

Providing Water You Can Trust



Erie County Water Authority

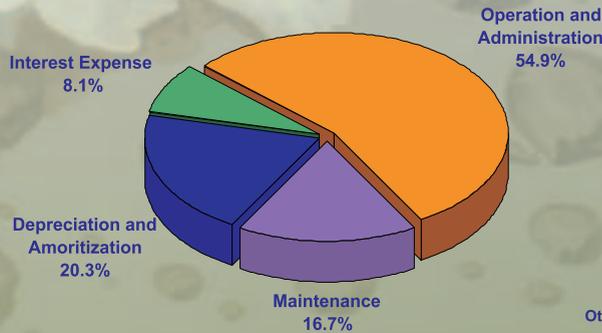
2006 Annual Report



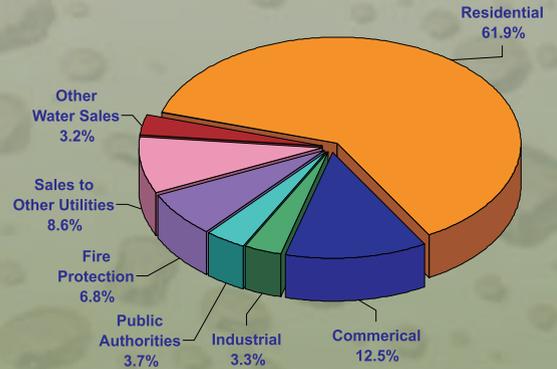
Financial Highlights

| | 2005 | 2006 |
|--------------------------|---------------|---------------|
| Operating revenue | \$54,238,666 | \$55,744,905 |
| Operating expenses | \$41,831,636 | \$43,929,734 |
| Total assets | \$352,395,325 | \$358,635,587 |
| Outstanding debt service | \$116,723,553 | \$106,758,447 |

2006 Expenses



2006 Water Sales Revenue



Highlights

1997 - 2006 Highlights

| | 1997 | 2006 |
|----------------------------------|---------------|---------------|
| Number of customers | 123,896 | 156,579 |
| Number of employees | 303 | 262 |
| Number of customers per employee | 410 | 598 |
| Outstanding debt service | \$181,940,594 | \$106,758,447 |
| Debt service per customer | \$1,468 | \$682 |
| Capital spending program | \$12,252,369 | \$15,242,944 |
| Number of fire Hydrants | 12,057 | 16,792 |
| Miles of water mains | 2,588 | 3,329 |
| Water rate (per 1,000 gallons) | \$2.17 | \$2.70 |

2006 Annual Financial Report



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 rewarding 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.



Frank E. Swiatek
Chair



Robert J. Lichtenthal, Jr.
Vice-Chair



Francis G. Warthling
Treasurer



Robert A. Mendez
Executive Director



Edward J. Kasprzak
Deputy Director



Wesley Dust
Executive Engineer

Commissioners' Message

The Erie County Water Authority is committed to providing its customers with high quality water service at an affordable rate. This past year was no exception in meeting that goal.

During the year, the ECWA continued to focus on sound fiscal management practices to better serve our expanding customer base. For the first time since 1990, we requested the review of Wall Street's major bond rating agencies to conduct a full-scale bond rating analysis. The results of the analysis confirmed ECWA's strong standing in the financial community, increasing our rating with Standard & Poors to "AA" and receiving high ratings of "AA" and "A1" from Fitch and Moody's respectively. These ratings reflect the ECWA's solid foundation of a gradually increasing customer base, a rate structure that supports expanded operations and capital requirements, and consistently strong debt service coverage and cash reserves.

ECWA's audited financial report for the fiscal year ending December 31, 2006, performed by the independent accounting firm of Drescher and Malecki LLP and contained on the enclosed DVD, reaffirmed ECWA's strong financial reporting and accounting practices and the fact that we are well positioned for the future.

The year also saw the completion of \$15.2 million in capital improvements to our system that were paid on a pay as you go model rather than with borrowed funds. Our capital program focused on our distribution system and production and storage facilities, which will further enhance the productivity of our system.

Even with our continued success, the past year was not without its challenges. On October 13, the Western New York community experienced one of the most devastating natural disasters in its history. An early season snow storm crippled the local electrical grid causing many of our facilities to lose power with the potential of significantly impacting our system. Even though our water quality was never compromised and customers experienced only limited impact, ECWA management responded quickly and proactively at our December 28, 2006, board meeting by authorizing a thorough and independent study of our system's need for additional standby power generation. As we await the findings of this study, the ECWA is proceeding with the installation of additional standby power generators on a lease basis.

It is in celebration of our successful efforts at reliably delivering an affordable product of the highest quality to our 550,000 consumers and our contributions to the quality of life in Western New York that we submit the 53rd Annual Report of the Erie County Water Authority.

Respectfully,

Board of Commissioners
Frank E. Swiatek, Chair
Robert J. Lichtenthal, Jr., Vice-Chair
Francis G. Warthling, Treasurer

ECWA 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 550,000 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 Years Ended December 31, 2006 and 2005



Erie County, New York

ERIE COUNTY WATER AUTHORITY

Comprehensive Annual Financial Report

For the Years Ended December 31, 2006 and 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
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Comprehensive Annual Financial Report
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INTRODUCTORY SECTION



Erie County Water Authority

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716-849-8484 • FAX 716-849-8467

May 2, 2007

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 years ended December 31, 2006 and 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 years ended December 31, 2006 and 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 operation 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 and can be found on pages 1 through 9.
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 43.



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 44 through 61.

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 156,579 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 25.1 billion gallons of high-quality water for residential, commercial, and industrial use in thirty-five 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 37 pump stations (24 pump stations owned by the Authority), 40 water tanks (21 water tanks owned by the Authority), 4 process tanks owned by the Authority, 3,329 miles of distribution piping (2,143 miles owned by the Authority), 16,792 fire hydrants (7,131 owned by the Authority) and a water quality laboratory, serve approximately 550,000 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.

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 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. No material findings have been released by the Comptroller's Office to the Authority.

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. During 2006, the Authority has amended its procedures to fully comply with the enacted provisions of the New York State Finance Law with respect to the procurement of goods, services and construction work and activity relating to real property.

The Authority has adopted "Management by Objectives" and each department has established goals and objectives. The status of the goals and objectives are reviewed with the Board of Commissioners periodically.

During 2006, the State of New York enacted the Public Authorities Accountability Act of 2005 ("PAAA"). The PAAA requires disclosure, notification, transparency, expanded reporting of information, etc. and specifies dates for meeting the legislative requirements. The time table for full compliance with the PAAA is over a multi-period of years. The Authority has been implementing the necessary changes to meet its obligations in a timely manner.

The Authority voluntarily underwent a rating review during 2006 with each of the major credit rating agencies. Standard and Poor's Rating Services rating is AA, Moody's Investors Services rating is A1 and Fitch Ratings rating for the Series 1992FR Bonds is AA – and the series 1993A Bonds and 1993B Bonds are rated AA.

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 in its customer base. This normal growth has been augmented when the Authority has acquired village, town and city systems. The growth in its 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. Current unrestricted cash balances, along with resources

obtained from new bond issuances will be used to fund the five year capital budget, which indicates a need of over \$100 million in new investment and improvements. 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 reported a record high net income before contributions in aid of construction of \$10,591,086 in 2006 and continues its significant investment in the infrastructure of the capital assets under its control.

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 302.5 budgeted full-time equivalents in 1997 to 261.8 budgeted full-time equivalents 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 for medical coverage – BlueCross BlueShield of WNY and a single provider for prescription coverage – MedImpact. Consequently, the trend in health care costs has stabilized. 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 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, which 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. The biggest fiscal challenge on the horizon is to generate sufficient cash flow to help meet the infrastructure needs of the system. As a result, the Authority will investigate issuing new water revenue bonds in 2007 to complete necessary improvements. Federal appropriations have been, and will continue to be, sought from various legislative committees to assist in installing such infrastructure in vital areas.

MAJOR INITIATIVES

Internally, departments are encouraged to establish standards for providing excellent customer service, and to set and monitor goals each year. The Authority 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.

During 2001, the Authority commissioned a customer survey to obtain feedback from its customers. This survey was conducted following appropriate methodology and established base-line levels for customer perceptions of the Authority. In 2006, the Authority updated the earlier study by focusing on questions regarding water quality, customer service, emergency service, preferred bill-paying options and other operational issues related to the continuum of service. The Authority believes that it is very important to make sure that its customers are provided the most efficient service possible.

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.

In order to provide meaningful financial and operational data for its operations, the Authority, starting with fiscal year 2004, has prepared and issued a Comprehensive Annual Financial Report. The Authority has received recognition for its financial reporting efforts. The Certificate of Achievement for Excellence in Financial Reporting was presented to the Authority by the Government Finance Officers Association of the United States and Canada for fiscal years 2004 and 2005.

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

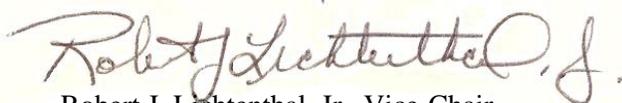
The preparation of this report would not have been possible without the dedicated service of the entire staff of the Finance Department. We wish to express our appreciation to the Finance Department staff and all other members of the Authority who assisted and contributed to the preparation of this report. We would also like to extend our congratulations on the receipt of a Certificate of Achievement for Excellence in Financial Reporting for the 2005 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.

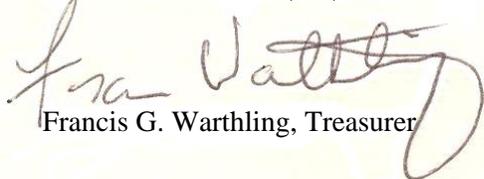
Respectfully Submitted,



Frank E. Swiatek, Chair



Robert J. Lichtenthal, Jr., Vice-Chair



Francis G. Warthling, 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, 2005

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.



President

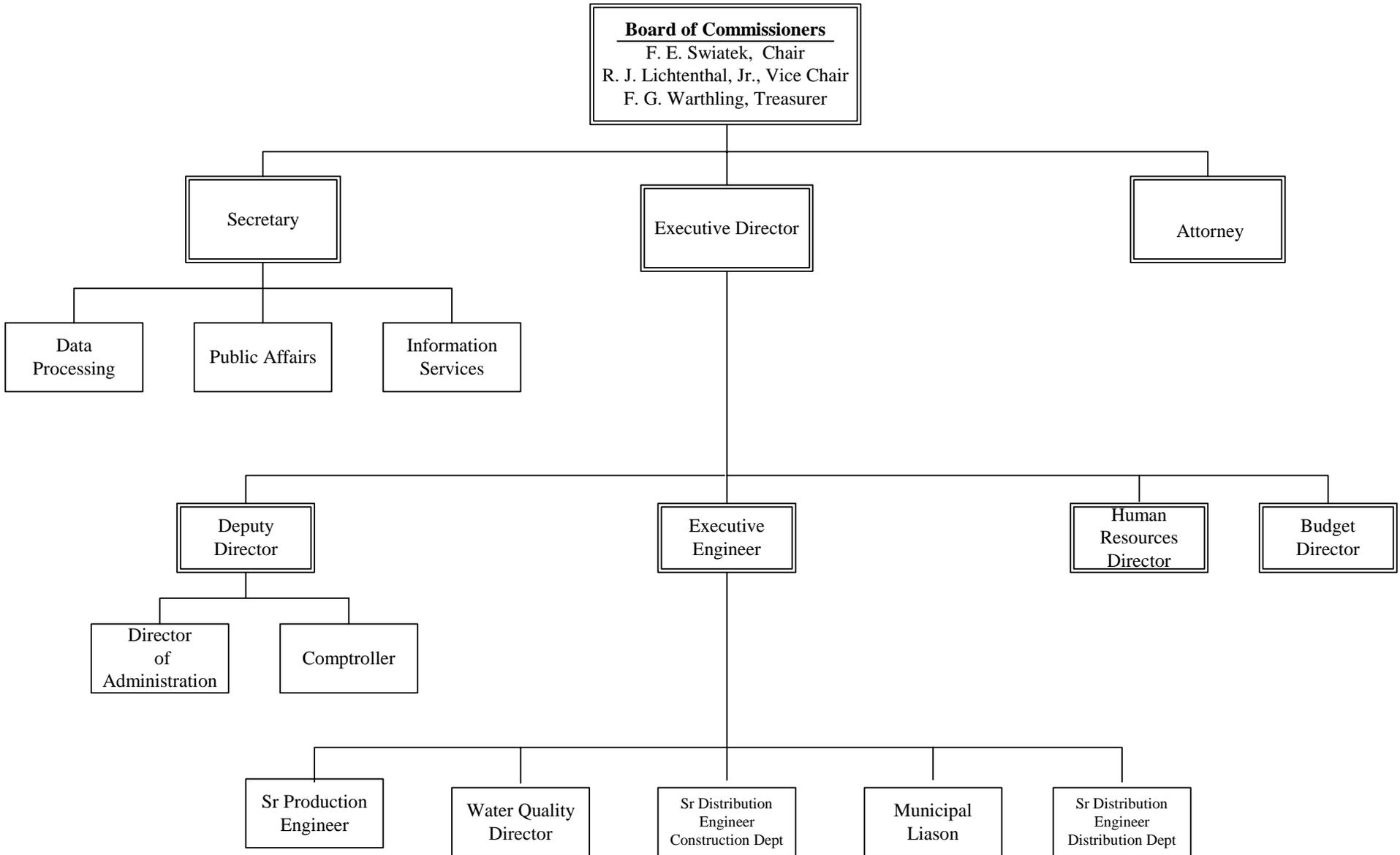
Executive Director

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 12/31/2006 | Most Recent Appointment Date |
|--|-------------------------------------|
| Frank E. Swiatek, Chair | April 2004 |
| Robert J. Lichtenthal, Jr., Vice-Chair | April 2005 |
| Francis G. Warthling, Treasurer | April 2006 |

ERIE COUNTY WATER AUTHORITY
Organizational Chart



FINANCIAL SECTION

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, 2006 and 2005, 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 opinions 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 opinions.

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, 2006 and 2005, 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 24, 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 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 that reads 'Drescher & Malecki LLP'.

March 23, 2007

ERIE COUNTY WATER AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

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 year ended December 31, 2006 and 2005. 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. Certain information from prior years has been reclassified to conform with the current year presentation. The Authority is not legally required to adopt a budget; therefore, comparative budgetary information is not included in this report.

Financial Highlights

- During the year ended December 31, 2006 the Authority's net assets increased \$11,766,272, of this amount, \$10,591,086 is net income, while \$1,175,186 is from capital contributions (contributions in aid of construction). Comparatively, during the year ended December 31, 2005 the Authority's net assets increased \$11,641,691, of this amount, \$10,152,594 is net income, while \$1,489,097 is from capital contributions.
- The assets of the Authority exceeded its liabilities by \$266,802,255 and \$255,035,983, representing net assets at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, unrestricted net assets were \$31,250,320 and \$29,784,800, respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness decreased \$3,843,020 and \$7,340,000 during 2006 and 2005, 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 *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Authority's net assets changed during the most recent reporting period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in prior or future periods (e.g., earned but unused vacation leave and depreciation expense on fixed assets).
- The *Statement of Cash Flows* presents information depicting the Authority's cash flow activities for the reporting period ended and the effect that these activities had on the Authority's cash and cash equivalent balances.
- The *Notes to 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.

