Providing Water You Can Trust

Erie County Water Authority

2007 ANNUAL REPORT

2007 ANNUAL Financial Report

27,291,540,000 Gallons of Water delivered in 2007.

Highlights

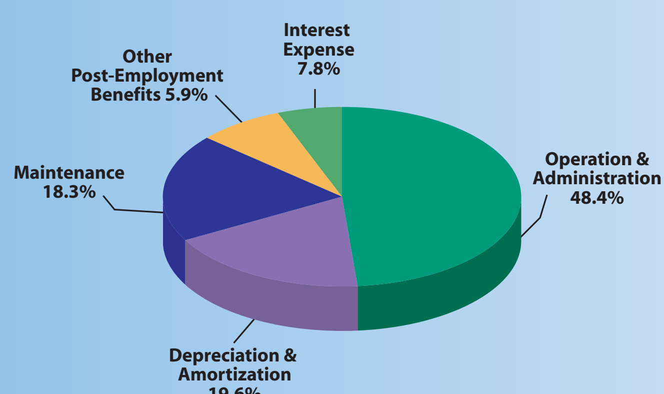
1998 – 2007 Highlights

	1998	2007
Number of customers	124,606	157,163
Number of employees	293.4	262.8
Number of customers per employee	424.7	598
Debt service per customer	$1,522	$1,034
Capital spending program	$16,661,988	$19,348,363
Number of fire hydrants	12,229	17,126
Miles of water mains	2,620	3,372
Water rate (per 1,000 gallons)	$2.22	$2.81

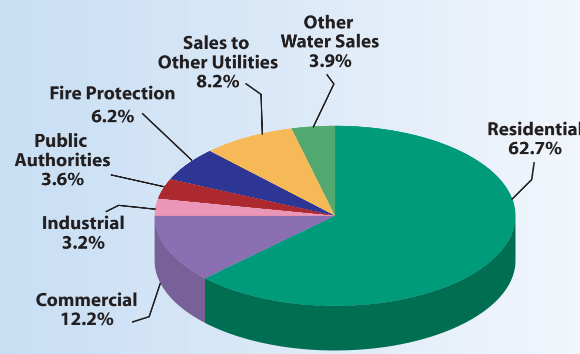
Financial Highlights

	2006	2007
Operating revenue	$55,744,905	$61,227,617
Operating expenses	$43,929,734	$47,491,290
Total assets	$359,619,239	$405,487,266

2007 Expenses



2007 Water Sales Revenue



Commissioner's Message

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

During this past year, the ECWA continued to move forward with the most ambitious capital infrastructure investment program to its system in decades. As part of a five-year, $113 million system-wide upgrade the ECWA invested nearly $20 million in our facilities and distribution system during 2007.

As part of this program and to protect our system from the uncertainties of the power grid, the ECWA installed stand-by power generators at our major facilities and has equipped our secondary facilities to readily connect with our fleet of portable generators. This investment continues our ongoing effort to ensure the integrity of our system for the more than 550,000 individuals who depend on our service 24 hours a day, seven days a week, 365 days a year. It should be noted that more than two-thirds of the ECWA's $113 million capital investment program is being paid from operating revenues, not from borrowed funds, which will significantly benefit our ratepayers by reducing long-term interest expenses.

By continuously investing in our system, limiting the amount of borrowing, and working to reduce expenses, the ECWA has earned the respect of Wall Street investors and the three major bond rating agencies. This in turn has helped the ECWA to reduce costs when we do borrow for infrastructure improvements. This all adds up to high quality, dependable service for our ratepayers at one of the lowest rates in New York State.

ECWA's Consolidated Annual Financial Report, including the audited financial report for the fiscal year ending December 31, 2007, 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 financially for the future.

It is in celebration of our successful efforts at reliably delivering an affordable product of the highest quality to our ratepayers and our contributions to the quality of life in Western New York that we submit the 55th Annual Report of the Erie County Water Authority.

Respectfully,

Board of Commissioners
Frank E. Swiatek, Chair
Kelly M. Vacco, Vice-Chair
Francis G. Warthling, Treasurer

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.

ECWA Management Team

Frank E. Swiatek
Chair

Kelly Vacco
Vice-Chair

Francis G. Warthling
Treasurer

Robert A. Mendez
Executive Director

Robert J. Lichtenthal, Jr.
Deputy Director

Wesley Dust
Executive Engineer

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 over 550,000 consumers throughout Western New York that rely on its product and dependable service 24 hours a day, 365 days a year.

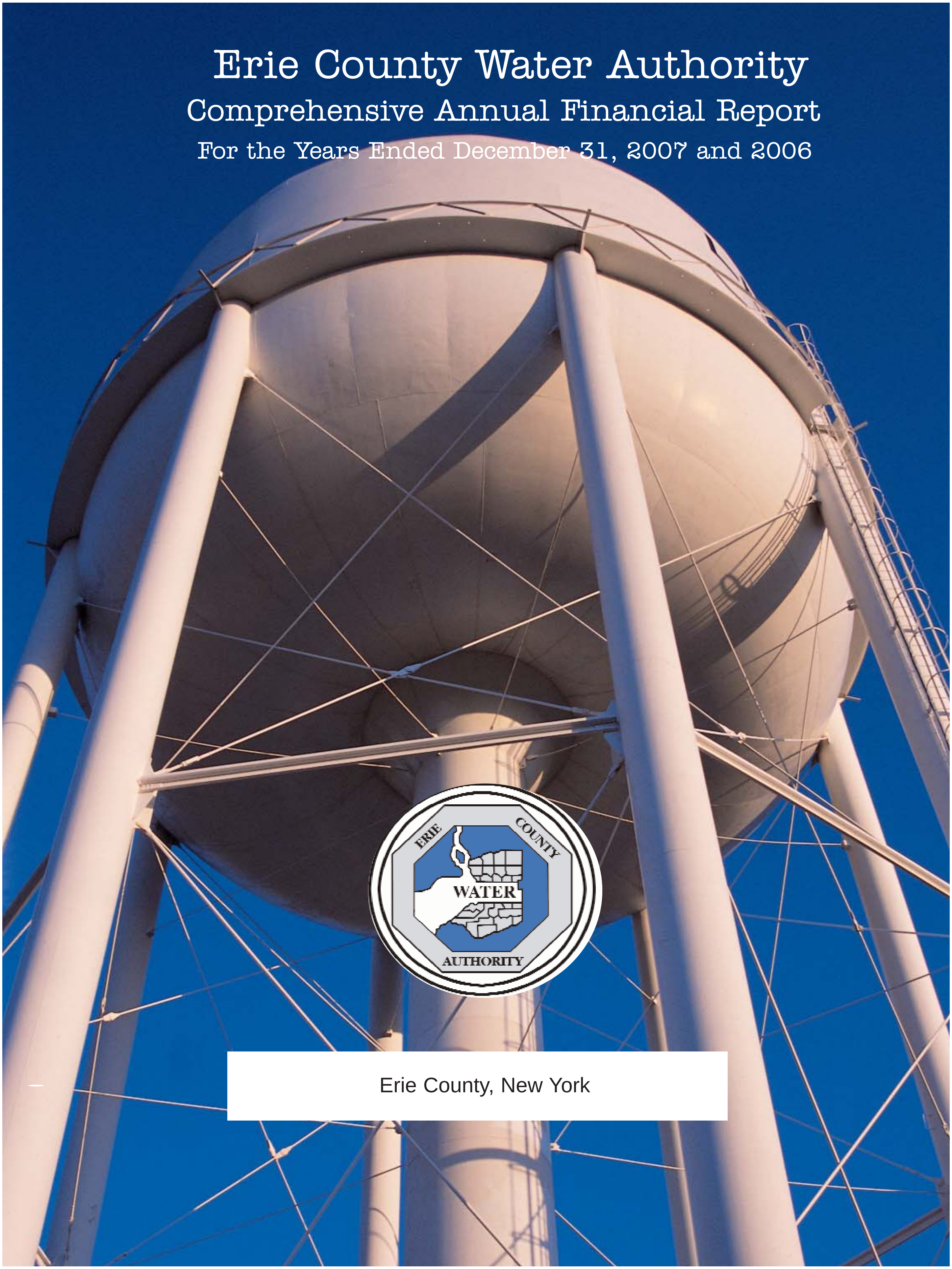
Erie County Water Authority
295 Main Street, Room 350
Buffalo, New York 14203-2494

Phone (716) 849-8484 ● Fax (716) 849-8467 ● e-mail: *questionscomments@ecwa.org*
Web site: *www.ecwa.org*

Erie County Water Authority

Comprehensive Annual Financial Report

For the Years Ended December 31, 2007 and 2006



Erie County, New York

ERIE COUNTY WATER AUTHORITY

Comprehensive Annual Financial Report

For the Years Ended December 31, 2007 and 2006

350 Ellicott Square Building
295 Main Street
Buffalo New York 14203

Prepared By:
The Finance Department
Erie County Water Authority

Comprehensive Annual Financial Report
Table of Contents

(continued)

ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
Table of Contents

(concluded)

INTRODUCTORY SECTION

Erie County Water Authority

350 Ellicott Square Building • 295 Main Street • Buffalo, NY 14203-2494
716-849-8484 • FAX 716-849-8467

May 30, 2008

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, 2007 and 2006 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, 2007 and 2006. 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 46.

