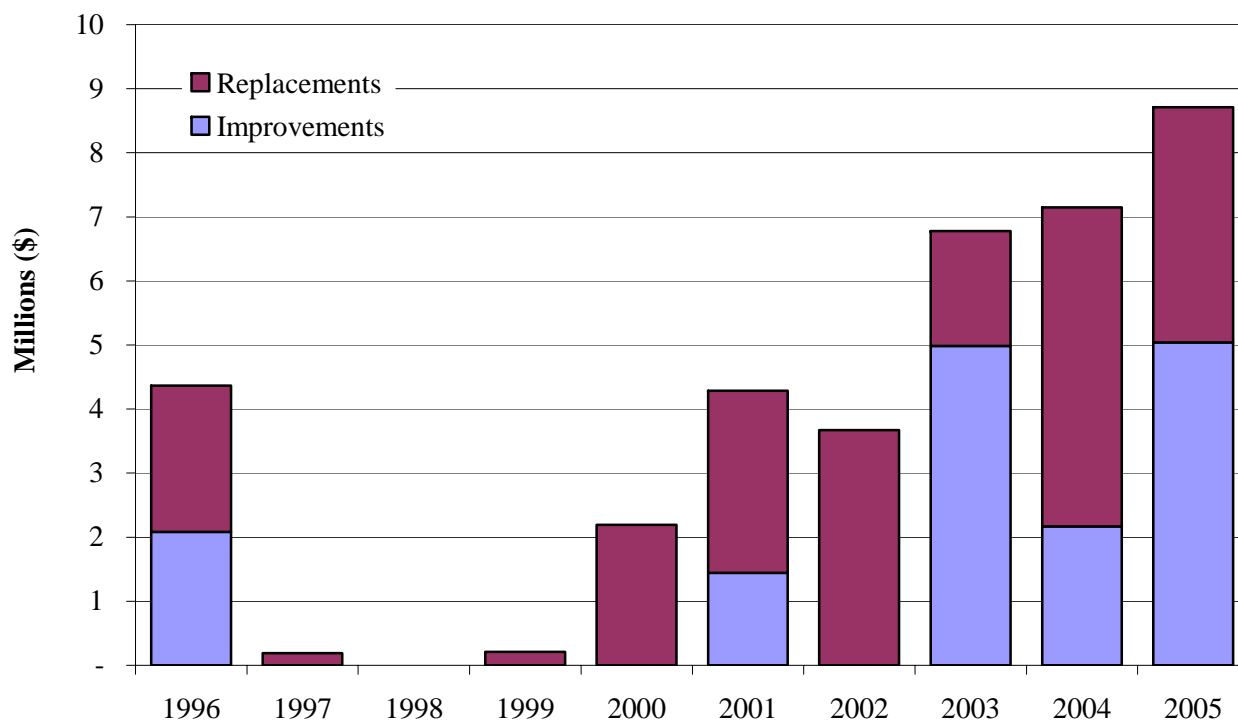
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Capital expenditures	\$ 13,601,782	\$ 12,252,369	\$ 16,661,988	\$ 12,979,211	\$ 6,848,116	\$ 8,489,478	\$ 9,478,977	\$ 16,802,468	\$ 14,518,527	\$ 17,778,175
Capital expenditures per customer	\$ 111.74	\$ 99.53	\$ 134.61	\$ 97.01	\$ 50.55	\$ 62.20	\$ 68.80	\$ 117.09	\$ 94.59	\$ 114.66



(Source: Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Waterline Replacements and Improvements
Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Waterline replacements	\$2,284,000	\$191,000	\$ -	\$210,000	\$2,194,000	\$2,838,000	\$3,672,000	\$1,793,000	\$4,979,000	\$3,671,787
Waterline improvements	\$2,082,000	\$ -	\$ -	\$ -	\$ -	\$1,446,000	\$ -	\$4,986,000	\$2,168,000	\$5,038,033



(Source: Authority Geographic Information System and Construction Records)