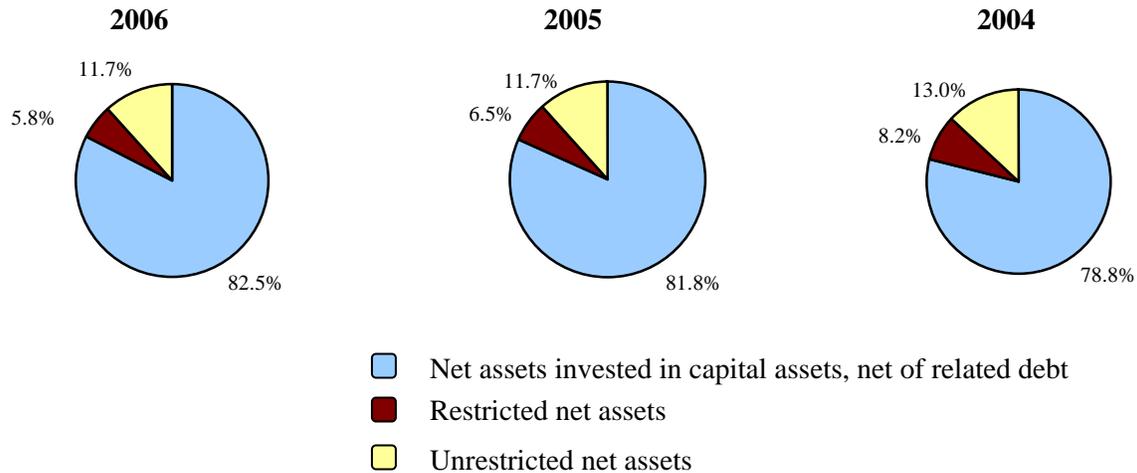
Financial Analysis

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 \$266,802,255 at December 31, 2006, as compared to \$255,035,983 at December 31, 2005, as presented below in Table 1:

Table 1 - Condensed Statement of Net Assets

| | 2006 | 2005 | Increase/(Decrease) | |
|--|-----------------------|-----------------------|----------------------|---------|
| | | | Dollars | Percent |
| Current assets | \$ 41,471,376 | \$ 37,302,972 | \$ 4,168,404 | 11.2 |
| Noncurrent assets | 317,164,211 | 315,092,353 | 2,071,858 | 0.7 |
| Total assets | <u>358,635,587</u> | <u>352,395,325</u> | <u>6,240,262</u> | 1.8 |
| Current liabilities | 18,056,929 | 16,924,363 | 1,132,566 | 6.7 |
| Noncurrent liabilities | 73,776,403 | 80,434,979 | (6,658,576) | (8.3) |
| Total liabilities | <u>91,833,332</u> | <u>97,359,342</u> | <u>(5,526,010)</u> | (5.7) |
| Invested in capital assets, net of related debt | 220,035,389 | 208,606,705 | 11,428,684 | 5.5 |
| Restricted | 15,516,546 | 16,644,478 | (1,127,932) | (6.8) |
| Unrestricted | 31,250,320 | 29,784,800 | 1,465,520 | 4.9 |
| Total net assets | <u>\$ 266,802,255</u> | <u>\$ 255,035,983</u> | <u>\$ 11,766,272</u> | 4.6 |
| | 2005 | 2004 | Increase/(Decrease) | |
| | | | Dollars | Percent |
| Current assets | \$ 37,302,972 | \$ 35,341,560 | \$ 1,961,412 | 5.5 |
| Noncurrent assets | 315,092,353 | 310,285,279 | 4,807,074 | 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 | 80,434,979 | 86,282,231 | (5,847,252) | (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 | 29,784,800 | 31,578,842 | (1,794,042) | (5.7) |
| Total net assets | <u>\$ 255,035,983</u> | <u>\$ 243,394,292</u> | <u>\$ 11,641,691</u> | 4.8 |

At December 31, 2006, the largest portion of the Authority's net assets (82.5%) consists of the Authority's investment in capital assets, as compared to 81.8% and 78.8% at December 31, 2005 and 2004, 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%, 11.7%, and 13.0% at December 31, 2006, 2005 and 2004, 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 (5.8%, 6.5% and 8.2% at December 31, 2006, 2005 and 2004, respectively) is restricted for various purposes.



The Authority's liabilities totaled \$91,833,332, \$97,359,342 and \$102,232,547 at December 31, 2006, 2005 and 2004 respectively. The largest component of liabilities is outstanding water revenue bonds.

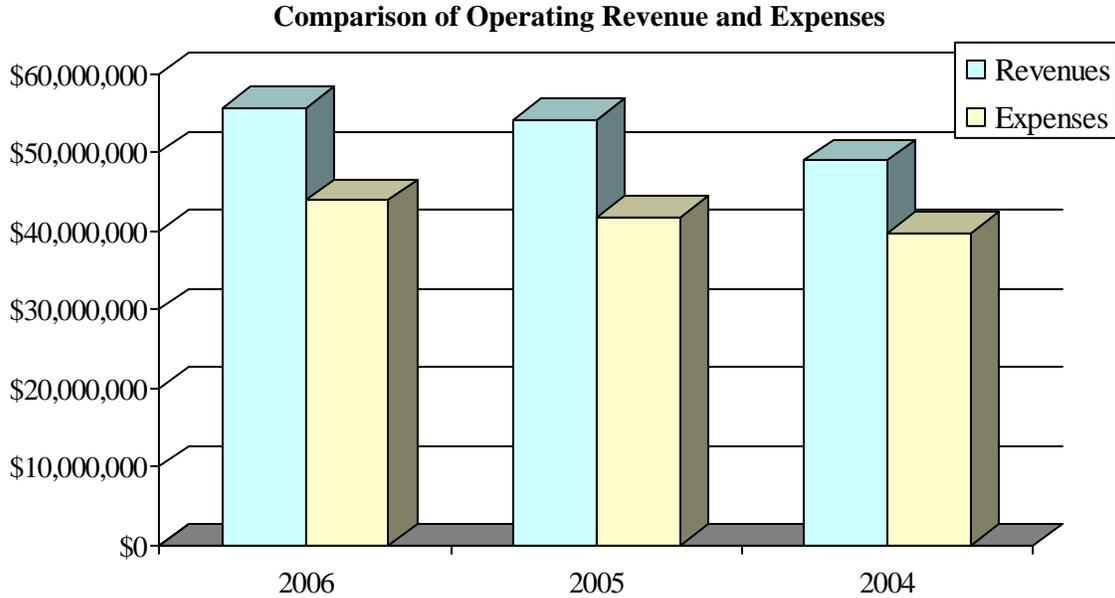
The Authority has had a relatively consistent current ratio of 2.30, 2.20 and 2.22 at December 31, 2006, 2005 and 2004 respectively. Such a ratio implies that the Authority has sufficient assets on hand to cover its liabilities that will come due in the ensuing year.

A comparison of current assets as compared to current liabilities of the Authority at December 31, 2006, December 31, 2005 and December 31, 2004 follows:

Table 2 - Comparison of current assets and current liabilities

| | 2006 | 2005 | 2004 |
|--|--------------|--------------|--------------|
| Current assets | \$41,471,376 | \$37,302,972 | \$35,341,560 |
| Current liabilities | 18,056,929 | 16,924,363 | 15,950,316 |
| Ratio of current assets to current liabilities | 2.30 | 2.20 | 2.22 |

The following chart depicts a 2.8% operating revenue growth from \$54,238,666 in 2005 to \$55,744,905 in 2006, compared to a 10.7% growth from \$48,982,522 in 2004 to \$54,238,666 in 2005. Operating expenses increased 5.0% from \$41,831,636 in 2005 to \$43,929,732 in 2006 and 4.6% from \$39,654,104 in 2004 to \$41,481,636 in 2005.



A summary of operating revenue for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 is presented below in Table 4:

Table 4 - Summary of Operating Revenue

| | 2006 | 2005 | Increase/(Decrease) | |
|--------------------------|---------------------|---------------------|---------------------|---------|
| | | | Dollars | Percent |
| Water sales: | | | | |
| Residential | \$33,915,574 | \$33,370,134 | \$ 545,440 | 1.6 |
| Commercial | 6,845,706 | 6,589,277 | 256,429 | 3.9 |
| Industrial | 1,825,446 | 1,847,582 | (22,136) | (1.2) |
| Public authorities | 2,033,007 | 1,980,744 | 52,263 | 2.6 |
| Fire protection | 3,718,934 | 3,560,805 | 158,129 | 4.4 |
| Sales to other utilities | 4,690,210 | 4,550,195 | 140,015 | 3.1 |
| Other water sales | 1,801,691 | 1,906,305 | (104,614) | (5.5) |
| Total water sales | 54,830,568 | 53,805,042 | 1,025,526 | 1.9 |
| Other operating income: | | | | |
| Rents from water towers | 446,806 | 419,872 | 26,934 | 6.4 |
| Miscellaneous | 467,531 | 13,752 | 453,779 | 3,299.7 |
| Operating revenue | <u>\$55,744,905</u> | <u>\$54,238,666</u> | <u>\$1,506,239</u> | 2.8 |

| | 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 | <u>1,906,305</u> | <u>1,251,430</u> | <u>654,875</u> | 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 | <u>13,752</u> | <u>14,514</u> | <u>(762)</u> | (5.3) |
| Operating revenue | <u>\$54,238,666</u> | <u>\$48,982,522</u> | <u>\$5,256,144</u> | 10.7 |

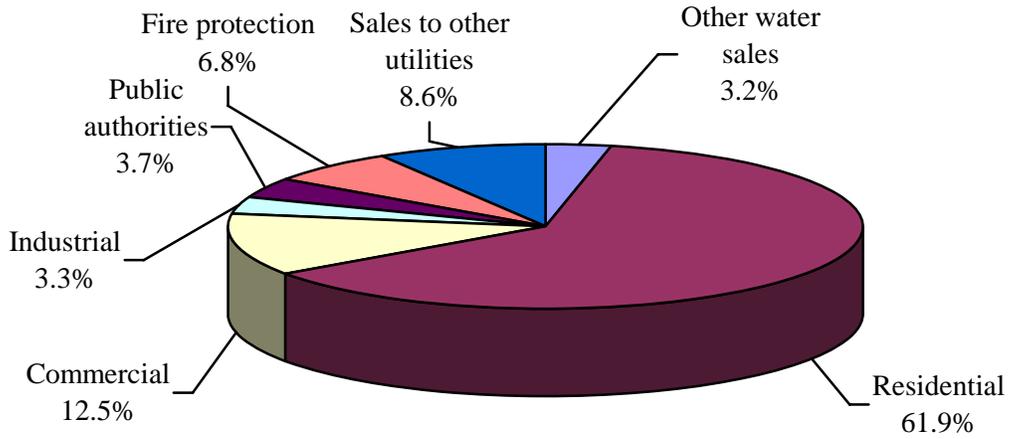
Water sales represent the vast majority of revenue for the Authority, 98.4%, 99.2% and 99.2% of total revenue for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively.

Total water sales increased \$1,025,526, 1.9%, during the year ended December 31, 2006 due primarily to a 5.47% rate increase on January 1, 2006 offset by a 3.7% decrease in consumption over 2005. Despite the rate increase, total billings increased only \$1,091,952, or 2%. Summer surcharges revenue decreased by \$191,313 due to the overall reduction in consumption. Miscellaneous non-operating income increased by \$453,779 due to the receipt of \$377,130 from the City of Buffalo for their share of federal lobbying costs and \$79,031 from the Town of Marilla to purchase excess tank capacity in the water tank. Water tower rents also increased due to the addition of one new lease at the Ball station in November of 2005 plus normal escalation of lease payments under terms of the agreements.

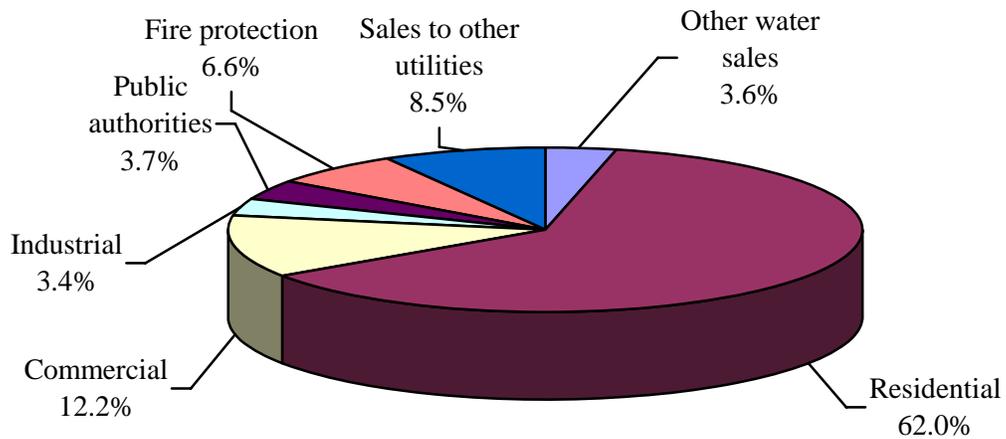
During the year ended December 31, 2005 total operating revenue increased \$5,256,144 due primarily to a 2.0% rate increase on January 1, 2005. There was also a 7.6% increase in water consumption due to a very hot and dry spring and summer. Finally, a full year of billing to the City of Tonawanda, which was acquired in August of 2004, contributed to an overall increase in revenue over 2004.

As presented in the illustration on the following page, residential water sales represent the largest portion of water sales for the Authority, which was 61.9%, 62.0% and 61.5% of total water sales for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 12.5%, 12.2% and 12.5% of total water sales, for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively.

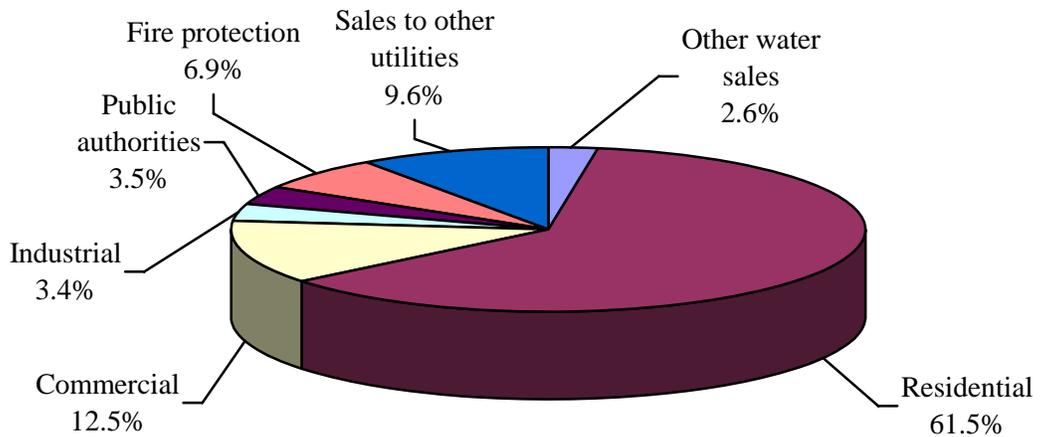
2006 Water Sales Revenue



2005 Water Sales Revenue



2004 Water Sales Revenue

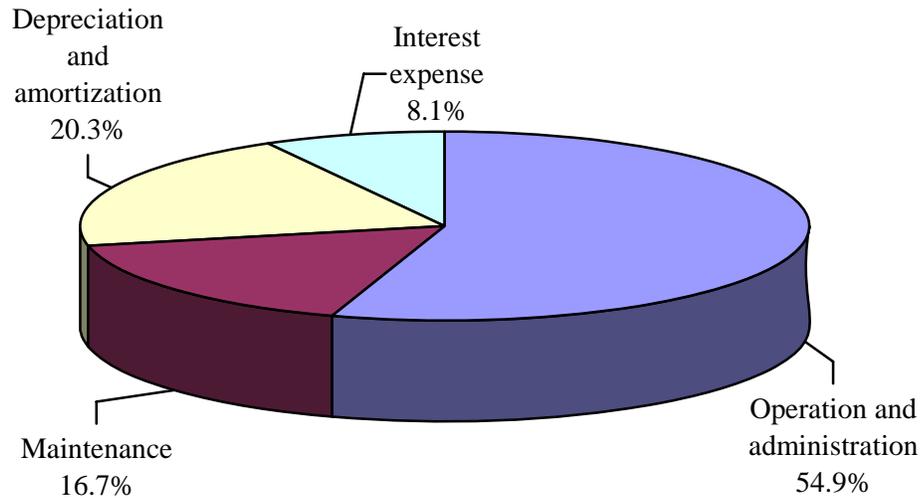


As illustrated below, operation and administration expenses are the largest expense and account for 54.9%, 51.5% and 50.0% of the Authority's expenses for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were, 20.3%, 20.8% and 21.1% for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, respectively.