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 47 through 65.

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 Erie County. The Authority was created by an Act of the New York 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 157,163 customers. The Erie County Water Authority is not an agency of New York State, nor an agency of Erie County government. The Authority is completely independent with respect to budgeting, bonding authority, debt management and credit rating.

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, Wyoming 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 38 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, 3,372 miles of distribution piping (2,148 miles owned by the Authority), 17,126 fire hydrants (7,198 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.

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. The Authority also reports annually to the New York State Public Authority Office as required by the Public Authorities Accountability Act of 2005.

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. In September of 2007, the Authority issued Fourth Resolution Water Revenue Bonds, Series 2007. The bonds were rated AAA by Standard & Poor's Rating Services, Aaa by Moody's Investors Service, Inc., and AAA by Fitch Ratings.

ECONOMIC CONDITION AND OUTLOOK

The Authority service area within Erie County encompasses some of the most affluent, growing communities in Western New York. While the Western New York area as a whole faces a number of economic challenges, the Authority's suburban service area has continued to sustain moderate economic growth.

Due primarily to migration from urban areas, which are not in the Authority's service territory, 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 decade, 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 and internally restricted cash balances, along with resources obtained from the 2007 revenue bonds issued in September of 2007 will be used to fund a 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 $12,999,041 in 2007 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 262.8 budgeted full-time equivalents in 2007. 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 low cost hydropower allocations.

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 issued 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 regularly participates 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, 2005, and 2006.

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 2006 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

Frank E. Swiatek, Chair

Kelly Vacco

Kelly M. Vacco, Vice-Chair

Francis G. Warthling

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, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

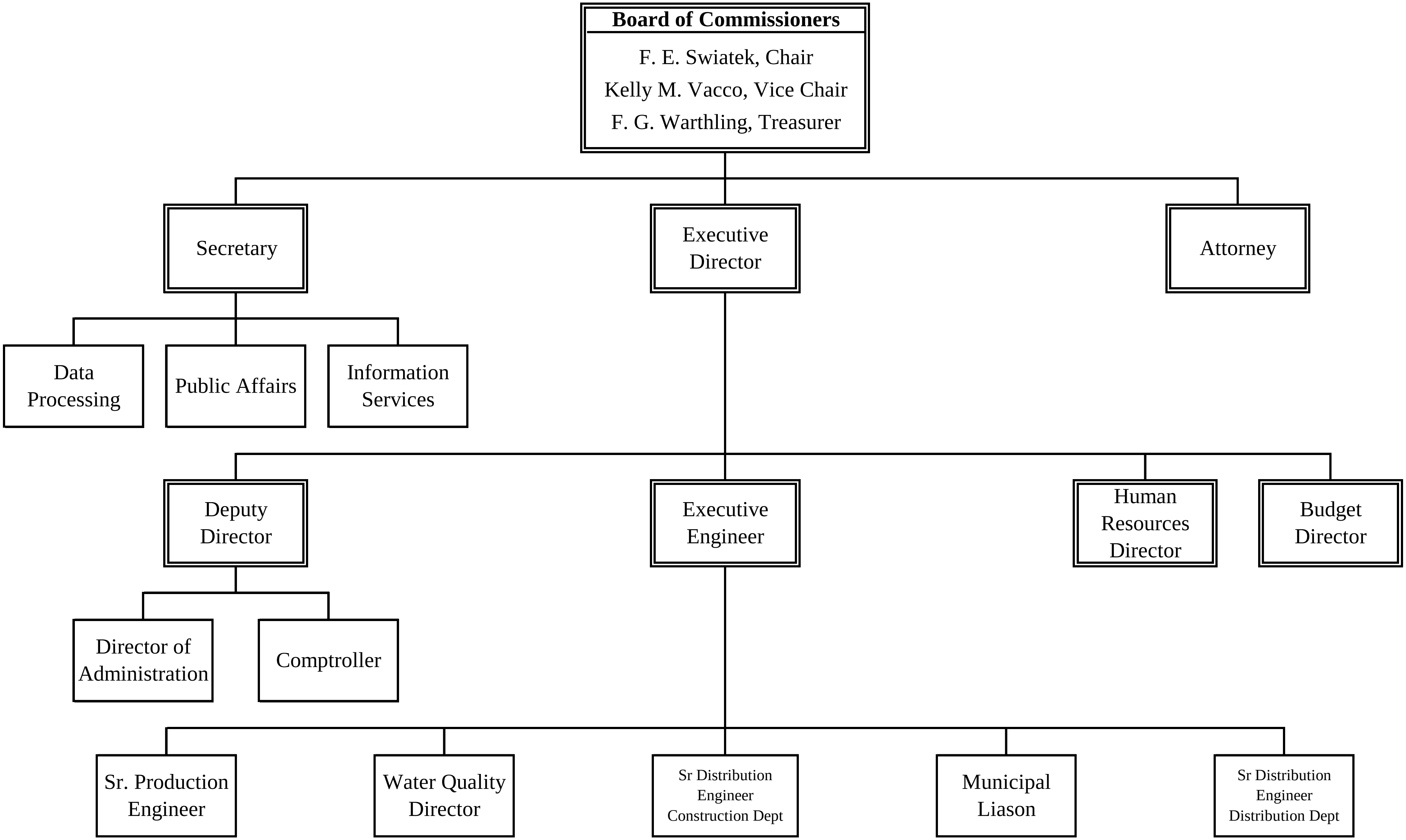
Executive Director

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 12/31/2007	Most Recent Appointment Date
Frank E. Swiatek, Chair	April 2007
Kelly M. Vacco, Vice-Chair	November 2007
Francis G. Warthling, Treasurer	April 2006

Erie County Water Authority
Members of the Board of Commissioners



FINANCIAL SECTION

Drescher & Malecki LLP
132 Cayuga Road, Suite 2C
Cheektowaga, New York 14225
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Erie County Water Authority (the "Authority"), as of and for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in Note 1 of the financial statements, during the year ended December 31, 2007, the Authority adopted the provisions of the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

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.

Drescher & Malecki LLP

March 31, 2008

Management provides the following discussion and analysis ("MD&A") of the Erie County Water Authority's (the "Authority") financial activities and statements for its fiscal years ended December 31, 2007 and 2006. The information contained in this analysis should be used by the reader in conjunction with the information contained in the audited financial statements and the notes to those financial statements all of which follow this narrative on the subsequent pages. The Authority is not required to legally adopt a budget; therefore, comparative budgetary information is not included in this report.

Financial Highlights

- The Authority's net assets increased $13,991,128 and $11,766,272 as a result of activity for the years ended December 31, 2007 and 2006, respectively. For 2007, $12,999,041 is net income and $992,087 represents capital contributions (contributions in aid of construction), comparatively for 2006, $10,591,086 is net income and $1,175,186 represents capital contributions.
- The assets of the Authority exceeded its liabilities by $280,793,383 and $266,802,255, representing net assets at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, unrestricted net assets were $30,366,722 and $26,829,064, respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness, net of deferred amounts for bond premiums and issuance costs, increased $30,863,771 compared to a decrease of $3,712,701 during 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. Certain amounts relating to the financial statements as of and for the years ended December 31, 2006 and 2005 have been reclassified in order to be consistent with the current year's presentation. 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 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