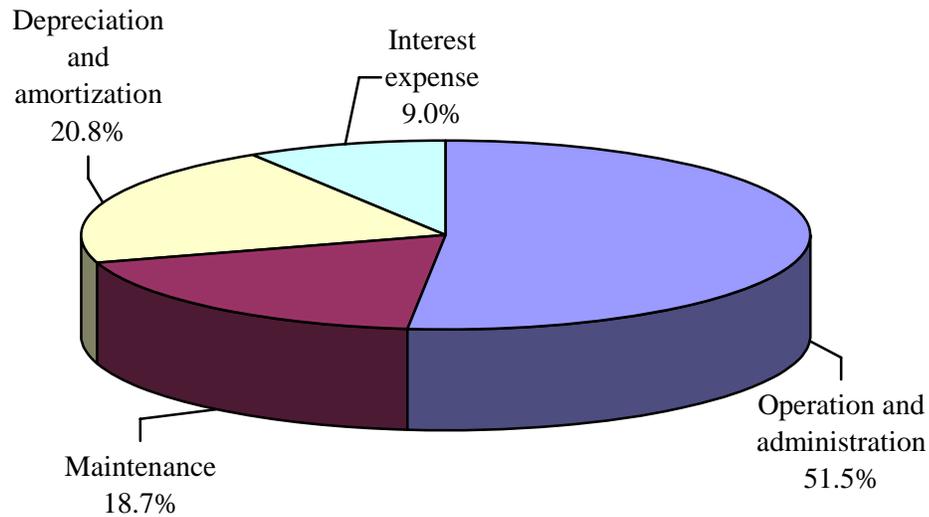
| | 2006 | 2005 | Increase/(Decrease) | |
|-------------------------------|---------------------|---------------------|---------------------|---------|
| | | | Dollars | Percent |
| Operation and administration | \$26,260,319 | \$23,694,959 | \$ 2,565,360 | 10.8 |
| Depreciation and amortization | 9,708,972 | 9,548,749 | 160,223 | 1.7 |
| Maintenance | 7,960,443 | 8,587,928 | (627,485) | (7.3) |
| Interest expense | 3,868,064 | 4,149,699 | (281,635) | (6.8) |
| Total | <u>\$47,797,798</u> | <u>\$45,981,335</u> | <u>\$ 1,816,463</u> | 4.0 |

| | 2005 | 2004 | Increase/(Decrease) | |
|-------------------------------|---------------------|---------------------|---------------------|---------|
| | | | Dollars | Percent |
| Operation and administration | \$23,694,959 | \$22,049,930 | \$ 1,645,029 | 7.5 |
| Depreciation and amortization | 9,548,749 | 9,331,552 | 217,197 | 2.3 |
| Maintenance | 8,587,928 | 8,272,622 | 315,306 | 3.8 |
| Interest expense | 4,149,699 | 4,501,530 | (351,831) | (7.8) |
| Total | <u>\$45,981,335</u> | <u>\$44,155,634</u> | <u>\$ 1,825,701</u> | 4.1 |

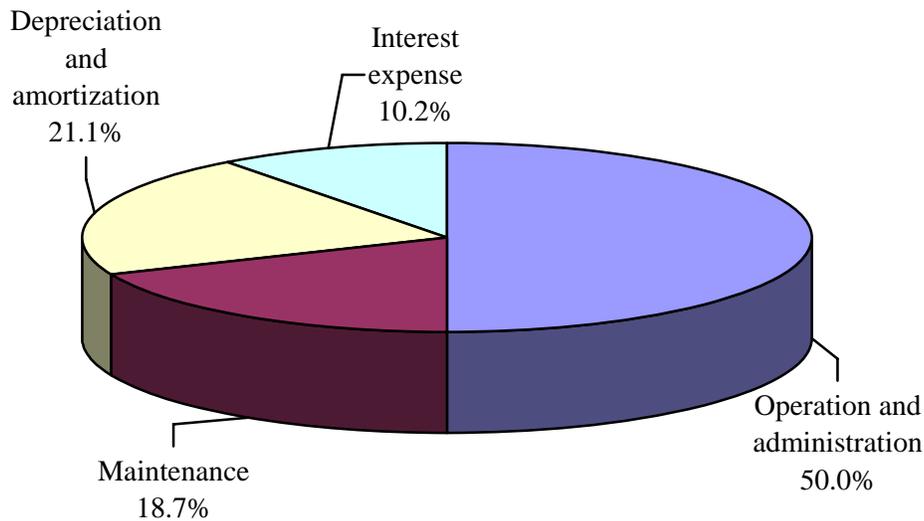
2006 Expenses



2005 Expenses



2004 Expenses



During the year ended December 31, 2006, operation and administration expenses increased \$2,565,360 while maintenance expenses decreased \$627,485. The increase in operation and administration expenses was due largely to a reduction in administrative credits of \$1,136,320 caused by the completion of fewer and smaller main replacement and other construction projects. Miscellaneous expenses increased \$812,489 due to an increase in contingencies. Fringe benefit costs increased \$490,133 due to a 13.5% increase in health care insurance rates and a retroactive billing of \$154,000 for workers compensation costs received in 2006.

The decrease in maintenance expenses for the year ended December 31, 2006 of \$627,485 is primarily due to a decrease in the number of leaks from 1,922 in 2005 to 1,776 in 2006. This resulted in lower overtime costs of \$146,029, a decrease in payments to repair contractors of \$117,842, a decrease in restoration charges of \$597,940 and a decrease of \$37,872 in stone and cold patch usage. These decreases were offset by an increase of \$113,882 in labor and salaries due to contractual and merit wage increases and an increase in equipment maintenance contracts of \$21,361. Fringe benefit costs also increased \$140,086 due to a 13.5% increase in health care insurance rates and a retroactive billing of workers compensation costs received in 2006.

Comparably, during the year ended December 31, 2005, operation and administration expenses increased \$1,645,029 and maintenance expenses increased \$315,306, primarily due 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% rate increase in 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.

Contributions in aid of construction were \$1,175,186 for the year ended December 31, 2006 compared to \$1,489,096 for the year ended December 31, 2005. The decrease is due to fewer builder, contractor and developer projects in 2006.

Table 5 presents a summary of the Authority’s cash flow activities for the years ended December 31, 2006, December 31, 2005 and December 31, 2004:

Table 5 - Summary of Cash Flow Activities

| | 2006 | 2005 | Increase/(Decrease) Dollars |
|--|---------------------|---------------------|--------------------------------|
| Cash flows from: | | | |
| Operating activities | \$22,030,110 | \$22,384,970 | \$ (354,860) |
| Investing activities | 2,477,315 | 3,477,004 | (999,689) |
| Less capital and related financing activities | <u>(23,952,582)</u> | <u>(28,279,140)</u> | <u>4,326,558</u> |
| Net increase (decrease) in cash and cash equivalents | 554,843 | (2,417,166) | 2,972,009 |
| Cash and cash equivalents, beginning of year | <u>44,214,629</u> | <u>46,631,795</u> | <u>(2,417,166)</u> |
| Cash and cash equivalents, end of year | <u>\$44,769,472</u> | <u>\$44,214,629</u> | <u>\$ 554,843</u> |
| | | | |
| | 2005 | 2004 | Increase/(Decrease) Dollars |
| Cash flows from: | | | |
| Operating activities | \$22,384,970 | \$17,799,643 | \$ 4,585,327 |
| Investing activities | 3,477,004 | 2,690,797 | 786,207 |
| Less capital and related financing activities | <u>(28,279,140)</u> | <u>(24,751,404)</u> | <u>(3,527,736)</u> |
| Net increase (decrease) in cash and cash equivalents | (2,417,166) | (4,260,964) | 1,843,798 |
| Cash and cash equivalents, beginning of year | <u>46,631,795</u> | <u>50,892,759</u> | <u>(4,260,964)</u> |
| Cash and cash equivalents, end of year | <u>\$44,214,629</u> | <u>\$46,631,795</u> | <u>\$ (2,417,166)</u> |

At the December 31, 2006, 2005, and 2004, cash and cash equivalents was restricted for various purposes as presented below:

Table 6 - Summary of Cash and Cash Equivalents

| | 2006 | 2005 | 2004 |
|--------------|---------------------|---------------------|---------------------|
| Unrestricted | \$29,252,926 | \$27,570,151 | \$26,739,288 |
| Restricted | <u>15,516,546</u> | <u>16,644,478</u> | <u>19,892,507</u> |
| Total | <u>\$44,769,472</u> | <u>\$44,214,629</u> | <u>\$46,631,795</u> |

The Authority's available cash and cash equivalents increased by \$554,843 for the year ended December 31, 2006, compared to a decrease of \$2,417,166 and \$4,260,964 for the years ended December 31, 2005 and December 31, 2004, respectively. During the year ended December 31, 2006, cash used in capital and related financing activities decreased \$4,326,558 due to a decrease in principal bond payments resulting from the final maturity of Series 1993 Fourth Resolution bonds in 2005 and the completion of fewer and less expensive water system improvements in 2006 compared to 2005. Cash from operating activities decreased \$354,860 in spite of a 5.47% rate increase effective January 1, 2006 due to a 3.7% decrease in consumption and an increase in payments for services to contractors and employees.

During the year ended December 31, 2005, cash from operating activities increased \$4,585,327 due primarily to a \$5,190,920 increase in total water sales resulting from the combination of a 2.0% rate increase and a 7.6% increase in consumption and a full year of billing to the 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.

Capital Assets

The Authority's investment in capital assets, as of December 31, 2006 amounted to \$299,017,487 (net of accumulated depreciation), as compared to \$293,829,470 and \$283,879,654 as of December 31, 2005 and December 31, 2004, respectively. 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 mains and hydrants and buildings and structures.

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

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

| | 2006 | 2005 | Increase/(Decrease) | |
|--|-----------------------|-----------------------|---------------------|---------|
| | | | Dollars | Percent |
| Land | \$ 2,300,935 | \$ 2,300,935 | \$ - | - |
| Construction work in progress | <u>3,211,426</u> | <u>4,658,392</u> | <u>(1,446,966)</u> | (31.1) |
| Total capital assets, not being depreciated | <u>5,512,361</u> | <u>6,959,327</u> | <u>(1,446,966)</u> | (20.8) |
| Buildings and structures | 190,447,109 | 183,880,434 | 6,566,675 | 3.6 |
| Mains and hydrants | 200,260,413 | 194,409,658 | 5,850,755 | 3.0 |
| Equipment | 35,145,936 | 33,561,338 | 1,584,598 | 4.7 |
| Other | <u>44,585,384</u> | <u>42,818,879</u> | <u>1,766,505</u> | 4.1 |
| Total capital assets, being depreciated | <u>470,438,842</u> | <u>454,670,309</u> | <u>15,768,533</u> | 3.5 |
| Less accumulated depreciation | <u>176,933,716</u> | <u>167,800,166</u> | <u>9,133,550</u> | 5.4 |
| Total capital assets, being depreciated, net | <u>293,505,126</u> | <u>286,870,143</u> | <u>6,634,983</u> | 2.3 |
| Total capital assets | <u>\$ 299,017,487</u> | <u>\$ 293,829,470</u> | <u>\$ 5,188,017</u> | 1.8 |

| | 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 | <u>6,959,327</u> | <u>4,060,559</u> | <u>2,898,768</u> | 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 | <u>42,818,879</u> | <u>41,267,595</u> | <u>1,551,284</u> | 3.8 |
| Total capital assets, being depreciated | 454,670,309 | 438,704,631 | 15,965,678 | 3.6 |
| Less accumulated depreciation | <u>167,800,166</u> | <u>158,885,536</u> | <u>8,914,630</u> | 5.6 |
| Total capital assets, being depreciated, net | <u>286,870,143</u> | <u>279,819,095</u> | <u>7,051,048</u> | 2.5 |
| Total capital assets | <u>\$ 293,829,470</u> | <u>\$ 283,879,654</u> | <u>\$ 9,949,816</u> | 3.5 |

Debt Administration

At December 31, 2006, the Authority had \$75,664,253 in water revenue bond principal outstanding, as compared to \$79,507,273 and \$86,847,273 at December 31, 2005 and 2004. Long-term debt outstanding decreased \$3,843,020 during the year ended December 31, 2006, as compared to \$7,340,000 during the year ended December 31, 2005, as a result of making scheduled principal payments as follows:

| | 2006 | 2005 |
|----------------|--------------------|--------------------|
| Series 1992FR* | \$2,153,577 | \$ - |
| Series 1993FR* | - | 5,690,000 |
| Series 1998B | 360,000 | 345,000 |
| Series 1998D | 725,000 | 705,000 |
| Series 2003F | <u>604,443</u> | <u>600,000</u> |
| Total | <u>\$3,843,020</u> | <u>\$7,340,000</u> |

*Fourth Resolution

There were no principal payments on Series 1993A and Series 1993B during the years ended December 31, 2006 and 2005.

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. For remaining issuances, Series 1992FR, Series 1993A and Series 1993B were rated by the major credit rating agencies during 2006. These ratings do not take the related bond insurance into account. Standard and Poor's Rating Services rating is AA, Moody's Investors Services rating is A1 and Fitch Ratings rating for the Series 1992FR is AA- and the Series 1993A and Series 1993B are rated AA. The Series 1993FR was not rated since its final maturity was December 1, 2005. The non-Environmental Facilities Corporation bonds are all 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 sources of operating revenues are water sales to customers. These revenues result from rates charged based on water usage by the individual customer. Rates can be adjusted accordingly in order to help meet the expenses of the Authority. Tariff rates are shown below:

| Meters read and billed quarterly (To Nearest 1,000 Gallons) | | | |
|---|---------|---------|-------------------|
| | 2006 | 2007 | |
| First 300,000 gallons per quarter | \$ 2.70 | \$ 2.81 | per 1,000 gallons |
| Next 1,950,000 | 2.40 | 2.50 | per 1,000 gallons |
| Next 5,250,000 | 2.20 | 2.29 | per 1,000 gallons |
| Over 7,500,000 | 1.93 | 2.01 | per 1,000 gallons |

| Meters read and billed monthly (To Nearest 1,000 Gallons) | | | |
|---|---------|---------|-------------------|
| | 2006 | 2007 | |
| First 100,000 gallons per month | \$ 2.70 | \$ 2.81 | per 1,000 gallons |
| Next 650,000 | 2.40 | 2.50 | per 1,000 gallons |
| Next 1,750,000 | 2.20 | 2.29 | per 1,000 gallons |
| Over 2,500,000 | 1.93 | 2.01 | per 1,000 gallons |

| Size of Meter (inches) | Quarterly Minimum Charge (\$) | | Allowance per Quarter (gallons) | Monthly Minimum Charge (\$) | |
|---------------------------|-------------------------------|----------|------------------------------------|-----------------------------|----------|
| | 2006 | 2007 | | 2006 | 2007 |
| 5/8 | \$ 24.30 | \$ 25.29 | 9,000 | \$ 8.10 | \$ 8.43 |
| 3/4 | 32.40 | 33.72 | 12,000 | 10.80 | 11.24 |
| 1 | 56.70 | 59.01 | 21,000 | 18.90 | 19.67 |
| 1 1/4 | 72.90 | 75.87 | 27,000 | 24.30 | 25.29 |
| 1 1/2 | 105.30 | 109.59 | 39,000 | 35.10 | 36.53 |
| 2 | 170.10 | 177.03 | 63,000 | 56.70 | 59.01 |
| 3 | 324.00 | 337.20 | 120,000 | 108.00 | 112.40 |
| 4 | 534.60 | 556.38 | 198,000 | 178.20 | 185.46 |
| 6 | 1,026.00 | 1,068.00 | 390,000 | 342.00 | 356.00 |
| 8 | 1,602.00 | 1,668.00 | 630,000 | 534.00 | 556.00 |
| 10 | 2,250.00 | 2,343.00 | 900,000 | 750.00 | 781.00 |
| 12 | 3,042.00 | 3,168.00 | 1,230,000 | 1,014.00 | 1,056.00 |
| 20 | 6,744.00 | 7,023.30 | 2,820,000 | 2,248.00 | 2,341.10 |
| 24 | 8,988.00 | 9,359.00 | 3,840,000 | 2,996.00 | 3,119.70 |

For 2007, the Authority will impose a minimum charge of \$160.80 per hydrant per annum for lease managed districts and \$229.08 per hydrant per annum for direct service areas - the same amounts as 2006.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

| | December 31, | |
|--|---------------------|----------------|
| | 2006 | 2005 |
| ASSETS | | |
| Current assets: | | |
| Unrestricted cash and cash equivalents | \$ 29,252,926 | \$ 27,570,151 |
| Current investments | 1,858,050 | - |
| Customer accounts receivable, less allowance for doubtful accounts | 5,904,788 | 5,659,968 |
| Materials and supplies | 1,726,109 | 1,678,678 |
| Interest receivable and other assets | 2,729,503 | 2,394,175 |
| Total current assets | 41,471,376 | 37,302,972 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 15,516,546 | 16,644,478 |
| Long-term investment | 1,526,767 | 3,384,675 |
| Deferred charges | 1,103,411 | 1,233,730 |
| Capital assets, not being depreciated | 5,512,361 | 6,959,327 |
| Capital assets, being depreciated, net of accumulated depreciation | 293,505,126 | 286,870,143 |
| Total noncurrent assets | 317,164,211 | 315,092,353 |
| Total assets | 358,635,587 | 352,395,325 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 5,772,045 | 5,451,440 |
| Advances for construction | 259,086 | 405,959 |
| Construction retention | 264,741 | 511,205 |
| Interest and other accrued liabilities | 7,856,560 | 6,712,739 |
| Water revenue bonds - current portion | 3,904,497 | 3,843,020 |
| Total current liabilities | 18,056,929 | 16,924,363 |
| Noncurrent liabilities: | | |
| Compensated absences | 1,800,027 | 1,789,519 |
| Long-term interest payable | 216,620 | 2,981,207 |
| Water revenue bonds - long-term | 71,759,756 | 75,664,253 |
| Total noncurrent liabilities | 73,776,403 | 80,434,979 |
| Total liabilities | 91,833,332 | 97,359,342 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 220,035,389 | 208,606,705 |
| Restricted | 15,516,546 | 16,644,478 |
| Unrestricted | 31,250,320 | 29,784,800 |
| Total net assets | \$ 266,802,255 | \$ 255,035,983 |

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, | |
|--|--------------------------------|----------------|
| | 2006 | 2005 |
| Operating revenue | \$ 55,744,905 | \$ 54,238,666 |
| Operating expenses: | | |
| Operation and administration | 26,260,319 | 23,694,959 |
| Maintenance | 7,960,443 | 8,587,928 |
| Depreciation and amortization | 9,708,972 | 9,548,749 |
| Total operating expenses | 43,929,734 | 41,831,636 |
| Operating income | 11,815,171 | 12,407,030 |
| Nonoperating revenues (expenses): | | |
| Interest income | 2,498,889 | 1,796,187 |
| Interest capitalization during construction | 145,090 | 99,076 |
| Interest expense | (3,868,064) | (4,149,699) |
| Total nonoperating revenues (expenses) | (1,224,085) | (2,254,436) |
| Net income before contributions in aid of construction | 10,591,086 | 10,152,594 |
| Contributions in aid of construction | 1,175,186 | 1,489,097 |
| Change in net assets | 11,766,272 | 11,641,691 |
| Total net assets - beginning of year | 255,035,983 | 243,394,292 |
| Total net assets - end of year | \$ 266,802,255 | \$ 255,035,983 |

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, | |
|---|--------------------------------|----------------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 55,357,490 | \$ 53,432,651 |
| Payments to contractors | (13,727,182) | (11,989,143) |
| Payments to employees including fringe benefits | <u>(19,600,198)</u> | <u>(19,058,538)</u> |
| Net cash provided by operating activities | <u>22,030,110</u> | <u>22,384,970</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets, net | (15,013,134) | (18,987,106) |
| Principal paid on revenue bond maturities | (3,843,020) | (7,340,000) |
| Interest paid on revenue bonds, net of amount capitalized | (6,124,741) | (3,473,160) |
| Advances for construction | (146,873) | 32,029 |
| Contributions in aid of construction | <u>1,175,186</u> | <u>1,489,097</u> |
| Net cash used by capital and related financing activities | <u>(23,952,582)</u> | <u>(28,279,140)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investment securities | (2,223,178) | (565,679) |
| Proceeds from sale or maturity of investments | 2,223,036 | 2,258,703 |
| Interest received | <u>2,477,457</u> | <u>1,783,980</u> |
| Net cash provided (used) by investing activities | <u>2,477,315</u> | <u>3,477,004</u> |
| Net increase in cash | 554,843 | (2,417,166) |
| Cash and cash equivalents - beginning of year (including \$4,657,277, \$7,104,964 and \$4,882,237 for the future construction, debt service reserve and debt service funds, respectively, reported in restricted accounts) | <u>44,214,629</u> | <u>46,631,795</u> |
| Cash and cash equivalents - end of year (including \$5,110,840, \$7,155,197 and \$3,250,509 for the future construction, debt service reserve and debt service funds, respectively, reported in restricted accounts) | <u>\$ 44,769,472</u> | <u>\$ 44,214,629</u> |

(continued)

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

(concluded)

| | Year Ended December 31, | |
|---|--------------------------------|-----------------------------|
| | <u>2006</u> | <u>2005</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income | <u>\$ 11,815,171</u> | <u>\$ 12,407,030</u> |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 9,578,653 | 9,347,060 |
| Amortization expense | 130,319 | 201,689 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (244,820) | (965,482) |
| (Increase) decrease in material and supplies | (47,431) | (88,397) |
| (Increase) decrease in other assets | (313,896) | (64,463) |
| Increase (decrease) in accounts payable | 320,605 | 445,872 |
| Increase (decrease) in other accrued liabilities | 781,001 | 1,019,143 |
| Increase (decrease) in accrued retirement contribution | - | (41,481) |
| Increase (decrease) in accrued compensated absences | <u>10,508</u> | <u>123,999</u> |
| Total adjustments | <u>10,214,939</u> | <u>9,977,940</u> |
| Net cash provided (used) by operating activities | <u><u>\$22,030,110</u></u> | <u><u>\$ 22,384,970</u></u> |

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

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ERIE COUNTY WATER AUTHORITY
Notes to the Financial Statements
Years Ended December 31, 2006 and 2005

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 arrangements 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 Cattaraugus Indian Reservation 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. The Authority continues to add customers in the Towns of Aurora and Newstead.

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 interpretations 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 \$94,738 is a current liability, with the remaining \$1,800,027 as a long-term 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 and restricted 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 to 76 years; mains and hydrants, 64 to 100 years; equipment, 5 to 43 years; and other, 4 to 50 years. Depreciation expense approximated 2.1% of the original cost of average depreciable property for the years ended December 31, 2006 and 2005.

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 2006 and 2005, \$130,318 and \$201,689, 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, 2006 and 2005 totaled \$1,351,934 and \$1,410,343, 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, 2006 and 2005.

Reclassifications—Certain amounts relating to the financial statements as of and for the year ended December 31, 2005 have been reclassified in order to be consistent with the current year’s presentation.

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

Impacts of accounting pronouncements—The Authority has completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (“GASB”) Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*, effective for the year ending December 31, 2008 and GASB Statement No. 47, *Accounting for Termination Benefits*, effective for the year ending December 31, 2006. In regards to GASB Statement No. 45, the Authority has, for planning purposes, retained an actuarial firm to perform a valuation of its postretirement benefits as of December 31, 2006. See Note 7 for further discussion of the impact of GASB Statement No. 45. GASB Statement No. 47 did not have a material impact on the Authority’s financial position or results of operations. The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for the year ending December 31, 2007; and GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the year ended December 31, 2008. Therefore, the Authority is unable to disclose the impact that adopting GASB Statements 48 or 49 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, 2006 and 2005, the Authority had the following unrestricted cash and cash equivalents:

| | December 31, 2006 | | December 31, 2005 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| Unrestricted cash and cash equivalents: | | | | |
| Cash and cash equivalents | \$27,195,229 | \$27,195,229 | \$25,174,567 | \$25,174,567 |
| Discounted commercial paper | <u>2,046,558</u> | <u>2,057,697</u> | <u>2,389,963</u> | <u>2,395,584</u> |
| Total unrestricted cash and cash equivalents | <u>\$29,241,787</u> | <u>\$29,252,926</u> | <u>\$27,564,530</u> | <u>\$27,570,151</u> |

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, 2006 and 2005, the Authority had the following restricted cash and cash equivalents:

| | December 31, 2006 | | December 31, 2005 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| Restricted for future construction: | | | | |
| Cash and cash equivalents | \$ 5,110,840 | \$ 5,110,840 | \$ 4,657,277 | \$ 4,657,277 |
| Total restricted for future construction | <u>5,110,840</u> | <u>5,110,840</u> | <u>4,657,277</u> | <u>4,657,277</u> |
| Restricted for debt service reserve: | | | | |
| Cash and cash equivalents | 954,240 | 954,240 | 95,108 | 95,108 |
| U.S. Treasury securities | 3,267,116 | 3,267,116 | 3,267,116 | 3,267,116 |
| Commercial paper | 2,920,942 | 2,933,841 | 3,734,184 | 3,742,740 |
| Total restricted for debt service reserve | <u>7,142,298</u> | <u>7,155,197</u> | <u>7,096,408</u> | <u>7,104,964</u> |
| Restricted for debt service: | | | | |
| Cash and cash equivalents | 6,382 | 6,382 | 100,468 | 100,468 |
| U.S. Treasury securities | 3,234,605 | 3,244,127 | 4,772,526 | 4,781,769 |
| Total restricted debt service | <u>3,240,987</u> | <u>3,250,509</u> | <u>4,872,994</u> | <u>4,882,237</u> |
| Total restricted cash and cash equivalents | <u>\$15,494,125</u> | <u>\$15,516,546</u> | <u>\$16,626,679</u> | <u>\$16,644,478</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, 2006 and 2005, 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.

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

Investments—During the year ended December 31, 2006, the Authority began to invest in securities with three to twelve month maturities. As of December 31, 2006, the Authority had the following investments:

| | <u>December 31, 2006</u> | |
|-------------------|--------------------------|---------------------|
| | <u>Amortized</u> | <u>Market</u> |
| | <u>Cost</u> | <u>Value</u> |
| Investments: | | |
| Commercial paper | <u>\$ 1,852,001</u> | <u>\$ 1,858,050</u> |
| Total investments | <u>\$ 1,852,001</u> | <u>\$ 1,858,050</u> |

Credit ratings—The Authority has commercial paper investments with GE Capital Corporation maturing January 12, 2007; Chevron Fund Corporation maturing February 27, 2007; Prudential Funding Corporation maturing May 25, 2007; and HSBC Finance Corporation maturing March 20, 2007 and June 18, 2007. All of these investments have an S&P credit rating of A-1+ and a Moody’s credit rating of P-1.

Long-term investment—During 1990, the Authority entered into a zero coupon bond agreement which requires the Authority to make monthly deposits into an investment account through December 2008. During 1997, the Board established a policy that all earnings and proceeds to be distributed in conformance with the agreement shall be deposited into the capital fund to be used solely for future capital expenditures. At December 31, 2006 and 2005, the zero coupon bond investment balance is \$1,526,767 and \$3,384,675, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately \$49,000. The second year and final year will be approximately \$21,000. On December 1, 2006, the Authority received \$2,229,086 as the seventh 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 is \$974,134 and \$787,644 in 2007 and 2008, respectively.

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 \$100, has a receivable that is 90 days or greater in arrears and has no current collections activity. The collection letter indicates that the customer could be subject to the 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. In agreements with lease managed water districts, unpaid water bills are referred to municipalities for inclusion on tax bills. 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, 2006 and 2005 total \$339,293 and \$467,535, respectively.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

| | Balance 1/1/2006 | Additions | Deletions | Balance 12/31/2006 |
|---|-----------------------|----------------------|------------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,300,935 | \$ - | \$ - | \$ 2,300,935 |
| Construction work in progress | 4,658,392 | 15,182,443 | (16,629,409) | 3,211,426 |
| Total capital assets, not being depreciated | <u>6,959,327</u> | <u>15,182,443</u> | <u>(16,629,409)</u> | <u>5,512,361</u> |
| Capital assets in service, being depreciated: | | | | |
| Buildings and structures | 183,880,434 | 6,566,676 | - | 190,447,110 |
| Mains and hydrants | 194,409,658 | 5,917,420 | (66,666) | 200,260,412 |
| Equipment | 33,561,338 | 2,398,876 | (814,278) | 35,145,936 |
| Other | 42,818,879 | 1,766,505 | - | 44,585,384 |
| Total capital assets, being depreciated | <u>454,670,309</u> | <u>16,649,477</u> | <u>(880,944)</u> | <u>470,438,842</u> |
| Less accumulated depreciation: | | | | |
| Buildings and structures | 84,035,244 | 4,593,679 | - | 88,628,923 |
| Mains and hydrants | 40,707,424 | 1,911,974 | (74,323) | 42,545,075 |
| Equipment | 17,997,017 | 1,925,546 | (370,780) | 19,551,783 |
| Other | 25,060,481 | 1,147,454 | - | 26,207,935 |
| Total accumulated depreciation | <u>167,800,166</u> | <u>9,578,653</u> | <u>(445,103)</u> | <u>176,933,716</u> |
| Total capital assets being depreciated, net | <u>286,870,143</u> | <u>7,070,824</u> | <u>(435,841)</u> | <u>293,505,126</u> |
| Total capital assets, net | <u>\$ 293,829,470</u> | <u>\$ 22,253,267</u> | <u>\$ (17,065,250)</u> | <u>\$ 299,017,487</u> |

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 | 1,859,624 | 18,042,300 | (15,243,532) | 4,658,392 |
| Total capital assets, not being depreciated | <u>4,060,559</u> | <u>18,142,300</u> | <u>(15,243,532)</u> | <u>6,959,327</u> |
| 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 | 41,267,595 | 1,558,438 | (7,154) | 42,818,879 |
| Total capital assets, being depreciated | <u>438,704,631</u> | <u>16,609,593</u> | <u>(643,915)</u> | <u>454,670,309</u> |
| 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 | 23,951,735 | 1,115,900 | (7,154) | 25,060,481 |
| 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> |

Depreciation expense for the years ended December 31, 2006 and 2005 totaled \$9,578,653 and \$9,347,060, 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, 2006:

| Series | Final Annual Installment Payment Due | Year of Earliest Principal Payment | Interest Rate | Original Issue | Principal Outstanding 12/31/2006 |
|---------------|--|--|------------------|-------------------|--|
| Series 1992FR | 6/1/2008 | 2006 | 6.20-6.30% | \$ 50,269,710 | \$ 2,319,253 |
| 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 | 4,840,000 |
| Series 1998D | 10/15/2019 | 2000 | 3.90-5.15% (*) | 16,859,700 | 12,210,000 |
| Series 2003F | 7/15/2023 | 2004 | 0.79-4.50% (*) | 15,544,443 | 13,795,000 |
| | | | | | <u>75,664,253</u> |
| | | Less portion due within one year | | | <u>(3,904,497)</u> |
| | | | | | <u>\$ 71,759,756</u> |

(*) 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 1993FR Bonds (final principal payment made in December 2005) 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 \$3,635,747 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 3.84% at December 31, 2006 for the Series 1993A and 1993B and 3.45% at December 31, 2005 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 \$3,718,970 and \$2,587,400 for the Series 1993A and 1993B, respectively, as of December 31, 2006. These values have been prepared based on market rates at the close of business on December 31, 2006. 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, 2006, 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 the current rate of 3.84% on December 31, 2006, 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 |
|----------------------------|---------------------|---------------------|--------------------|---------------------|
| 2007 | \$ - | \$ 1,632,000 | \$ 692,500 | \$ 2,324,500 |
| 2008 | - | 1,632,000 | 692,500 | 2,324,500 |
| 2009 | 4,300,000 | 1,632,000 | 692,500 | 6,624,500 |
| 2010 | 4,600,000 | 1,466,880 | 622,550 | 6,689,430 |
| 2011 | 4,900,000 | 1,290,240 | 547,750 | 6,737,990 |
| 2012-2016 | <u>28,700,000</u> | <u>3,432,960</u> | <u>1,458,950</u> | <u>33,591,910</u> |
| Total | <u>\$42,500,000</u> | <u>\$11,086,080</u> | <u>\$4,706,750</u> | <u>\$58,292,830</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:

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

The bonds bear 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:

| <u>Description</u> | <u>Amount</u> |
|---|----------------------|
| Town of Lancaster pump station | \$ 2,005,360 |
| Harris Hill pump station & main construction | 4,826,239 |
| City of Tonawanda - meters, transmission main, pump station & tank | 7,158,404 |
| Debt service reserve 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 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 \$23,598,222 at December 31, 2006 with maturities ranging from the year 2007 to the year 2014.

In December 1998, the Authority paid \$7,701,125 to discharge principal and accrued interest on the Series 1992 Bond Issue due December 1, 2017.