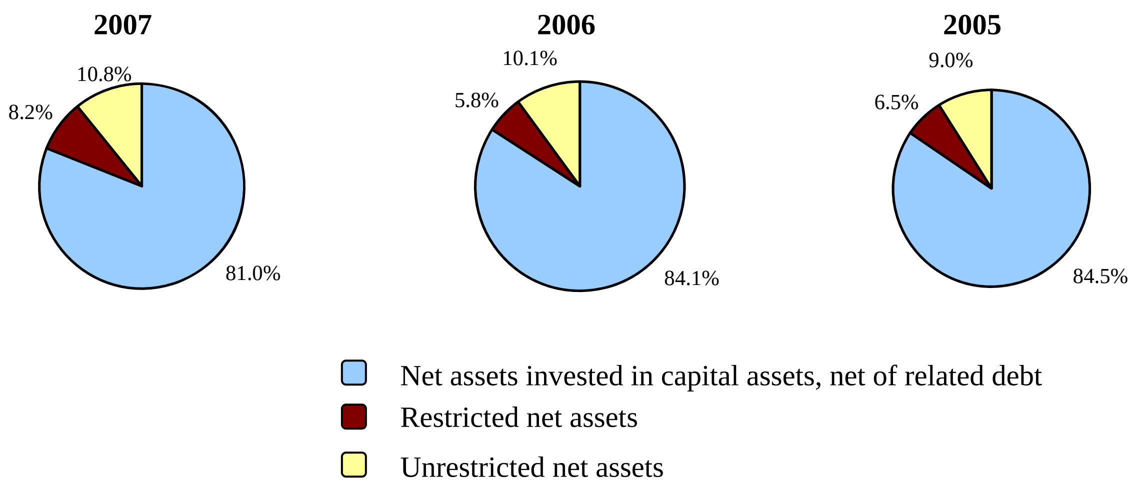
As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by $280,793,383 at December 31, 2007, as compared to $266,802,255 at December 31, 2006, as presented below in Table 1:

Table 1 - Condensed Statement of Net Assets

	2007	2006	Increase/(Decrease) Dollars	Percent
Current assets	$ 29,800,725	$ 41,073,115	$ (11,272,390)	(27.4)
Noncurrent assets:				
Other noncurrent assets	66,801,737	19,528,637	47,273,100	242.1
Capital assets	308,884,804	299,017,487	9,867,317	3.3
Total assets	405,487,266	359,619,239	45,868,027	12.8
Current liabilities	16,547,767	20,013,673	(3,465,906)	(17.3)
Noncurrent liabilities	108,146,116	72,803,311	35,342,805	48.5
Total liabilities	124,693,883	92,816,984	31,876,899	34.3
Invested in capital assets, net of related debt	227,552,045	224,456,645	3,095,400	1.4
Restricted	22,874,616	15,516,546	7,358,070	47.4
Unrestricted	30,366,722	26,829,064	3,537,658	13.2
Total net assets	$ 280,793,383	$ 266,802,255	$ 13,991,128	5.2

	2006	2005	Increase/(Decrease) Dollars	Percent
Current assets	$ 41,073,115	$ 35,898,869	$ 5,174,246	14.4
Noncurrent assets:				
Other noncurrent assets	19,528,637	23,448,621	(3,919,984)	(16.7)
Capital assets	299,017,487	293,829,470	5,188,017	1.8
Total assets	359,619,239	353,176,960	6,442,279	1.8
Current liabilities	20,013,673	18,809,409	1,204,264	6.4
Noncurrent liabilities	72,803,311	79,331,568	(6,528,257)	(8.2)
Total liabilities	92,816,984	98,140,977	(5,323,993)	(5.4)
Invested in capital assets, net of related debt	224,456,645	215,555,927	8,900,718	4.1
Restricted	15,516,546	16,644,478	(1,127,932)	(6.8)
Unrestricted	26,829,064	22,835,578	3,993,486	17.5
Total net assets	$ 266,802,255	$ 255,035,983	$ 11,766,272	4.6

At December 31, 2007, the largest portion of the Authority's net assets (81.0%) consists of the Authority's investment in capital assets, as compared to 84.1% and 84.5% at December 31, 2006 and 2005, respectively. This amount is presented net of any outstanding debt which was used to acquire such capital assets. The second portion of net assets, 10.8% at December 31, 2007, as compared to 10.1% and 9.0%, at December 31, 2006, and 2005, 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 (8.2%, 5.8% and 6.5% at December 31, 2007, 2006 and 2005, respectively) is restricted for various purposes.



The Authority's liabilities totaled $124,693,883, $92,816,984, and $98,140,977 at December 31, 2007, 2006 and 2005 respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority has had current ratios of 1.80, 2.05, and 1.91 at December 31, 2007, 2006 and 2005, 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, 2007, December 31, 2006 and December 31, 2005 follows:

Table 2 - Comparison of current assets and current liabilities

	2007	2006	2005
Current assets	$29,800,725	$41,073,115	$35,898,869
Current liabilities	16,547,767	20,013,673	18,809,409
Ratio of current assets to current liabilities	1.80	2.05	1.91

Table 3, as presented below, shows the changes in net assets for the years ending December 31, 2007, December 31, 2006 and December 31, 2005:

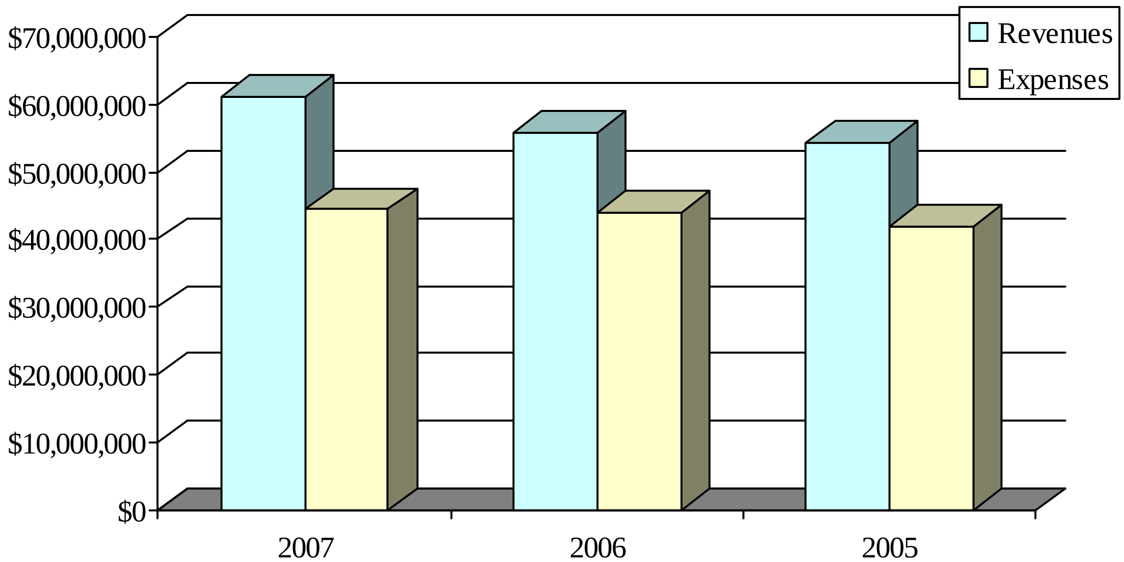
Table 3 – Erie County Water Authority's Changes in Net Assets

	Year Ended December 31, 2007	Year Ended December 31, 2006
Operating revenue	$ 61,227,617	$ 55,744,905
Operating expenses:		
Operation and adminstration	24,927,064	26,260,319
Maintenance	9,434,577	7,960,443
Depreciation and amortization	10,075,578	9,708,972
Other post-employment benefits	3,054,071	-
Total operating expenses	47,491,290	43,929,734
Operating income	13,736,327	11,815,171
Nonoperating revenues (expenses):		
Interest income	3,138,936	2,498,889
Interest capitalization during construction	159,197	145,090
Interest expense	(4,035,419)	(3,868,064)
Total nonoperating revenues (expenses)	(737,286)	(1,224,085)
Net income before contributions in aid of construction	12,999,041	10,591,086
Contributions in aid of construction	992,087	1,175,186
Change in net assets	13,991,128	11,766,272
Total net assets - beginning of year	266,802,255	255,035,983
Total net assets - end of year	$ 280,793,383	$ 266,802,255

	Year Ended December 31, 2006	Year Ended December 31, 2005
Operating revenue	$ 55,744,905	$ 54,238,666
Operating expenses:		
Operation and adminstration	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 following chart depicts a 9.8% operating revenue growth from $55,744,905 in 2006 to $61,227,617 in 2007, compared to a 2.8% growth from $54,238,666 in 2005 to $55,744,905 in 2006. Operating expenses increased 8.1% from $43,929,734 in 2006 to $47,491,290 in 2007 and 5.0% from $41,831,636 in 2005 to $43,929,734 in 2006.