In November 1999, the Authority defeased a portion of the 1993 Fourth Resolution Taxable Bonds. Available cash of \$13,684,547 was deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased portion of the 1993 Fourth Resolution Taxable Bonds as they mature. This transaction effectively released the Authority from its obligation to repay the defeased portion of the Series 1993 Fourth Resolution Bonds and constituted an in-substance defeasance. 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 \$312,464 at December 31, 2006. The final maturity of these bonds will be December 31, 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 |
|-------------------------------------|---------------------|-------------------------------------|-------------------------------------|---------------------|
| 2007 | \$ 3,904,497 | \$ 3,101,226 | \$ 94,738 | \$ 7,100,461 |
| 2008 | 1,929,756 | 216,620 | - | 2,146,376 |
| 2009 | 6,125,000 | - | - | 6,125,000 |
| 2010 | 6,470,000 | - | - | 6,470,000 |
| 2011 | 6,825,000 | - | - | 6,825,000 |
| 2012-2016 | 39,310,000 | - | - | 39,310,000 |
| 2017-2021 | 7,815,000 | - | - | 7,815,000 |
| 2022-2023 | 3,285,000 | - | - | 3,285,000 |
| Various years | - | - | 1,800,027 | 1,800,027 |
| | <u>75,664,253</u> | <u>3,317,846</u> | <u>1,894,765</u> | <u>80,876,864</u> |
| Less portion due within one year | <u>3,904,497</u> | <u>3,101,226</u> | <u>94,738</u> | <u>7,100,461</u> |
| | <u>\$71,759,756</u> | <u>\$ 216,620</u> | <u>\$1,800,027</u> | <u>\$73,776,403</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> |
|-------------------------------------|--|
| 2007 | \$ 3,668,058 |
| 2008 | 3,607,215 |
| 2009 | 3,541,734 |
| 2010 | 3,236,181 |
| 2011 | 2,908,528 |
| 2012-2016 | 8,933,905 |
| 2017-2021 | 1,623,944 |
| 2022-2023 | <u>256,782</u> |
| | 27,776,347 |
| Less portion due within one year | <u>3,668,058</u> |
| | <u>\$ 24,108,289</u> |

Compensated Absences—as explained in Note 1, the Authority records the value of compensated absences. The Authority provides funds for these benefits as they become payable. The value recorded in the statements of net assets at December 31, 2006 is \$1,894,765, as compared to \$1,883,704 at December 31, 2005. At December 31, 2006 management estimates \$94,738 is a current liability, as compared to \$94,185 at December 31, 2005. 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, 2006:

| | <u>Balance 1/1/2006</u> | <u>Additions and Appreciation</u> | <u>Deletions</u> | <u>Balance 12/31/2006</u> |
|-------------------------------|-----------------------------|---------------------------------------|-----------------------|-------------------------------|
| Series 1992FR | \$ 4,472,830 | \$ - | \$ (2,153,577) | \$ 2,319,253 |
| Series 1993A | 27,500,000 | - | - | 27,500,000 |
| Series 1993B | 15,000,000 | - | - | 15,000,000 |
| Series 1998B | 5,200,000 | - | (360,000) | 4,840,000 |
| Series 1998D | 12,935,000 | - | (725,000) | 12,210,000 |
| Series 2003F | <u>14,399,443</u> | <u>-</u> | <u>(604,443)</u> | <u>13,795,000</u> |
| Total bonds payable | 79,507,273 | - | (3,843,020) | 75,664,253 |
| Capital appreciation interest | 5,715,492 | 598,776 | (2,996,422) | 3,317,846 |
| Accrued compensated absences | <u>1,883,704</u> | <u>378,367</u> | <u>(367,306)</u> | <u>1,894,765</u> |
| Total long-term debt | <u>\$ 87,106,469</u> | <u>\$ 977,143</u> | <u>\$ (7,206,748)</u> | <u>\$ 80,876,864</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 \$1,329,422, \$1,572,051, and \$1,809,405 in 2006, 2005 and 2004, 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 currently recognizes the cost of providing health care benefits to retired employees by expensing the annual premiums, which totaled \$780,956 and 770,920 for 2006 and 2005, respectively. There were 106 and 99 retirees receiving health care benefits, at December 31, 2006 and December 31, 2005.

Based on current revenues, the Authority is not required to implement Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("OPEB"), until the year ended December 31, 2008. However, for planning purposes the Authority retained a consulting group to perform an actuarial valuation of its postretirement benefits. The result was an actuarial accrued liability of \$41,426,643, an annual OPEB cost of \$4,080,840 with employer contributions of \$1,036,829 for a net OPEB obligation of \$3,044,011 at December 31, 2006, which is not included within the Authority's Statement of Net Assets.

8. LABOR RELATIONS

Certain Authority employees are represented by two bargaining units, American Federation of State, County and Municipal Employees (“AFSCME”) and Civil Service Employees Association, Inc. (“CSEA”). Both the CSEA and the AFSCME have contracts settled through 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, 2006 and 2005 net assets were restricted for the following purposes:

| | December 31, | |
|----------------------------------|---------------------|---------------------|
| | 2006 | 2005 |
| Future Construction Reserve Fund | \$ 5,110,840 | \$ 4,657,277 |
| Debt Service Reserve Fund | 7,155,197 | 7,104,964 |
| Debt Service Fund | 3,250,509 | 4,882,237 |
| | <u>\$15,516,546</u> | <u>\$16,644,478</u> |

- **Future Construction Reserve Fund**—The Future Construction Reserve Fund is used for committed funding for future capital expenditures. In 2005 the excess proceeds for the 2003F bonds 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 2006 and 2005 aggregated \$290,962 and \$297,088, 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.

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STATISTICAL SECTION

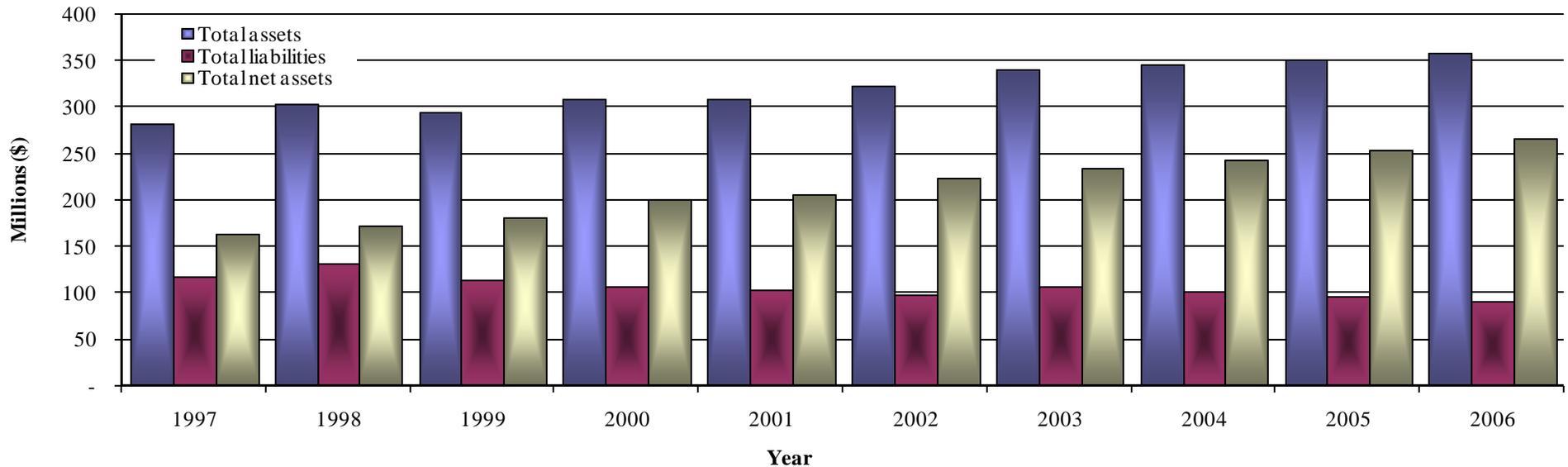
(UNAUDITED)

This section 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 | 44 |
| <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 | 49 |
| <i>These schedules contain information to help the reader assess the Authority’s most significant revenue source – water sales.</i> | |
| Debt Capacity | 52 |
| <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 | 54 |
| <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 Statement of Net Assets
Last Ten Fiscal Years

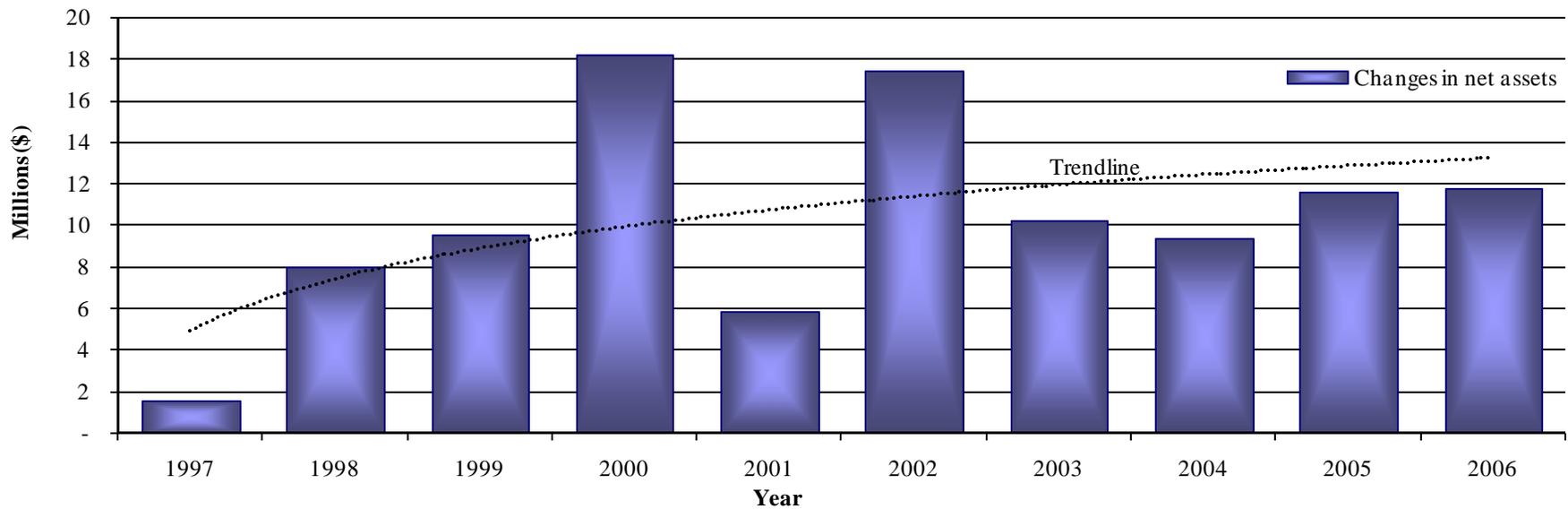
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current assets | \$ 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 | \$ 41,471,376 |
| Noncurrent assets | 252,505,744 | 265,771,498 | 263,724,021 | 276,261,656 | 275,773,688 | 284,872,862 | 308,317,224 | 310,285,279 | 315,092,353 | 317,164,211 |
| Total assets | 283,173,824 | 304,366,271 | 295,891,686 | 308,553,265 | 309,875,478 | 322,643,593 | 342,021,479 | 345,626,839 | 352,395,325 | 358,635,587 |
| Current liabilities | 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 | 18,056,929 |
| Noncurrent liabilities | 106,436,537 | 118,903,239 | 101,903,657 | 93,614,150 | 88,843,783 | 83,817,621 | 93,016,537 | 86,282,231 | 80,434,979 | 73,776,403 |
| Total liabilities | 118,384,350 | 131,590,285 | 113,613,357 | 108,055,270 | 103,483,941 | 98,825,047 | 107,957,185 | 102,232,547 | 97,359,342 | 91,833,332 |
| Invested in capital assets, net of related debt | 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 | 220,035,389 |
| Restricted | 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 | 15,516,546 |
| Unrestricted | 8,604,609 | 5,564,983 | 12,957,872 | 22,211,113 | 24,130,591 | 32,522,368 | 31,618,422 | 31,578,842 | 29,784,800 | 31,250,320 |
| Total net assets | \$ 164,789,474 | \$ 172,775,986 | \$ 182,278,329 | \$ 200,497,995 | \$ 206,391,537 | \$ 223,818,546 | \$ 234,064,294 | \$ 243,394,292 | \$ 255,035,983 | \$ 266,802,255 |



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Changes in Net Assets
Last Ten Fiscal Years

| | <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> | <u>2006</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating revenue | \$ 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 | \$ 55,744,905 |
| Operating expenses | <u>33,501,630</u> | <u>33,314,952</u> | <u>34,039,368</u> | <u>34,554,244</u> | <u>37,954,241</u> | <u>37,318,985</u> | <u>37,204,461</u> | <u>39,654,104</u> | <u>41,831,636</u> | <u>43,929,734</u> |
| Operating income | 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 | 11,815,171 |
| Nonoperating revenues (expenses) | (6,610,167) | (2,825,410) | (2,770,080) | (2,423,233) | (2,825,164) | (2,791,602) | (3,047,463) | (3,169,326) | (2,254,436) | (1,224,085) |
| Net income before contributions in aid of construction | 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 | 10,591,086 |
| Contributions in aid of construction | <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> | <u>1,175,186</u> |
| Change in net assets | 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 | 11,766,272 |
| Total net assets - beginning 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> |
| Total net assets - end of year | <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> | <u>\$ 266,802,255</u> |

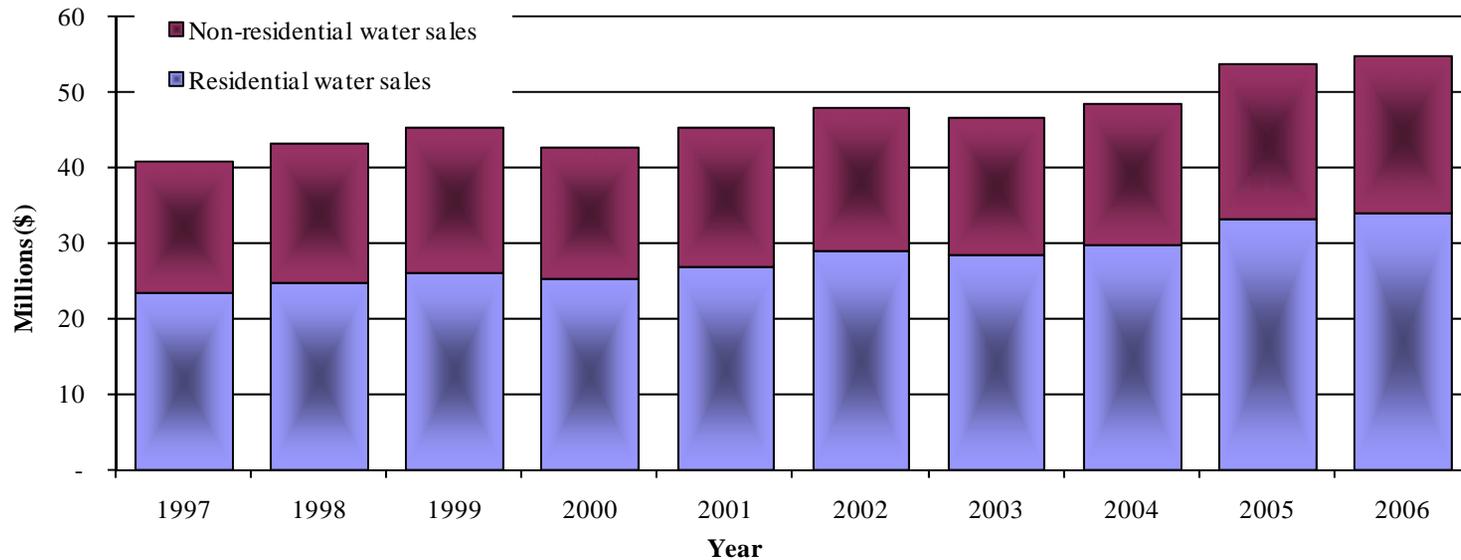


(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Operating Revenue by Source
Last Ten Fiscal Years

| | <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> | <u>2006</u> |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Water sales | | | | | | | | | | |
| Residential | \$ 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 | \$ 33,915,574 |
| Commercial | 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 | 6,845,706 |
| Industrial | 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 | 1,825,446 |
| Public authorities | 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 | 2,033,007 |
| Fire protection | 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 | 3,718,934 |
| Sales to other utilities | 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 | 4,690,210 |
| Other water revenue | <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> | <u>1,801,691</u> |
| Total water sales | 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 | 54,830,568 |
| Rents from water towers | 54,250 | 71,361 | 83,113 | 132,667 | 159,614 | 299,550 | 326,573 | 353,887 | 419,872 | 446,806 |
| Other operating revenue | <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> | <u>467,531</u> |
| Total operating revenue | <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> | <u>\$ 55,744,905</u> |