Comparison of Operating Revenue and Expenses



A summary of operating revenue for the years ended December 31, 2007, December 31, 2006 and December 31, 2005 is presented below in Table 4:

Table 4 - Summary of Operating Revenue

			Increase/(Decrease)	
	2007	2006	Dollars	Percent
Water sales:				
Residential	$38,059,827	$33,915,574	$4,144,253	12.2
Commercial	7,402,558	6,845,706	556,852	8.1
Industrial	1,917,907	1,825,446	92,461	5.1
Public authorities	2,170,407	2,033,007	137,400	6.8
Fire protection	3,774,006	3,718,934	55,072	1.5
Sales to other utilities	4,992,582	4,690,210	302,372	6.4
Other water sales	2,353,620	1,801,691	551,929	30.6
Total water sales	60,670,907	54,830,568	5,840,339	10.7
Other operating income:				
Rents from water towers	547,075	446,806	100,269	22.4
Miscellaneous	9,635	467,531	(457,896)	(97.9)
Operating revenue	$61,227,617	$55,744,905	$5,482,712	9.8

			Increase/(Decrease)	
	2006	2005	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	$55,744,905	$54,238,666	$1,506,239	2.8

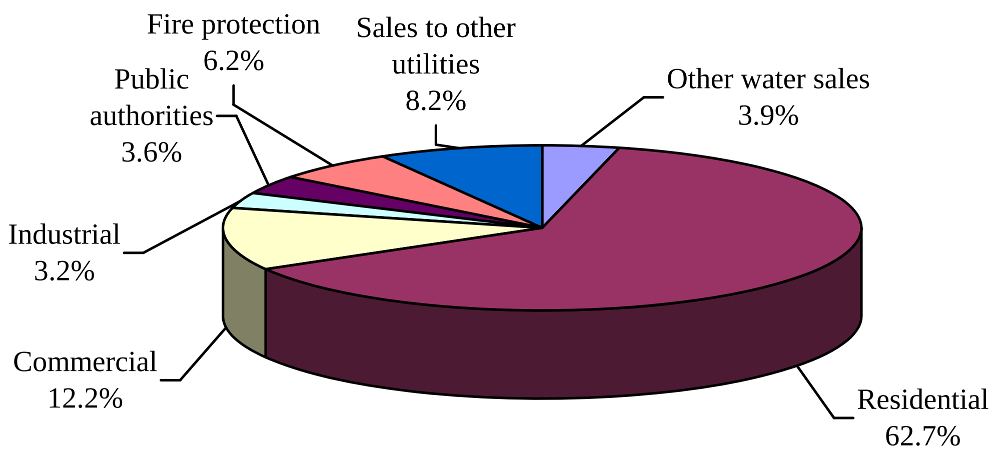
Water sales represent the vast majority of revenue for the Authority, 99.1%, 98.4%, and 99.2% of total revenue for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively.

Total water sales increased $5,840,339, 10.7%, during the year ended December 31, 2007 primarily due to a 4% rate increase on January 1, 2007 and a 5.3% increase in consumption over 2006. Total billings increased $5,266,524 in 2007 over 2006 billings due to the overall increase in consumption. Miscellaneous non-operating income decreased by $457,896 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 Town water tank in 2006, which did not occur during 2007. Water tower rents also increased $100,269 due, in part, to a one time termination payment from Cingular Wireless of $48,125. Their lease was assumed by another wireless company at a lower rate.

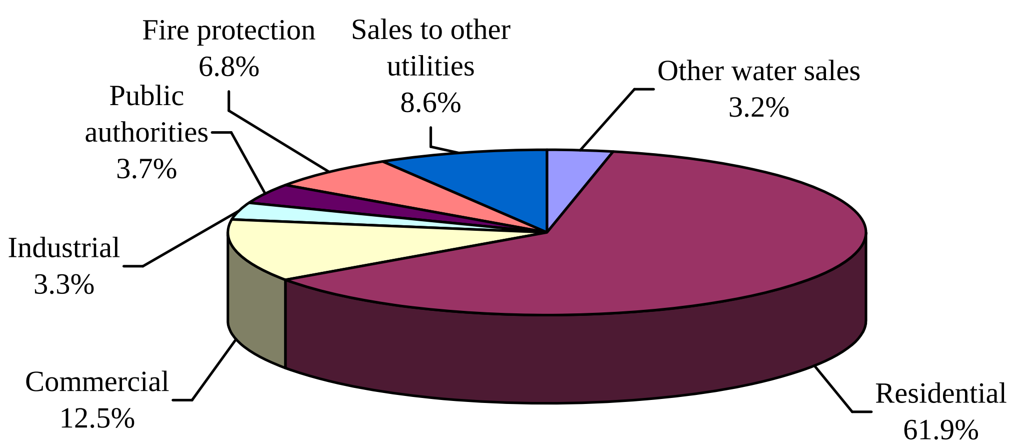
During the year ended December 31, 2006, total water sales increased $1,025,529, 1.9%, over the year ended December 31, 2005 due primarily to a 5.4% rate increase on January 1, 2006 and offset partly by a 3.7% decrease in consumption over 2005. Despite the rate increase, total billings increased only $1,091,051, or 2%. 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.

As presented in the illustration on the following page, residential water sales represent the largest portion of water sales for the Authority, which was 62.7%, 61.9%, and 62.0% of total water sales for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 12.2%, 12.5%, and 12.2% total water sales for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively.

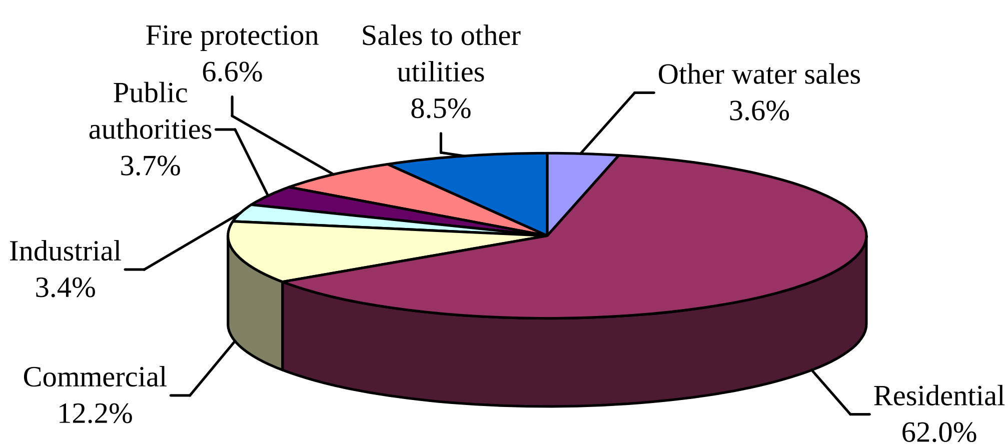
2007 Water Sales Revenue



2006 Water Sales Revenue



2005 Water Sales Revenue

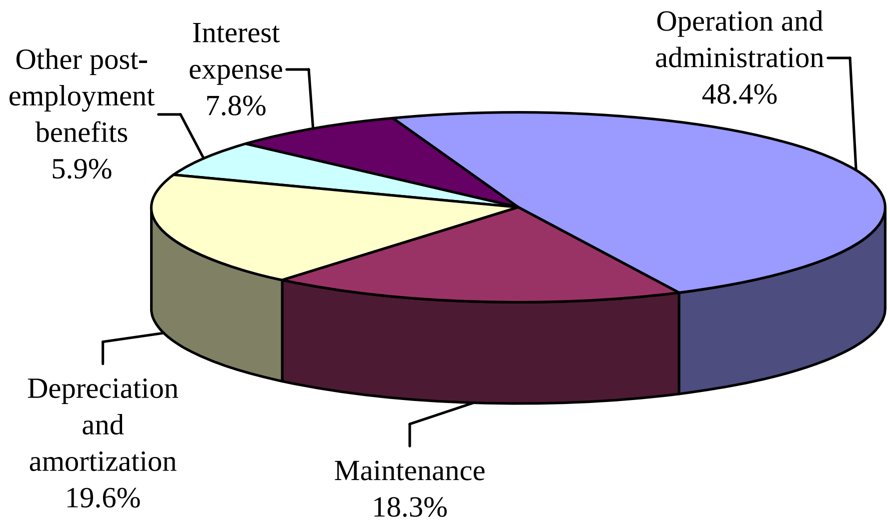


As illustrated below, operation and administration expenses are the largest expense and account for 48.4%, 54.9%, and 51.5% of the Authority's expenses for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were, 19.6%, 20.3%, and 20.8% for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively.

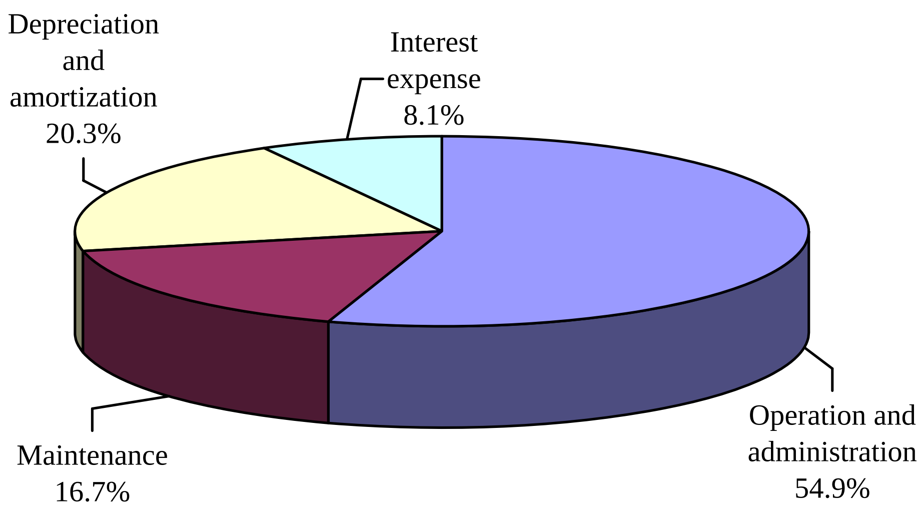
			Increase/(Decrease)	
	2007	2006	Dollars	Percent
Operation and administration	$ 24,927,064	$ 26,260,319	$ (1,333,255)	(5.1)
Maintenance	9,434,577	7,960,443	1,474,134	18.5
Depreciation and amortization	10,075,578	9,708,972	366,606	3.8
Interest expense	4,035,419	3,868,064	167,355	4.3
Other post-employment benefits	3,054,071	-	3,054,071	100.0
Total	$ 51,526,709	$ 47,797,798	$ 3,728,911	7.8

			Increase/(Decrease)	
	2006	2005	Dollars	Percent
Operation and administration	$ 26,260,319	$ 23,694,959	$ 2,565,360	10.8
Maintenance	7,960,443	8,587,928	(627,485)	(7.3)
Depreciation and amortization	9,708,972	9,548,749	160,223	1.7
Interest expense	3,868,064	4,149,699	(281,635)	100.0
Total	$ 47,797,798	$ 45,981,335	$ 1,816,463	4.0

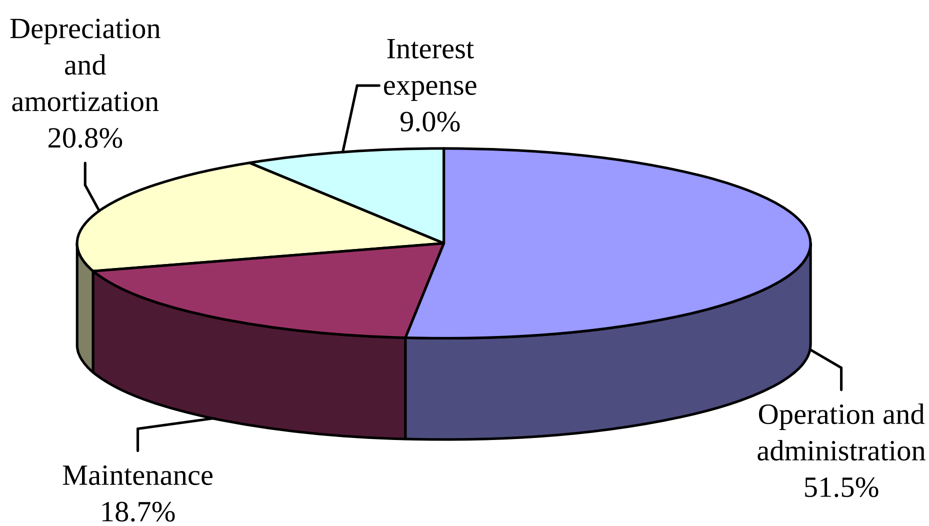
2007 Expenses



2006 Expenses



2005 Expenses



Operating and administrative expenses decreased $1,333,255 or 5.1%, from $26,260,319 in 2006 to $24,927,064 in 2007 due largely to a decrease of $1,993,588 in miscellaneous expenses. In 2006 $415,490 was reserved for the FEMA claim for the October 2006 storm and a there was a general increase in legal reserves. In 2007 the reserve for the FEMA claim was reversed as payments were received, and legal reserves were reduced due to the settlement of several claims. Administrative credits increased $900,973, representing an increased recovery of operating expenses. These decreases were somewhat offset by generator lease expense of $624,000 in 2007. As a result of a power outage in 2006, the Authority has begun implementing a plan to provide emergency backup power. Until permanent generators can be purchased, generators are being leased to supply backup power at key sites at a cost in excess of $1,000,000 per year.

Maintenance expenses increased 18.5%, or $1,474,134, in 2007 due entirely to an increase in the number of leaks in 2007. There were 2,109 leaks in 2007, compared to 1,776 leaks in 2006. Overtime costs increased 45%, $250,594, and payments to contractors for repairs and restorations increased $636,188 and $641,222 respectively.

During the year ended December 31, 2007, the Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As a result of this implementation, expenses of $3,054,071 for other post-employment benefits were recorded in 2007. Additional information about other post employment benefits can be found in Footnote 7 to the basic financial statements.

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.

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 a decrease in 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.

Table 5 presents a summary of the Authority's cash flow activities for the years ended December 31, 2007, December 31, 2006 and December 31, 2005:

Table 5 - Summary of Cash Flow Activities

	2007	2006	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	$26,638,354	$22,030,111	$ 4,608,243
Capital and related financing activities	5,736,139	(23,952,583)	29,688,722
Investing activities	5,644,787	2,477,315	3,167,472
Net increase in cash and cash equivalents	38,019,280	554,843	37,464,437
Cash and cash equivalents, beginning of year	44,769,472	44,214,629	554,843
Cash and cash equivalents, end of year	$82,788,752	$44,769,472	$38,019,280

	2006	2005	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	$22,030,111	$22,384,970	$ (354,859)
Capital and related financing activities	(23,952,583)	3,477,004	(27,429,587)
Investing activities	2,477,315	(28,279,140)	30,756,455
Net increase (decrease) in cash and cash equivalents	554,843	(2,417,166)	2,972,009
Cash and cash equivalents, beginning of year	44,214,629	46,631,795	(2,417,166)
Cash and cash equivalents, end of year	$44,769,472	$44,214,629	$ 554,843

At the December 31, 2007, 2006, and 2005, cash and cash equivalents were restricted for various purposes as presented below:

Table 6 - Summary of Cash and Cash Equivalents

	2007	2006	2005
Unrestricted	$15,987,015	$26,767,602	$24,150,683
Restricted	66,801,737	18,001,870	20,063,946
Total	$82,788,752	$44,769,472	$44,214,629

Total cash and cash equivalents increased by $38,019,280 due to the issuance of $35,000,000 in water revenue bonds, increased cash provided by operating activities of $4,608,243, which was due to an increase in water revenues, and an increase of $3,167,472 in cash provided by investment activity. The increase in available cash is somewhat offset by an increase in net additions to water plant of $4,669,754.

Unrestricted cash and cash equivalents decreased by $10,780,587, or 40.3% from $26,767,602 at December 31, 2006 to $15,987,015 at December 31, 2007. This is due primarily to an increase in cash restricted for future construction. The Board authorized a contribution of $17,000,000 from unrestricted cash and cash equivalents to the future construction fund to meet long term capital budget requirements.

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 for the year ended December 31, 2005. 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 1933 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.

Capital Assets

The Authority's investment in capital assets, as of December 31, 2007 amounted to $308,884,804 (net of accumulated depreciation), as compared to $299,017,487 and $293,829,470 as of December 31, 2006 and December 31, 2005, 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)

	2007	2006	Increase/(Decrease) Dollars	Percent
Land	$ 2,218,274	$ 2,300,935	$ (82,661)	(3.6)
Construction work in progress	6,650,443	3,211,426	3,439,017	107.1
Total capital assets, not being depreciated	8,868,717	5,512,361	3,356,356	60.9
Buildings and structures	193,942,053	190,447,110	3,494,943	1.8
Mains and hydrants	208,849,255	200,260,412	8,588,843	4.3
Equipment	36,904,786	35,145,936	1,758,850	5.0
Other	46,607,176	44,585,384	2,021,792	4.5
Total capital assets, being depreciated	486,303,270	470,438,842	15,864,428	3.4
Less accumulated depreciation	186,287,183	176,933,716	9,353,467	5.3
Total capital assets, being depreciated, net	300,016,087	293,505,126	6,510,961	2.2
Total capital assets	$ 308,884,804	$ 299,017,487	$ 9,867,317	3.3

	2006	2005	Increase/(Decrease) Dollars	Percent
Land	$ 2,300,935	$ 2,300,935	$ -	-
Construction work in progress	3,211,426	4,658,392	(1,446,966)	(31.1)
Total capital assets, not being depreciated	5,512,361	6,959,327	(1,446,966)	(20.8)
Buildings and structures	190,447,110	183,880,434	6,566,676	3.6
Mains and hydrants	200,260,412	194,409,658	5,850,754	3.0
Equipment	35,145,936	33,561,338	1,584,598	4.7
Other	44,585,384	42,818,879	1,766,505	4.1
Total capital assets, being depreciated	470,438,842	454,670,309	15,768,533	3.5
Less accumulated depreciation	176,933,716	167,800,166	9,133,550	5.4
Total capital assets, being depreciated, net	293,505,126	286,870,143	6,634,983	2.3
Total capital assets	$ 299,017,487	$ 293,829,470	$ 5,188,017	1.8

Debt Administration

At December 31, 2007 the Authority had $105,424,613 in water revenue bond principal outstanding, net of deferred amounts for bond premium and issuance costs, as compared to $74,560,842 and $78,273,543 at December 31, 2006 and 2005. Water revenue bonds outstanding, net of deferred amounts from bond premium and issuance costs, increased $30,863,771 during the year ended December 31, 2007, compared to a $3,712,701 decrease during the year ended December 31, 2006, as a result of issuing $35,000,000 in new bond debt and making scheduled principal payments, as shown on the subsequent page.