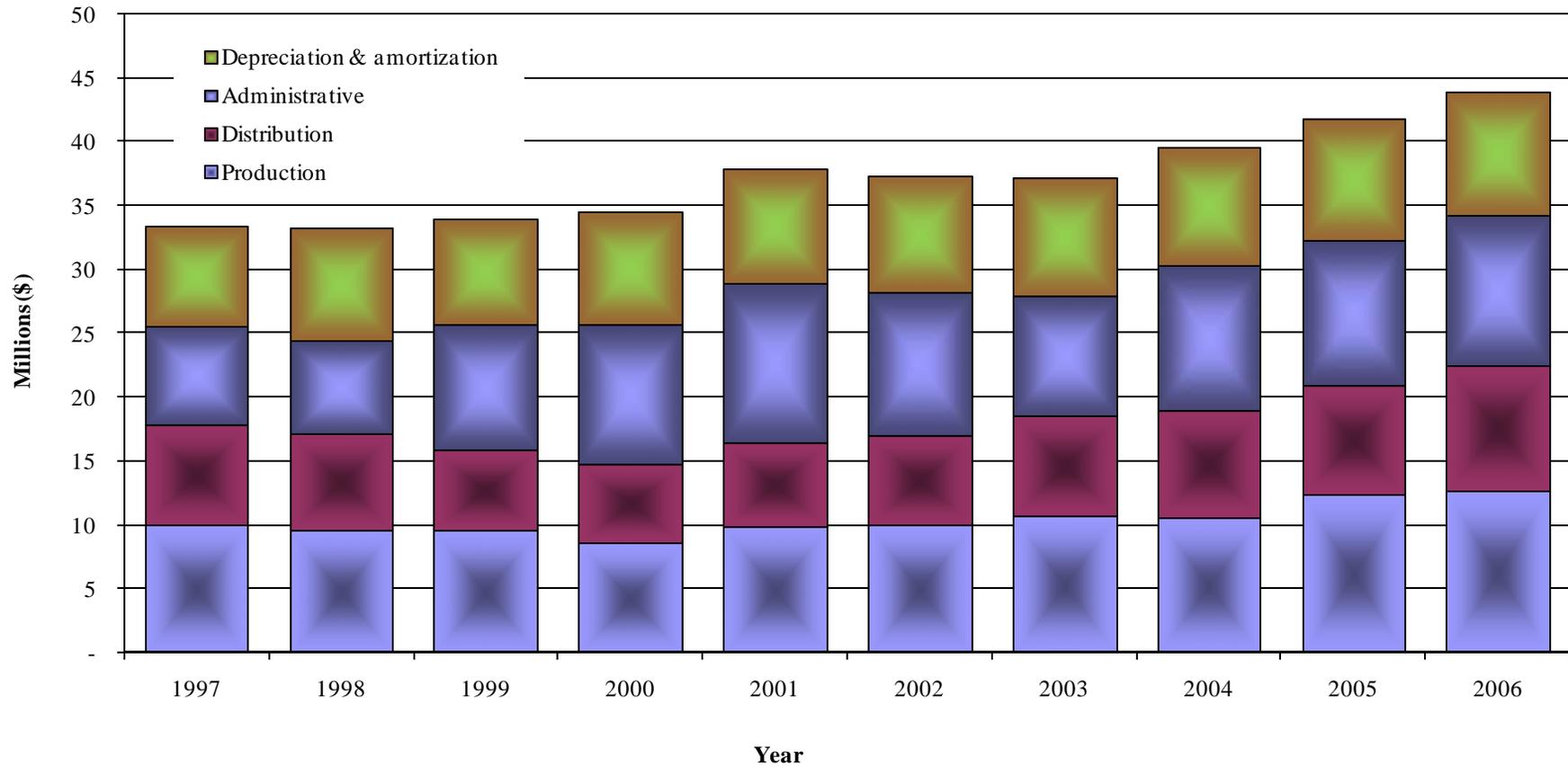
Water sales as a percent of total operating revenue 99.6% 99.5% 99.0% 99.5% 99.6% 99.3% 99.2% 99.2% 99.2% 98.4%



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Operating Expenses
Last Ten Fiscal Years

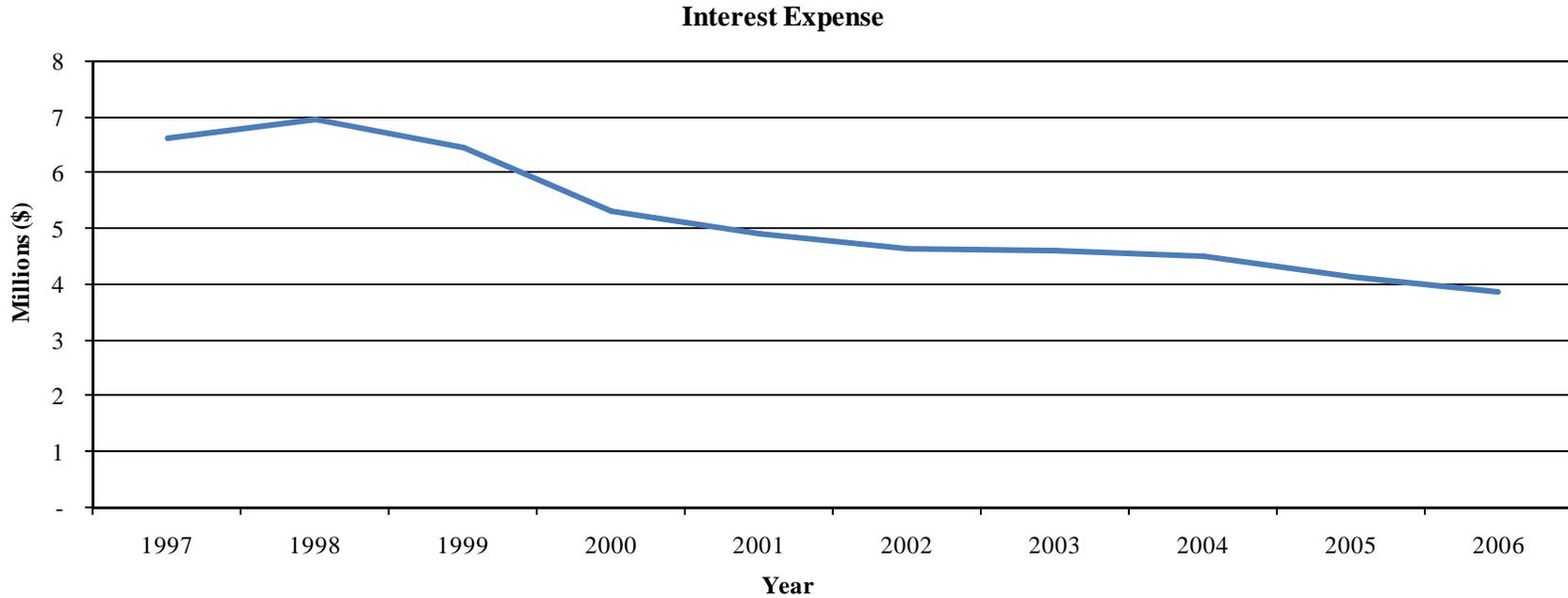
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Production | \$ 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 | \$ 12,721,482 |
| Distribution | 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 | 9,822,375 |
| Administrative | 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 | 11,676,905 |
| Depreciation & amortization | 7,843,688 | 8,823,046 | 8,235,361 | 8,793,168 | 9,061,901 | 9,111,962 | 9,168,087 | 9,331,552 | 9,548,749 | 9,708,972 |
| Total operating expenses | \$ 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 | \$ 43,929,734 |



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
 Nonoperating Revenue (Expenses)
 Last Ten Fiscal Years

| | <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> | <u>2006</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Nonoperating revenues (expenses) | | | | | | | | | | |
| Interest expense | \$(6,624,267) | \$(6,969,257) | \$(6,466,867) | \$(5,327,781) | \$(4,911,337) | \$(4,657,045) | \$(4,605,235) | \$(4,501,527) | \$(4,149,699) | \$(3,868,064) |
| Interest revenue | 2,836,652 | 3,412,895 | 3,026,633 | 2,886,249 | 2,046,764 | 1,803,904 | 1,191,949 | 1,188,823 | 1,796,187 | 2,498,889 |
| Interest capitalized during construction | 251,216 | 420,866 | 670,154 | 18,299 | 39,409 | 61,539 | 365,823 | 143,378 | 99,076 | 145,090 |
| Other nonoperating revenue (expenses) | <u>(3,073,768)</u> | <u>310,086</u> | <u>-</u> |
| Nonoperating revenues (expenses) | <u><u>\$(6,610,167)</u></u> | <u><u>\$(2,825,410)</u></u> | <u><u>\$(2,770,080)</u></u> | <u><u>\$(2,423,233)</u></u> | <u><u>\$(2,825,164)</u></u> | <u><u>\$(2,791,602)</u></u> | <u><u>\$(3,047,463)</u></u> | <u><u>\$(3,169,326)</u></u> | <u><u>\$(2,254,436)</u></u> | <u><u>\$(1,224,085)</u></u> |

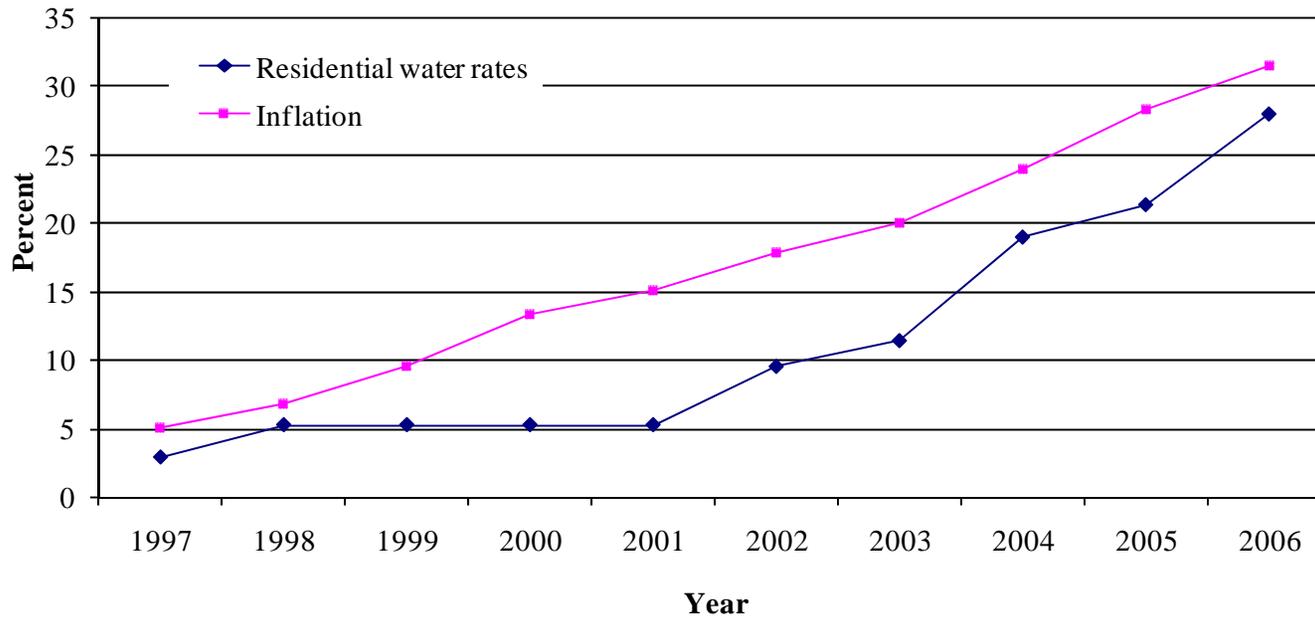


(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Residential Water Rate History
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> | <u>2006</u> | |
|-------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| | (Base Year) | | | | | | | | | | | |
| Residential water rate | \$ 2.11 | \$ 2.17 | \$ 2.22 | \$ 2.22 | \$ 2.22 | \$ 2.22 | \$ 2.31 | \$ 2.35 | \$ 2.51 | \$ 2.56 | \$ 2.70 | |
| Percentage increase (%) | - | 2.84 | 2.30 | - | - | - | 4.05 | 1.73 | 6.81 | 1.99 | 5.47 | |
| Cumulative increase (%) | - | 2.84 | 5.21 | 5.21 | 5.21 | 5.21 | 9.47 | 11.36 | 18.94 | 21.31 | 27.95 | |
| Inflation rate (%) | 3.32 | 1.70 | 1.61 | 2.68 | 3.39 | 1.55 | 2.38 | 1.88 | 3.26 | 3.42 | 2.54 | |
| Cumulative increase (%) | - | 5.08 | 6.77 | 9.63 | 13.35 | 15.11 | 17.85 | 20.07 | 23.98 | 28.22 | 31.48 | |

Cumulative Rate Change vs. Inflation



(Source: Erie County Water Authority Tariff and www.InflationData.com rates as of December 31)

ERIE COUNTY WATER AUTHORITY
 Ten Largest Customers
 Current Year and Nine Years Ago

| <u>Year End December 31, 2006</u> | | <u>Year End December 31, 1997</u> | |
|---|--------------------|--|--------------------|
| <u>Non-Municipal Customers</u> | | <u>Non-Municipal Customers</u> | |
| International Steel | \$ 556,469 | State University of NY at Buffalo | \$ 330,320 |
| State University of NY at Buffalo | 489,193 | Benderson Development Co. | 190,168 |
| Developers Diversified | 267,090 | Seneca Nation of Indians | 123,547 |
| Seneca Nation of Indians | 242,653 | Ford Motor Co. | 102,069 |
| Benderson Development Co. | 192,617 | Ahold Financial Services | 98,419 |
| Upstate Farms Cooperative | 182,027 | Delta Sonic | 95,603 |
| Rosina Food Products Inc. | 143,114 | West Seneca Developmental Center | 87,482 |
| Republic Engineered Products | 140,051 | ITT Heat Transfer | 81,304 |
| Mayer Bros Apple Prod Inc. | 137,550 | NYS Department of Corrections | 77,802 |
| Niagara Frontier Transportation Authority | 113,791 | Ellenburg Capital Corp. | 73,618 |
| Total of Largest Non-Municipal Customers | <u>\$2,464,555</u> | Total of Largest Non-Municipal Customers | <u>\$1,260,332</u> |
| Percent of total billings | 4.5% | Percent of total billings | 3.1% |
| <u>Municipal Customers</u> | | <u>Municipal Customers</u> | |
| Town of Elma | \$1,118,341 | Town of Clarence* | \$1,372,273 |
| Town of Evans | 855,394 | Town of Elma | 816,568 |
| Village of East Aurora | 474,905 | Town of Evans | 736,857 |
| Village of Williamsville | 464,153 | Village of Lancaster* | 728,585 |
| Village of Angola | 311,054 | Village of East Aurora | 411,916 |
| Village of Blasdell | 286,644 | Village of Williamsville | 396,713 |
| Buffalo Water Board | 227,777 | Village of Orchard Park | 336,186 |
| Monroe County Water Authority | 210,996 | Village of Depew* | 292,225 |
| Village of Orchard Park | 206,875 | Village of Blasdell | 242,618 |
| Village of Silver Creek | 197,064 | Village of Angola | 237,241 |
| Total of Largest Municipal Customers | <u>\$4,353,203</u> | Total of Largest Municipal Customers | <u>\$5,571,182</u> |
| Percent of total billings | 7.9% | Percent of total billings | 13.6% |