	2007	2006
Series 1992FR*	$ 2,169,497	$ 2,153,577
Series 1998B	370,000	360,000
Series 1998D	750,000	725,000
Series 2003F	615,000	604,443
Total water revenue bond payments	3,904,497	3,843,020
Add (subtract) deferred amounts:		
For bond premiums	1,912	-
For issuance costs	(135,827)	(130,319)
Total water revenue bond payments, net of deferred amounts	$ 3,770,582	$ 3,712,701

*Fourth Resolution

There were no principal payments on Series 1993A and Series 1993B during the years ended December 31, 2007 and 2006.

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 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 community has been experiencing a steady decline in population and business activity. Concurrently, the Authority's customer base grew by less than one percent this past year. Additionally, there has been a steady decrease in overall consumption due to individual conservation efforts and changes in Federal and State laws and regulations which require appliance to use less water. Therefore, significant increases in water sales other than those caused by weather conditions, such as the dry summer in 2007, are not expected.

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

Meters read and billed quarterly (To Nearest 1,000 Gallons)	2007	2008	
First 300,000 gallons per quarter	$ 2.81	$ 2.86	per 1,000 gallons
Next 1,950,000	2.50	2.54	per 1,000 gallons
Next 5,250,000	2.29	2.33	per 1,000 gallons
Over 7,500,000	2.01	2.05	per 1,000 gallons

Meters read and billed monthly (To Nearest 1,000 Gallons)	2007	2008	
First 100,000 gallons per month	$ 2.81	$ 2.86	per 1,000 gallons
Next 650,000	2.50	2.54	per 1,000 gallons
Next 1,750,000	2.29	2.33	per 1,000 gallons
Over 2,500,000	2.01	2.05	per 1,000 gallons

Size of Meter	Quarterly Minimum Charge ($)		Allowance per Quarter	Monthly Minimum Charge ($)	
(inches)	2007	2008	(gallons)	2007	2008
5/8	$ 25.29	$ 25.74	9,000	$ 8.43	$ 8.58
3/4	33.72	34.32	12,000	11.24	11.44
1	59.01	60.06	21,000	19.67	20.02
1 1/4	75.87	77.22	27,000	25.29	25.74
1 1/2	109.59	111.54	39,000	36.53	37.18
2	177.03	180.18	63,000	59.01	60.06
3	337.20	343.20	120,000	112.40	114.40
4	556.38	566.28	198,000	185.46	188.76
6	1,068.00	1,086.60	390,000	356.00	362.20
8	1,668.00	1,696.20	630,000	556.00	565.40
10	2,343.00	2,382.00	900,000	781.00	794.00
12	3,168.00	3,220.20	1,230,000	1,056.00	1,073.40
20	7,023.30	7,139.10	2,820,000	2,341.10	2,379.70
24	9,359.00	9,515.70	3,840,000	3,119.70	3,171.90

For 2008, 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 2007.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Unrestricted cash and cash equivalents	$ 15,987,015	$ 26,767,602
Current investments	715,584	1,858,050
Customer accounts receivable, less allowance for doubtful accounts	6,051,569	5,904,788
Materials and supplies	1,867,580	1,726,109
Interest receivable and other assets	5,178,977	4,816,566
Total current assets	29,800,725	41,073,115
Noncurrent assets:		
Restricted cash and cash equivalents	66,801,737	18,001,870
Long-term investment	-	1,526,767
Capital assets, not being depreciated	8,868,717	5,512,361
Capital assets, being depreciated, net of accumulated depreciation	300,016,087	293,505,126
Total noncurrent assets	375,686,541	318,546,124
Total assets	405,487,266	359,619,239
LIABILITIES		
Current liabilities:		
Accounts payable	6,379,080	5,772,045
Advances for construction	425,783	259,086
Construction retention	390,834	264,741
Interest and other accrued liabilities	7,243,789	9,943,623
Water revenue bonds - current portion, net of deferred amounts for issuance costs and bond premiums	2,108,281	3,774,178
Total current liabilities	16,547,767	20,013,673
Noncurrent liabilities:		
Compensated absences	1,775,713	1,800,027
Long-term interest payable	-	216,620
Long-term other post employment benefit liability	3,054,071	-
Water revenue bonds - long-term, net of deferred amounts for issuance costs and bond premiums	103,316,332	70,786,664
Total noncurrent liabilities	108,146,116	72,803,311
Total liabilities	124,693,883	92,816,984
NET ASSETS		
Invested in capital assets, net of related debt	227,552,045	224,456,645
Restricted:		
Future construction reserve fund	10,752,458	5,110,840
Debt service reserve fund	9,449,249	7,155,197
Debt service fund	2,672,909	3,250,509
Unrestricted	30,366,722	26,829,064
Total net assets	$ 280,793,383	$ 266,802,255

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, 2007	2006
Operating revenue	$ 61,227,617	$ 55,744,905
Operating expenses:		
Operation and adminstration	24,927,064	26,260,319
Maintenance	9,434,577	7,960,443
Depreciation and amortization	10,075,578	9,708,972
Other post-employment benefit expense	3,054,071	-
Total operating expenses	47,491,290	43,929,734
Operating income	13,736,327	11,815,171
Nonoperating revenues (expenses):		
Interest income	3,138,936	2,498,889
Interest capitalization during construction	159,197	145,090
Interest expense	(4,035,419)	(3,868,064)
Total nonoperating revenues (expenses)	(737,286)	(1,224,085)
Net income before contributions in aid of construction	12,999,041	10,591,086
Contributions in aid of construction	992,087	1,175,186
Change in net assets	13,991,128	11,766,272
Total net assets - beginning of year	266,802,255	255,035,983
Total net assets - end of year	$ 280,793,383	$ 266,802,255

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, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 60,583,962	$ 55,357,489
Payments to contractors	(12,486,893)	(13,727,182)
Payments to employees including fringe benefits	(21,458,715)	(19,600,196)
Net cash provided by operating activities	26,638,354	22,030,111
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(19,682,887)	(15,013,133)
Bond issuance and principal repayment	30,729,856	(3,843,020)
Interest paid on revenue bonds, net of amount capitalized	(6,469,614)	(6,124,743)
Advances for construction	166,697	(146,873)
Contributions in aid of construction	992,087	1,175,186
Net cash provided (used) by capital and related financing activities	5,736,139	(23,952,583)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(1,380,583)	(2,223,178)
Proceeds from sale or maturity of investments	4,049,816	2,223,036
Interest received	2,975,554	2,477,457
Net cash provided by investing activities	5,644,787	2,477,315
Net increase in cash	38,019,280	554,843
Cash and cash equivalents - beginning of year (including amounts restricted for future construction, debt service reserve, future debt service, reserved for compensated absences and customer deposit)	44,769,472	44,214,629
Cash and cash equivalents - end of year (including amounts restricted for future construction, debt service reserve, future debt service, reserved for compensated absences and customer deposit)	$ 82,788,752	$ 44,769,472

(continued)

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

(concluded)

	Year Ended December 31, 2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$13,736,327	$11,815,171
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,941,663	9,578,653
Amortization expense	133,915	130,319
Other post-employment benefits expense	3,054,071	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(146,781)	(244,820)
(Increase) decrease in material and supplies	(141,471)	(47,431)
(Increase) decrease in other assets	(199,028)	(385,595)
Increase (decrease) in accounts payable	607,035	320,605
Increase (decrease) in other accrued liabilities	(321,784)	852,148
Increase (decrease) in accrued compensated absences	(25,593)	11,061
Total adjustments	12,902,027	10,214,940
Net cash provided by operating activities	$26,638,354	$22,030,111

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

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 and Town of Tonawanda, including the Village of Kenmore; and, has fulfilled this mandate by providing water to over 550,000 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 and in 2004 the Authority began to provide direct service to the City of Tonawanda and parts of the Town of Concord. Additionally, during 2007 the Authority began to serve parts of Wyoming County.

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. 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 $93,459 is a current liability, with the remaining $1,775,713 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.