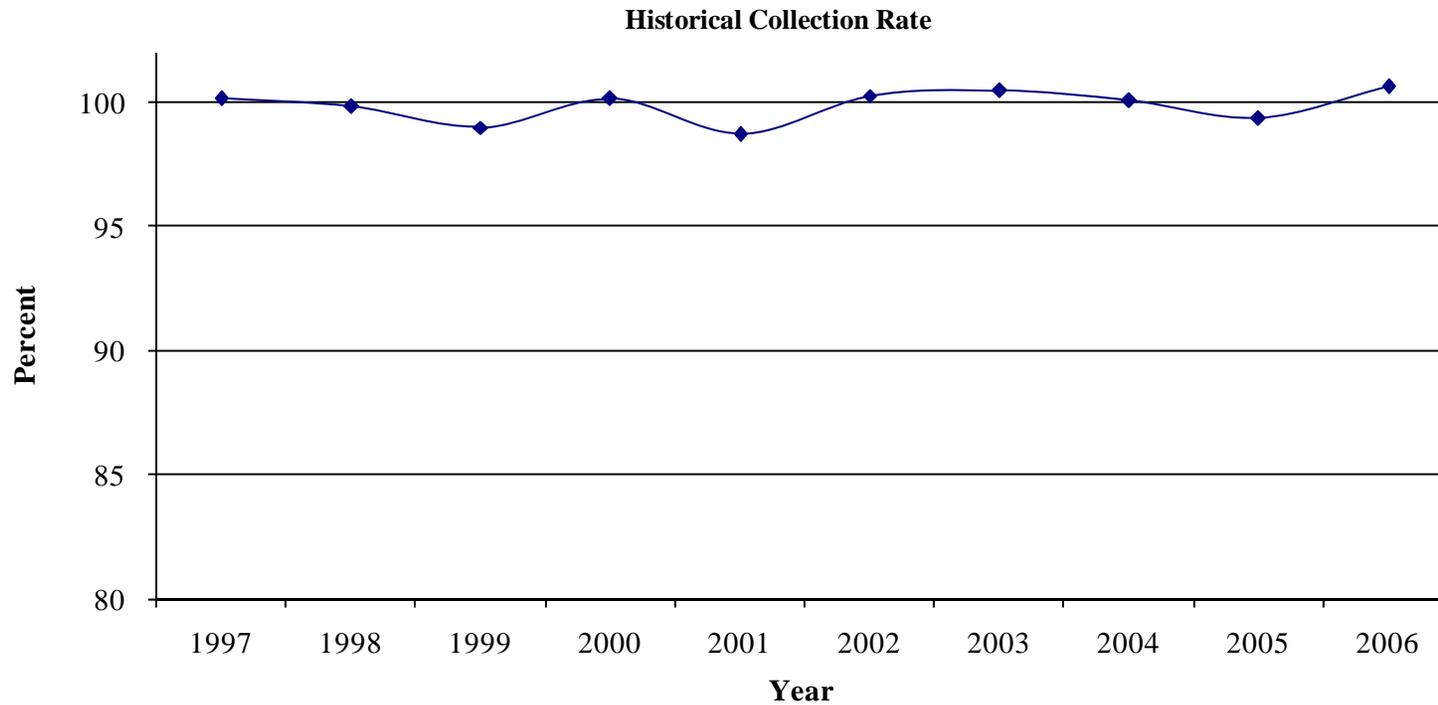
* These municipalities converted from bulk sale to direct service customers between 1997 and 2006

(Source: Authority Business Office Records)

ERIE COUNTY WATER AUTHORITY
Collection Rates
Last Ten Years

| | <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> | <u>2006</u> |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total billings | \$ 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 | \$ 55,170,872 |
| Collections* | \$ 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 | \$ 55,498,138 |
| Collection rate (%) | 100.14 | 99.80 | 98.98 | 100.15 | 98.72 | 100.26 | 100.45 | 100.05 | 99.36 | 100.59 |

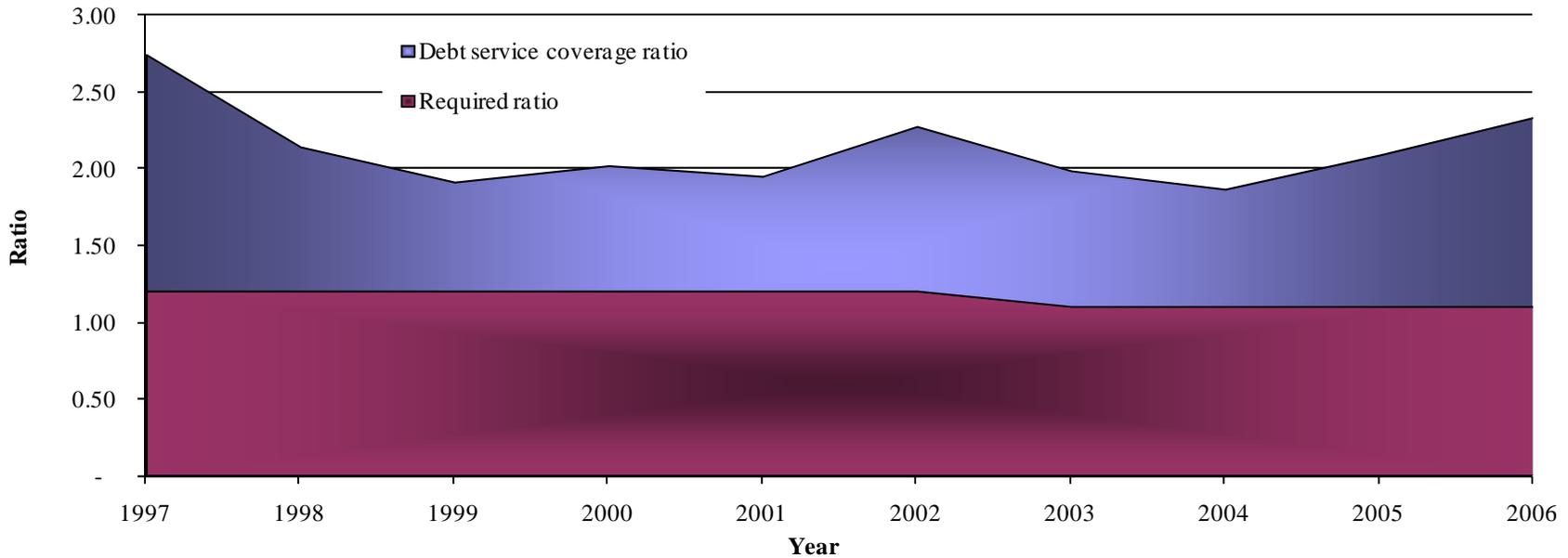
*collections include collections of current year billings and prior year billings



(Source: Authority Financial and Business Office Records)

ERIE COUNTY WATER AUTHORITY
Ratios of Outstanding Debt
Last Ten Years

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating revenue | \$ 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 | \$ 55,744,905 |
| Interest income | 2,816,769 | 3,254,455 | 3,062,429 | 2,886,249 | 2,054,934 | 1,810,853 | 1,191,949 | 1,188,823 | 1,796,186 | 2,498,889 |
| Operating expense less depreciation & amortization | (25,657,942) | (24,491,905) | (25,804,007) | (25,761,076) | (28,892,340) | (28,207,023) | (28,036,374) | (30,322,552) | (32,282,887) | (34,220,762) |
| Net revenue | \$ 18,248,057 | \$ 22,223,402 | \$ 23,047,342 | \$ 20,139,150 | \$ 18,796,222 | \$ 21,966,217 | \$ 20,229,117 | \$ 19,848,793 | \$ 23,751,965 | \$ 24,023,032 |
| Debt service | \$ 6,657,600 | \$ 10,382,163 | \$ 12,058,831 | \$ 9,979,103 | \$ 9,644,694 | \$ 9,661,533 | \$ 10,190,804 | \$ 10,642,769 | \$ 11,379,335 | \$ 10,301,745 |
| Debt service coverage ratio | 2.74 | 2.14 | 1.91 | 2.02 | 1.95 | 2.27 | 1.99 | 1.87 | 2.09 | 2.33 |
| Total outstanding debt | \$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 | \$106,758,447 |
| Outstanding debt per customer | \$ 1,468 | \$ 1,522 | \$ 1,201 | \$ 1,078 | \$ 997 | \$ 916 | \$ 968 | \$ 841 | \$ 755 | \$ 682 |



(Source: Authority Financial Records)

ERIE COUNTY WATER AUTHORITY
Debt Maturity Schedule

| | <u>Issued Directly by the Authority</u> | | | | <u>Issued Through EFC Financings</u> | | Total Principal & Interest |
|--------------|---|----------------------------|---|-----------------------------|--------------------------------------|-----------------------------|----------------------------------|
| | Capital Appreciation Bonds* | | Variable Weekly & Current Interest Bonds | | Serial Bonds | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2007 | \$ 2,169,497 | \$ 3,101,226 | \$ - | \$ 2,324,500 | \$ 1,735,000 | \$ 1,343,558 | \$ 10,673,781 |
| 2008 | 149,756 | 216,620 | - | 2,324,500 | 1,780,000 | 1,282,715 | 5,753,591 |
| 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>\$ 2,319,253</u> | <u>\$ 3,317,846</u> | <u>\$ 42,500,000</u> | <u>\$ 15,792,830</u> | <u>\$ 30,845,000</u> | <u>\$ 11,983,518</u> | <u>\$ 106,758,447</u> |

* Capital appreciation bonds reflect balances as of 12/31/2006. Interest accretion will continue as the bonds approach maturity.

| | <u>Principal Outstanding by Issue</u> | | | | | | |
|--------------|---------------------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Series 1992FR | Series 1993A | Series 1993B | Series 1998B | Series 1998D | Series 2003F | Total |
| 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 |
| 2010-2014 | - | 16,700,000 | 9,000,000 | 2,180,000 | 4,465,000 | 3,300,000 | 35,645,000 |
| 2015-2019 | - | 8,000,000 | 4,500,000 | 1,515,000 | 5,415,000 | 3,710,000 | 23,140,000 |
| 2020-2023 | - | - | - | - | - | 4,920,000 | 4,920,000 |
| Total | <u>\$ 2,319,253</u> | <u>\$ 27,500,000</u> | <u>\$ 15,000,000</u> | <u>\$ 4,840,000</u> | <u>\$ 12,210,000</u> | <u>\$ 13,795,000</u> | <u>\$ 75,664,253</u> |

(Source: Official Statements from Bond Issues)

ERIE COUNTY WATER AUTHORITY
Demographic and Economic Statistics
Last Ten Years

| | Erie County | | | Unemployment Rate ¹ | | Labor Force ¹ |
|------|-------------------------|--------------------------------|-------------------------------|--------------------------------|----------------|--------------------------|
| | Population ² | Per Capita Income ³ | Aggregate Income ⁴ | Erie County | New York State | |
| 1997 | 963,040 | \$ 24,200 | n/a | 5.2% | 5.8% | 585,252 |
| 1998 | 956,578 | 25,462 | n/a | 4.8% | 5.1% | 579,123 |
| 1999 | 952,546 | 26,343 | n/a | 4.7% | 4.5% | 574,198 |
| 2000 | 949,398 | 27,837 | \$ 19,181,203,026 | 4.2% | 4.1% | 574,284 |
| 2001 | 945,540 | 28,448 | 19,459,796,053 | 5.7% | 6.0% | 572,109 |
| 2002 | 941,707 | 29,117 | 19,348,895,930 | 5.6% | 6.3% | 582,911 |
| 2003 | 938,847 | 30,214 | 20,807,948,091 | 5.9% | 6.0% | 585,535 |
| 2004 | 934,653 | 31,935 | 20,743,073,400 | 5.6% | 5.2% | 588,620 |
| 2005 | 928,215 | n/a | 21,396,921,200 | 5.1% | 4.8% | 587,588 |
| 2006 | 921,390 | n/a | n/a | 4.5% | 3.8% | 581,856 |

(n/a: not available)

Sources:

¹US Department of Labor - Bureau of Labor Statistics

²US Bureau of the Census

³US Bureau of Economic Analysis

⁴US Bureau of the Census - American Community Survey

ERIE COUNTY WATER AUTHORITY
Largest Employers in Western New York
Last Ten Years

| Employer | 2006 | | | 1997 | | |
|--|---------------|---------------------------------|------|---------------|---------------------------------|------|
| | Employees | Percentage of Total Labor Force | Rank | Employees | Percentage of Total Labor Force | Rank |
| State of New York | 16,655 | 2.9% | 1 | 18,643 | 3.2% | 1 |
| United States of America | 10,000 | 1.7% | 2 | 13,000 | 2.2% | 2 |
| Ahold Financial Services (Tops Markets, LLC) | 8,000 | 1.4% | 3 | - | - | |
| Erie County | 7,269 | 1.2% | 4 | 6,799 | 1.2% | 4 |
| Kaleida Health | 6,866 | 1.2% | 5 | - | - | |
| State University of NY at Buffalo | 6,488 | 1.1% | 6 | 5,270 | 0.9% | 7 |
| Buffalo City School District | 5,319 | 0.9% | 7 | 6,550 | 1.1% | 5 |
| HSBC Bank USA N.A. | 5,100 | 0.9% | 8 | 4,262 | 0.7% | 10 |
| Catholic Health System | 4,702 | 0.8% | 9 | - | - | |
| M&T Bank | 4,163 | 0.7% | 10 | - | - | |
| Delphi Harrison | - | - | | 6,800 | 1.2% | 3 |
| Buffalo General Health System | - | - | | 5,375 | 0.9% | 6 |
| US Postal Service | - | - | | 4,775 | 0.8% | 8 |
| Powertrain Group of General Motors | - | - | | 4,300 | 0.7% | 9 |
| Total of Largest Employers | 74,562 | 12.8% | | 75,774 | 12.9% | |

(Source: Business First of Buffalo 2006 Book of Lists; Business First of Buffalo 1997 Book of Lists)

ERIE COUNTY WATER AUTHORITY
Operating Statistics
Last Ten Fiscal Years

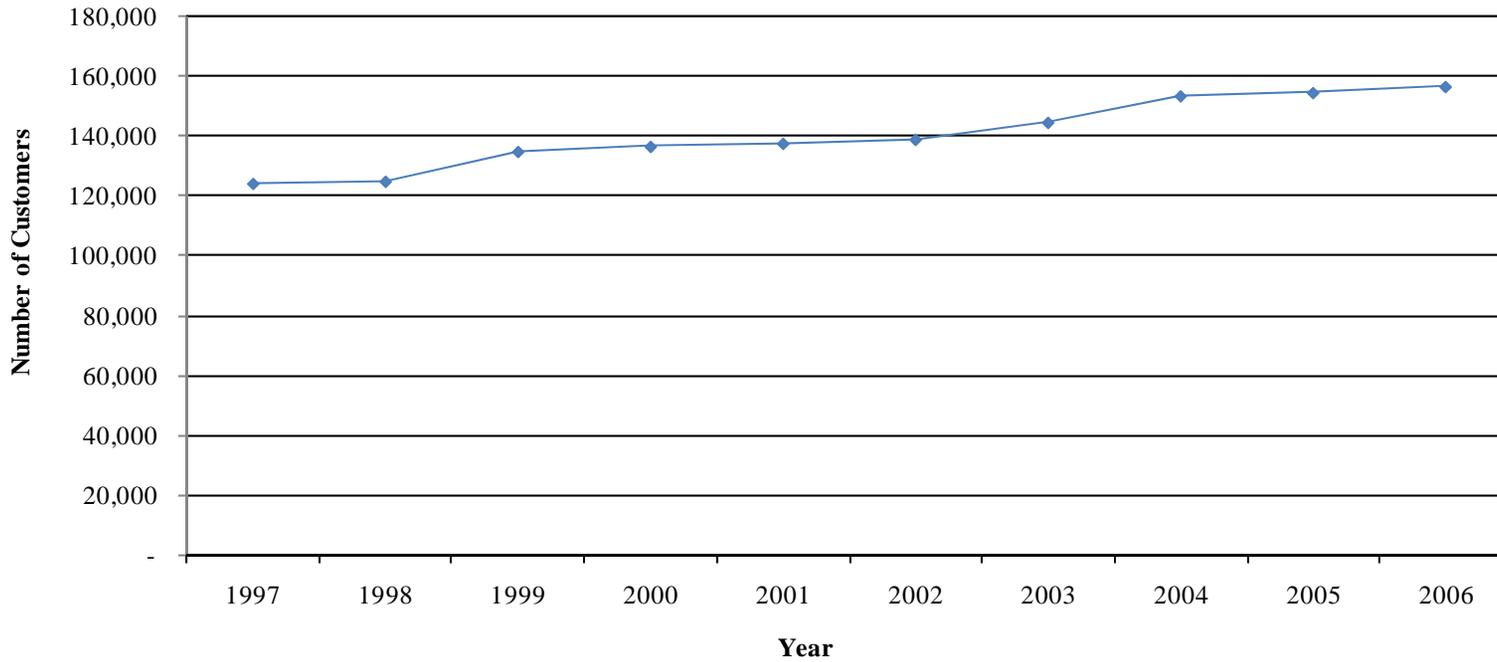
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total number of customers | 123,896 | 124,606 | 134,656 | 136,359 | 137,403 | 138,752 | 144,464 | 153,418 | 154,505 | 156,579 |
| Number of employees | 302.5 | 293.4 | 284.7 | 284.8 | 280.9 | 276.0 | 272.0 | 270.8 | 269.4 | 261.8 |
| Customers per employee | 409.6 | 424.7 | 473.0 | 478.8 | 489.2 | 502.7 | 531.1 | 566.5 | 573.5 | 598.1 |
| Total water output (million gallons) | 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 | 25,096.4 |
| Water output per customer (gallons) | 186,081.9 | 183,056.2 | 179,705.3 | 177,532.1 | 185,987.2 | 186,344.7 | 176,440.5 | 157,673.2 | 170,880.6 | 160,279.5 |
| Total water sales (million gallons) | 18,386.3 | 18,943.2 | 19,910.0 | 18,434.7 | 19,395.1 | 19,438.9 | 18,440.2 | 17,849.3 | 19,203.3 | 18,491.3 |
| Water sales per customer (gallons) | 148,401.1 | 152,024.8 | 147,858.2 | 135,192.4 | 141,154.9 | 140,098.2 | 127,645.6 | 116,344.2 | 124,289.2 | 118,095.7 |
| Percentage of water sold | 79.8% | 83.0% | 82.3% | 76.2% | 75.9% | 75.2% | 72.3% | 73.8% | 72.7% | 73.7% |
| Total operating expenses | \$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 | \$43,929,734 |
| Operating expense per customer | \$ 270 | \$ 267 | \$ 253 | \$ 253 | \$ 276 | \$ 269 | \$ 258 | \$ 258 | \$ 271 | \$ 281 |
| Total operating revenue | \$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 | \$55,744,905 |
| Operating revenue per customer | \$ 332 | \$ 349 | \$ 340 | \$ 315 | \$ 332 | \$ 349 | \$ 326 | \$ 319 | \$ 351 | \$ 356 |