Current investments—The Authority considers investments that mature in more than three months but less than a year as current investments.

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, 2007 and 2006.

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 2007 and 2006, $135,827 and $130,318, 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, 2007 and 2006 totaled $1,377,055 and $1,351,934, 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, 2007 and 2006.

Reclassifications—Certain amounts relating to the financial statements as of and for the year ended December 31, 2006 have been reclassified in order to be consistent with the current year's presentation.

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

Impacts of accounting pronouncements—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and No. 50 *Pension Disclosures—an amendment of GASB Statements No.25 and No. 27*, effective the year ending December 31, 2008; No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the year ending December 31, 2010; and No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for the year ending December 31, 2009. The Authority is therefore unable to disclose the impact that adopting GASB Statements No. 49, No. 50, No. 51 and No. 52 will have on its financial position and results of operations when such Statements are adopted.

During the year ended December 31, 2007, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions ("OPEB").* The effect of adoption of this new pronouncement for the year ended December 31, 2007 is annual OPEB cost of $4,301,381, with employer contributions of $1,247,310, resulting in the recording of an additional $3,054,071 expense that has not been recorded in prior years. The Authority's unfunded actuarial accrued liability for post employment benefits of $41,426,643 will be amortized over the next twenty nine years.

Additionally, during the year ended December 31, 2007, the Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which had no significant impact to the financial statements.

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, 2007 and 2006, the Authority had the following unrestricted cash and cash equivalents:

	December 31, 2007		December 31, 2006	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Unrestricted cash and cash equivalents:				
Cash and cash equivalents	$11,323,232	$11,323,232	$25,420,888	$25,420,888
Discounted commercial paper	4,605,875	4,663,783	1,339,615	1,346,714
Total unrestricted cash and cash equivalents	$15,929,107	$15,987,015	$26,760,503	$26,767,602

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.

Restricted for sick pay reserve—Cash restricted for sick pay was established to set funds aside to pay employee sick pay benefits as eligible employees retire or otherwise terminate their employment.

Restricted for customer deposits—Cash restricted for customer deposits was established to keep customer deposits for future work to be performed segregated from the Authority's operating cash.

As of December 31, 2007 and 2006, the Authority had the following restricted cash and cash equivalents:

	December 31, 2007		December 31, 2006	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Restricted for future construction:				
Cash and cash equivalents	$27,843,765	$27,843,765	$ 5,110,840	$ 5,110,840
Discounted commericial paper	21,052,517	21,149,182	-	-
Mortgage backed securities	2,836,573	2,851,366	-	-
Total restricted for future construction	51,732,855	51,844,313	5,110,840	5,110,840
Restricted for debt service reserve:				
Cash and cash equivalents	139,621	139,621	954,240	954,240
U.S. Treasury securities	3,267,116	3,267,116	3,267,116	3,267,116
Discounted commercial paper	6,016,634	6,042,512	2,920,942	2,933,841
Total restricted for debt service reserve	9,423,371	9,449,249	7,142,298	7,155,197
Restricted for debt service:				
Cash and cash equivalents	101,246	101,246	6,382	6,382
U.S. Treasury securities	2,564,589	2,571,663	3,234,605	3,244,127
Total restricted for debt service	2,665,835	2,672,909	3,240,987	3,250,509
Restricted for sick pay reserve:				
Cash and cash equivalents	32,760	32,760	1,110,051	1,110,051
Discounted commericial paper	1,836,412	1,859,500	706,943	710,983
Total restricted for sick pay reserve	1,869,172	1,892,260	1,816,994	1,821,034
Restricted for customer deposits:				
Cash and cash equivalents	943,006	943,006	664,290	664,290
Total restricted for customer deposits	943,006	943,006	664,290	664,290
Total restricted cash and cash equivalents	$66,634,239	$66,801,737	$17,975,409	$18,001,870

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, 2007 and 2006, 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.

Current investments—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, 2007 and 2006, the zero coupon bond investment balance is $715,584 and $1,526,767, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. The annual deposit for next year will be approximately $21,000. On December 1, 2007, the Authority received $974,134 as the eighth guaranteed annual payment from this investment. The Authority will receive the final payment of $787,644 on December 1, 2008. Previously, this investment was presented as a long-term investment, however since it matures within one year of December 31, 2007, it has been included as a current investment.

Credit ratings—The Authority has commercial paper investments with ING US Funding maturing January 3, 2008; United Parcel Service maturing January 15, 2008; Citigroup Funding maturing January 22, 2008 and January 30, 2008; GE Capital Corporation maturing January 30, 2008; Toyota Motor Credit maturing January 30, 2008, February 8, 2008 and February 19, 2008; Abbey National NA maturing February 1, 2008; HSBC Finance Corporation maturing February 4, 2008 and February 8, 2008; and the Bank of Scotland maturing February 4, 2008 and March 17, 2008. All of these investments have an S&P credit rating of A-1+ and a Moody's credit rating of P-1.

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, 2007 and 2006 total $444,941 and $339,293, respectively.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance 1/1/2007	Additions and Reclassifications	Deletions and Reclassification	Balance 12/31/2007
Capital assets, not being depreciated:				
Land	$ 2,300,935	$ -	$ (82,661)	$ 2,218,274
Construction work in progress	3,211,426	19,550,964	(16,111,947)	6,650,443
Total capital assets, not being depreciated	5,512,361	19,550,964	(16,194,608)	8,868,717
Capital assets in service, being depreciated:				
Buildings and structures	190,447,110	3,494,943	-	193,942,053
Mains and hydrants	200,260,412	8,621,265	(32,422)	208,849,255
Equipment	35,145,936	2,365,013	(606,163)	36,904,786
Other	44,585,384	2,021,792	-	46,607,176
Total capital assets, being depreciated	470,438,842	16,503,013	(638,585)	486,303,270
Less accumulated depreciation:				
Buildings and structures	88,628,923	4,863,804	-	93,492,727
Mains and hydrants	42,545,075	2,045,455	(41,549)	44,548,981
Equipment	19,551,783	1,869,293	(546,647)	20,874,429
Other	26,207,935	1,163,111	-	27,371,046
Total accumulated depreciation	176,933,716	9,941,663	(588,196)	186,287,183
Total capital assets being depreciated, net	293,505,126	6,561,350	(50,389)	300,016,087
Total capital assets, net	$ 299,017,487	$ 26,112,314	$ (16,244,997)	$ 308,884,804

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	6,959,327	15,182,443	(16,629,409)	5,512,361
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	454,670,309	16,649,477	(880,944)	470,438,842
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	167,800,166	9,578,653	(445,103)	176,933,716
Total capital assets being depreciated, net	286,870,143	7,070,824	(435,841)	293,505,126
Total capital assets, net	$ 293,829,470	$ 22,253,267	$ (17,065,250)	$ 299,017,487

Depreciation expense for the years ended December 31, 2007 and 2006 totaled $9,941,663 and $9,578,653, respectively.

5. LONG-TERM DEBT

Summary of long-term debt—the following is a summary of the water revenue bonds, for the Authority at December 31, 2007:

Series	Final Annual Installment Payment Due	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding 12/31/2007
Series 1992FR	6/1/2008	2006	6.20-6.30%	$ 50,269,710	$ 149,756
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	4,470,000
Series 1998D	10/15/2019	2000	3.90-5.15% (*)	16,859,700	11,460,000
Series 2003F	7/15/2023	2004	.79-4.50% (*)	15,544,443	13,180,000
Series 2007FR	12/1/2037	2008	4.50-5.00%	35,000,000	35,000,000
					106,759,756
Less portion due within one year					(2,224,756)
					$ 104,535,000

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

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 2007FR Bonds represent Current Interest Bonds and Terms 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 outstanding is reflected as long-term interest payable. Interest on these Appreciation Bonds will total $250,244 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 3.38% at December 31, 2007 for the Series 1993A and 1993B and 3.84% at December 31, 2006 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 $3,412,702 and $2,364,357 for the Series 1993A and 1993B, respectively, as of December 31, 2007. These values have been compiled based on market rates at the close of business on December 31, 2007. 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.

Insurance risk. The Authority insures the Series 1993A and the Series 1993B Bonds with a third party. It is subject to the risk that the third party may be downgraded or put on a negative watch for downgrading which could result in additional costs to the Authority relating to the future net settlement of the swap.

Credit risk. As of December 31, 2007, 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 3.38% on December 31, 2007, 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
2008	$ -	$ 1,436,500	$ 888,000	$ 2,324,500
2009	4,300,000	1,436,500	888,000	6,624,500
2010	4,600,000	1,291,160	798,270	6,689,430
2011	4,900,000	1,135,680	702,310	6,737,990
2012	5,100,000	970,060	600,120	6,670,180
2013-2016	23,600,000	2,051,660	1,270,070	26,921,730
Total	$42,500,000	$ 8,321,560	$5,146,770	$55,968,330

As provided by the respective bond resolutions, the Series 1993A Bonds and the Series 1993B Bonds are redeemable prior to maturity at the election of the Authority, at any time. In order to redeem these bonds the Authority would be required to unwind the swap agreements.