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

ERIE COUNTY WATER AUTHORITY
 Operating Revenue by Customer Type
 Last Ten Years

| | <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> | <u>2006</u> |
|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Number of customers: | | | | | | | | | | |
| Residential | 116,769 | 117,385 | 126,627 | 128,190 | 129,202 | 130,743 | 136,122 | 144,252 | 145,312 | 147,326 |
| Commercial | 5,623 | 5,650 | 6,362 | 6,450 | 6,474 | 6,289 | 6,547 | 7,210 | 7,188 | 7,197 |
| Industrial | 231 | 240 | 254 | 253 | 252 | 247 | 268 | 327 | 328 | 333 |
| Public authorities | 476 | 509 | 551 | 571 | 550 | 539 | 563 | 601 | 596 | 605 |
| Fire protection | 779 | 802 | 843 | 875 | 904 | 916 | 946 | 1,010 | 1,062 | 1,098 |
| Bulk sales | 18 | 20 | 19 | 20 | 21 | 18 | 18 | 18 | 19 | 20 |
| Total number of customers | <u>123,896</u> | <u>124,606</u> | <u>134,656</u> | <u>136,359</u> | <u>137,403</u> | <u>138,752</u> | <u>144,464</u> | <u>153,418</u> | <u>154,505</u> | <u>156,579</u> |

Total Number of Customers

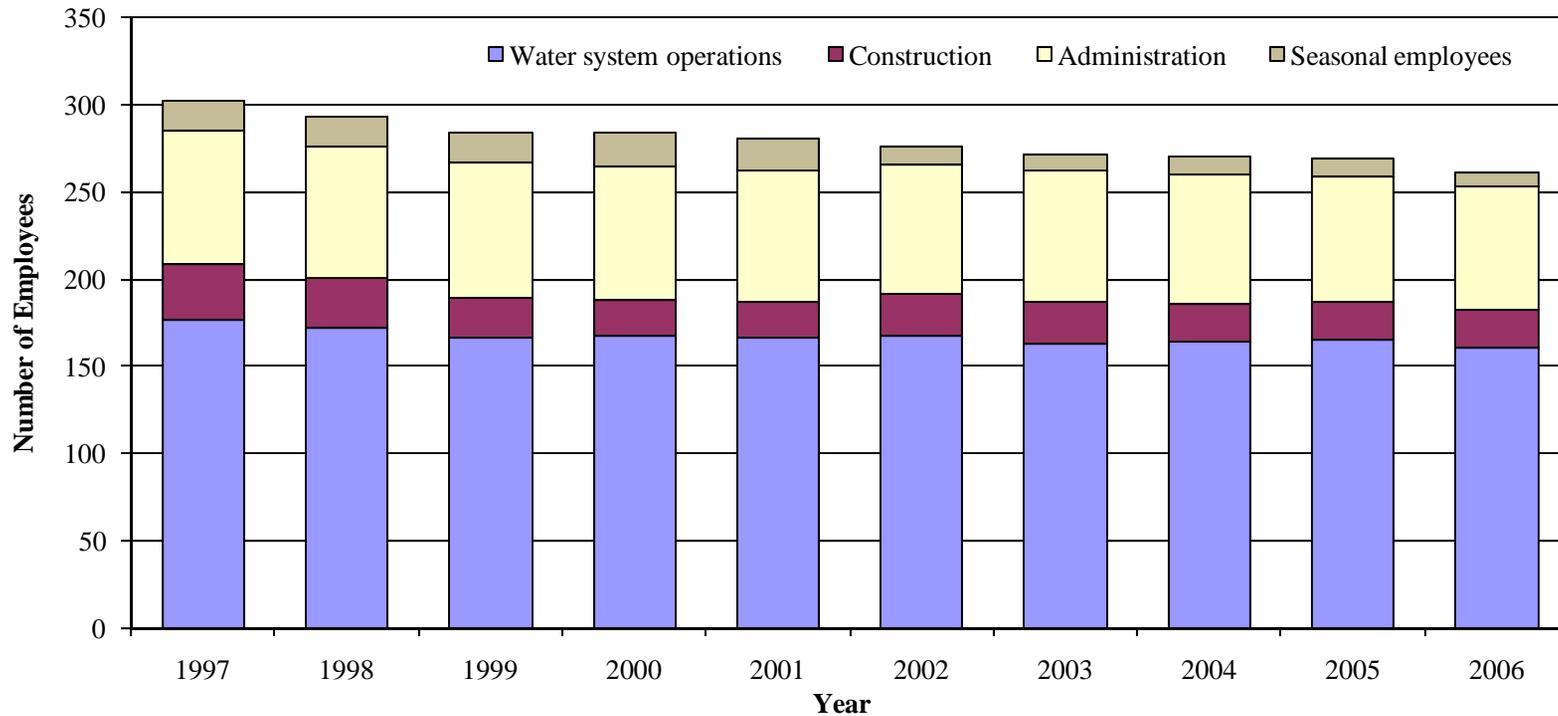


(Source: Authority Financial, Production and Business Office Records)

ERIE COUNTY WATER AUTHORITY
 Number of Employees¹ by Function
 Last Ten Years

| | <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> | <u>2006</u> |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Water system operations | 177.0 | 173.0 | 167.0 | 168.0 | 167.0 | 168.0 | 163.0 | 164.3 | 165.3 | 161.3 |
| Construction | 32.0 | 28.0 | 23.0 | 21.0 | 20.0 | 24.0 | 24.0 | 22.0 | 22.0 | 22.0 |
| Administration | 76.9 | 75.9 | 76.9 | 75.4 | 76.1 | 74.6 | 75.8 | 73.7 | 71.7 | 69.7 |
| Seasonal employees | <u>16.6</u> | <u>16.5</u> | <u>17.8</u> | <u>20.4</u> | <u>17.8</u> | <u>9.4</u> | <u>9.2</u> | <u>10.8</u> | <u>10.4</u> | <u>8.8</u> |
| Total Number of employees | <u>302.5</u> | <u>293.4</u> | <u>284.7</u> | <u>284.8</u> | <u>280.9</u> | <u>276.0</u> | <u>272.0</u> | <u>270.8</u> | <u>269.4</u> | <u>261.8</u> |

¹ Number of employees represents the number of full time equivalents based on 2,080 hours.



(Source : Authority Internal Financial Records)

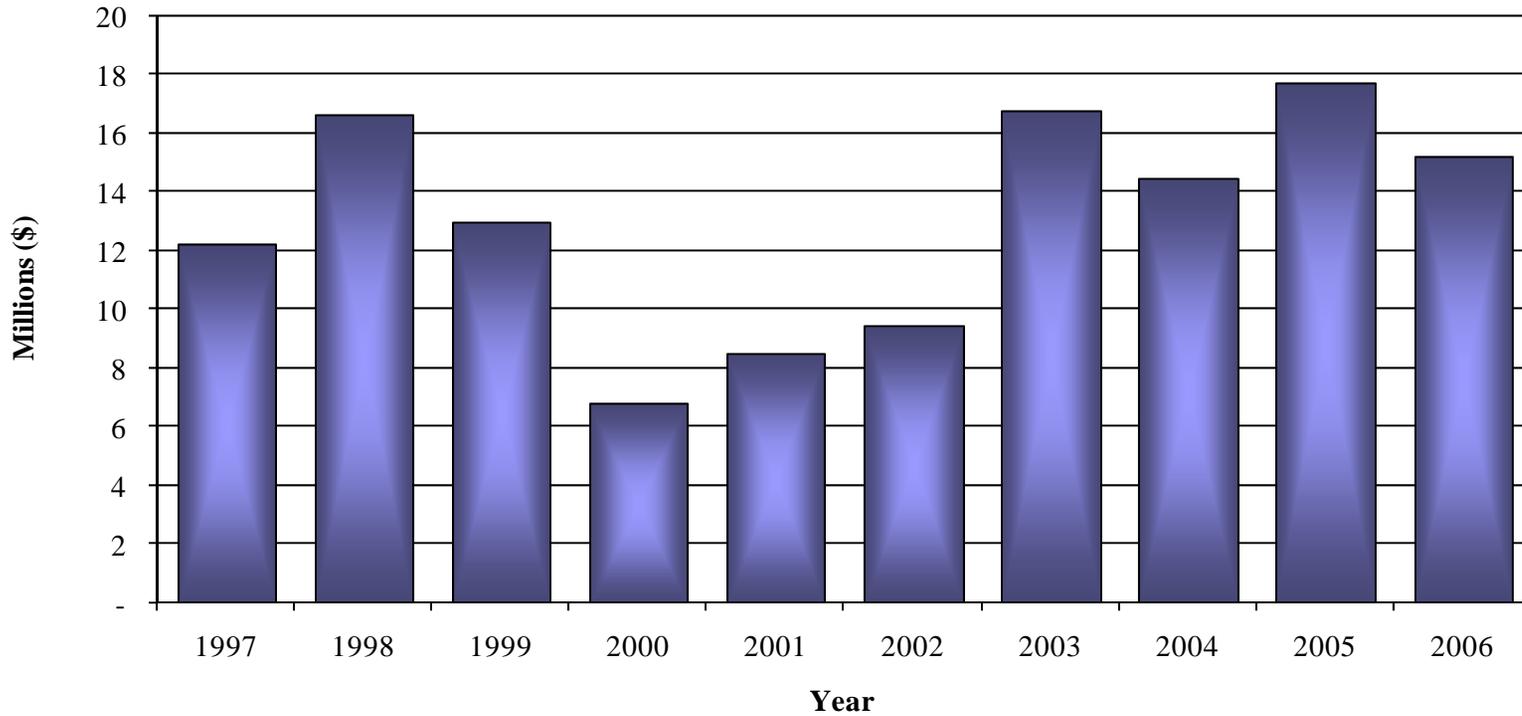
ERIE COUNTY WATER AUTHORITY
 Operating and Capital Indicators
 Last Ten Years

| | <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> | <u>2006</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total miles of distribution piping | 2,588 | 2,620 | 2,727 | 2,939 | 2,967 | 3,017 | 3,057 | 3,190 | 3,267 | 3,329 |
| Number of hydrants | 12,057 | 12,229 | 12,604 | 14,439 | 14,350 | 14,480 | 15,080 | 15,742 | 16,000 | 16,792 |
| Number of water tanks | 26 | 29 | 31 | 32 | 32 | 32 | 33 | 37 | 37 | 40 |
| Storage capacity of water tanks (million gallons) | 53.5 | 54.6 | 65.2 | 66.3 | 66.3 | 66.3 | 67.0 | 72.7 | 72.7 | 74.9 |
| Number of pump stations | 24 | 26 | 26 | 26 | 26 | 26 | 29 | 32 | 33 | 37 |
| Number of new service taps | 918 | 830 | 924 | 1,034 | 1,261 | 1,290 | 1,210 | 949 | 800 | 673 |

(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Annual Capital Expenditures
Last Ten Years

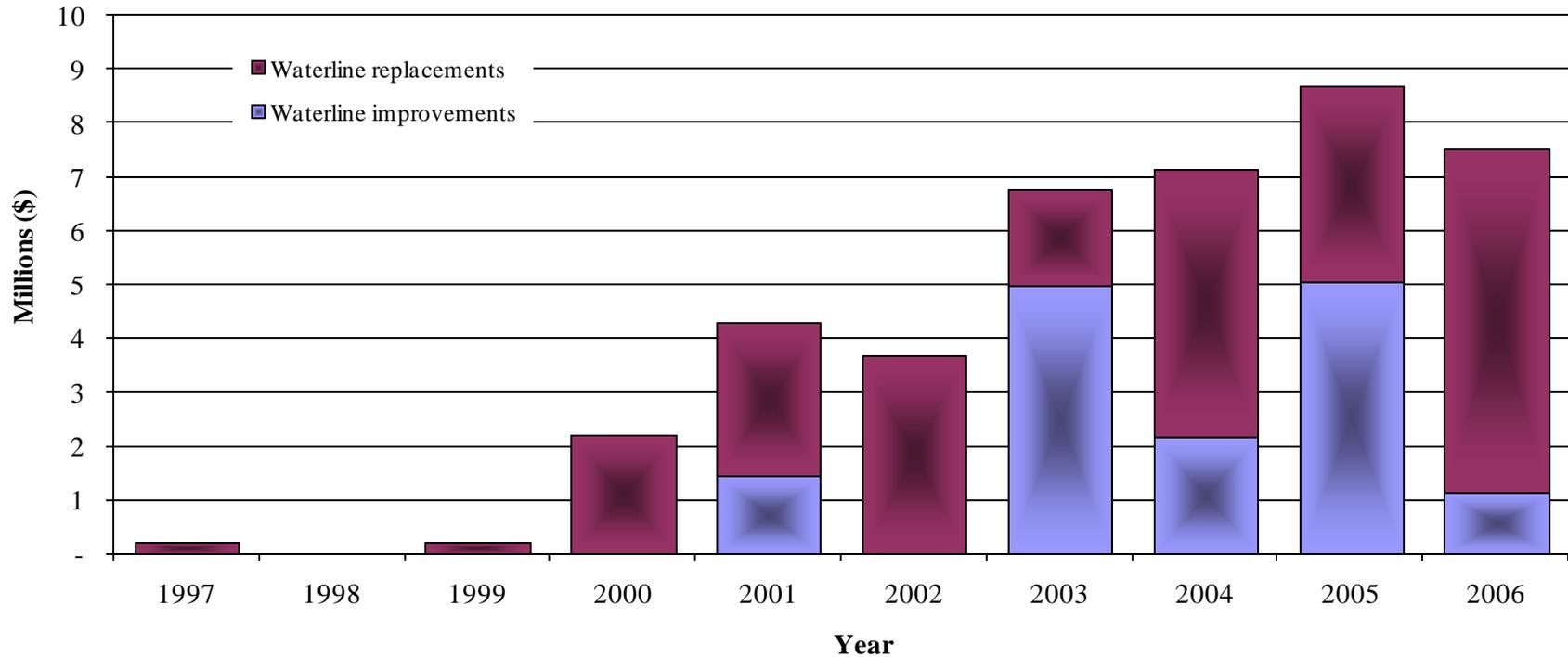
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Capital expenditures | \$12,252,369 | \$16,661,988 | \$12,979,211 | \$6,848,116 | \$8,489,478 | \$9,478,977 | \$16,802,468 | \$14,518,527 | \$17,778,175 | \$15,242,944 |
| Capital expenditures per customer | \$ 99 | \$ 134 | \$ 96 | \$ 50 | \$ 62 | \$ 68 | \$ 116 | \$ 95 | \$ 115 | \$ 97 |



(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Waterline Replacements and Improvements
Last Ten Years

| | <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> | <u>2006</u> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Waterline replacements | \$ 191,000 | \$ - | \$ 210,000 | \$2,194,000 | \$2,838,000 | \$3,672,000 | \$1,793,000 | \$4,979,000 | \$3,671,787 | \$6,424,712 |
| Waterline improvements | \$ - | \$ - | \$ - | \$ - | \$1,446,000 | \$ - | \$4,986,000 | \$2,168,000 | \$5,038,033 | \$1,117,537 |



(Source: Authority Geographic Information System and Construction Records)