The Current Interest Serial 1998B and 1998D Series Bonds were issued to the EFC under their aggregate pool financings identified as New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bonds Series 1998B and Series 1998D in 1998. The 1998B and 1998D bonds in the amounts of $7,780,931 and $16,859,700, respectively, representing the Authority's portion of these financings, were issued to cover the costs of the construction of two new clearwell water tanks and a new pumping station at the Authority's Sturgeon Point plant. Payments are made to the bondholders as follows:

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

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

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

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

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

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

On September 13, 2007, the 2007FR Series Bonds were issued for $35,194,288, which includes a premium of $194,288 that is amortized over the life of the bonds. The purpose of these bonds is to provide funds for the costs of acquisition and construction of various projects undertaken by the Authority as part of it capital improvement program. This includes the replacement of various water mains and valves in the distribution system, construction of new pump stations, and upgrades to the coagulation basins and the replacement of electrical equipment and installation of standby emergency generators at the Authority's Sturgeon Point and Van de Water Treatment Plants.

Interest on the 2007FR Series Bonds ranges 4.50% to 5.00% and is payable semi-annually on June 1 and December 1. The principal is payable on December 1. The final maturity of the bonds is December 1, 2037.

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 $16,477,356 at December 31, 2007 with maturities ranging from the year 2008 to the year 2014.

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 final maturity of these bonds was December 1, 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
2008	$ 2,224,756	$ 240,065	$ 93,459	$ 2,558,280
2009	6,760,000	-	-	6,760,000
2010	7,130,000	-	-	7,130,000
2011	7,510,000	-	-	7,510,000
2012	7,795,000	-	-	7,795,000
2013-2017	38,580,000	-	-	38,580,000
2018-2022	11,240,000	-	-	11,240,000
2023-2027	8,520,000	-	-	8,520,000
2028-2032	7,565,000	-	-	7,565,000
2033-2037	9,435,000	-	-	9,435,000
Various years	-	-	1,775,713	1,775,713
	106,759,756	240,065	1,869,172	108,868,993
Less portion due within one year	2,224,756	240,065	93,459	2,558,280
	$ 104,535,000	$ -	$1,775,713	$ 106,310,713

* 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:

	Interest Due on Bonded Debt
2008	$ 5,596,268
2009	5,163,298
2010	4,829,170
2011	4,471,817
2012	4,092,058
2013-2017	14,040,719
2018-2022	7,437,005
2023-2027	5,077,731
2028-2032	3,423,420
2033-2037	1,444,450
	55,575,936
Less portion due within one year	5,596,268
	$ 49,979,668

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, 2007 is $1,869,172, as compared to $1,894,765 at December 31, 2006. At December 31, 2007 management estimates $93,459 is a current liability, as compared to $94,738 at December 31, 2006. 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 and other long-term debt for the year ended December 31, 2007:

	Balance 1/1/2007	Additions and Appreciation	Deletions	Balance 12/31/2007	Due Within One Year
Bonds payable	$75,664,253	$35,000,000	$(3,904,497)	$106,759,756	$2,224,756
Add (subtract) deferred amounts:					
For bond premiums	-	194,288	(1,912)	192,376	6,430
For issuance costs	(1,103,411)	(559,935)	135,827	(1,527,519)	(122,905)
Total bonds payable	74,560,842	34,634,353	(3,770,582)	105,424,613	2,108,281
Capital appreciation interest	3,317,846	307,722	(3,385,503)	240,065	240,065
Accrued compensated absences	1,894,765	466,243	(491,836)	1,869,172	93,459
Total long-term debt	$ 79,773,453	$ 35,408,318	$ (7,647,921)	$ 107,533,850	$ 2,441,805

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 $1,332,308, $1,329,422, and $1,572,051 in 2007, 2006 and 2005, 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

Plan Description—The Authority provides retiree health plans through Labor Management Healthcare Fund ("LMHF"). Retirees must meet age and years of service requirements to qualify for health benefits. Retiree benefits continue for the lifetime of the retiree and spousal benefits continue for their lifetime until they remarry. There were 122 and 106 retirees receiving health care benefits, at December 31, 2007 and December 31, 2006.

Funding Policy—Authorization for the Authority to pay a portion, or all, of retiree health insurance premiums was enacted by resolution of the Authority's Board of Commissioners or through union contracts, which are ratified by the Board of Commissioners. Employees that meet the age and years of service requirements that are enrolled in any healthcare plan prior to June 1, 2004 are required to make 0% of the contribution. New retirees enrolling in the Traditional Blue PPO 812 plan after June 1, 2004 are required to pay contributions equal to the difference between the Traditional Blue PPO 812 plan premium and the highest premium of any other plan offered to that retiree. No current retirees contribute to their healthcare coverage.

The Authority's annual post employment benefit ("OPEB") cost is calculated based on the annual required contributions ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation.

Annual required contribution	$ 4,301,381
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB costs (expense)	4,301,381
Contributions made	(1,247,310)
Increase in net OPEB obligation	3,054,071
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 3,054,071

Funding Status and Funding Progress—As of January 1, 2007, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was $41,426,643.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress in not presented as required supplemental information as this is the first year of implementing GASB Statement No. 45. This schedule would present multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2007 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation and measurement date of January 1, 2007. The expected investment rate of return on employer's assets is 4.5%. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Authority does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer's assets. The RP-2000 Mortality Table for males and females is used for mortality rates. The rates of decrement due to disability are assumed to be zero. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis, therefore the remaining amortization period at December 31, 2007 was twenty-nine years.

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.

	December 31, 2007		December 31, 2006	
Capital assets, net of accumulated depreciation		$ 308,884,804		$ 299,017,487
Related debt:				
Water revenue bonds:				
Total water revenue bonds issued	(106,759,756)		(75,664,253)	
Unspent debt proceeds in future construction reserve fund	24,091,854		-	
Water revenue bonds issued for capital assets		(82,667,902)		(75,664,253)
Bond issue cost		1,527,519		1,103,411
Bond premium		(192,376)		-
Investment in capital assets, net of related debt		$ 227,552,045		$ 224,456,645

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, 2007 and 2006 net assets were restricted for the following purposes:

- ***Future Construction Reserve Fund***—The Future Construction Reserve Fund is used for committed funding for future capital expenditures. The unspent 2007 bond proceeds are included within this reserve, net of related debt. 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.

- ***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 Fourth Resolution bond series established a Debt Service Reserve Fund as required by the Series 1992 Fourth Resolution bond resolution to maintain a specified amount of funds to meet future debt service requirements. Of the permissible options, the Authority elected to purchase a surety bond. A surety bond issued by AMBAC Indemnity Corporation has been deposited in the Reserve Fund in full satisfaction of the Reserve Fund requirements for the Series 1992 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.

During 2007, the Authority established a Debt Service Reserve Fund as required by the Series 2007 bond resolution to maintain a specified amount of funds to meet future debt service requirements. The Authority established the Debt Service Reserve Fund based on the maximum amount of principal and interest coming due in any succeeding calendar year on the outstanding Series 2007 bonds.

- ***Debt Service Fund***—The 1992 Fourth Resolution, 1993A, 1993B, 1998B, 1998D, 2003F, and 2007 Fourth Resolution 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. Management intends to utilize approximately $17 million of unrestricted net assets to partially finance the Authority's five-year capital plan, which will require future financing in excess of $90 million.

10. COMMITMENTS AND CONTINGENCIES

The Authority maintains and operates certain facilities employed in the sale and distribution of water which it leases from various local municipal water districts pursuant to lease management agreements. 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 water quality standards. The Authority has established procedures for the on-going evaluation of its operations to identify potential exposures and assure continued compliance with these regulatory standards.

The Authority is also committed under various operating leases for the use of certain equipment and office space. Rental expense for 2007 and 2006 aggregated $302,048 and $290,962, 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.

11. SUBSEQUENT EVENTS

In regards to the interest rate swap relating to its Series 1993A and 1993B water revenue bonds, the Authority is responsible to pay the interest owed on the bonds and a fixed interest rate to A.I.G. Financial Products Corp. ("AIG"), offsetting this amount payable is the variable rate paid to the Authority from AIG. Based on certain agreements entered into between the Authority and AIG, the interest rate paid to the Authority from AIG in accordance with the interest rate swap was modified from the initial rate to be LIBOR based. As a consequence the variable rate that is paid to the Authority could decrease. The potential decrease in interest rate would create an additional interest expense to the Authority. The amount of this potential expense is currently unknown.

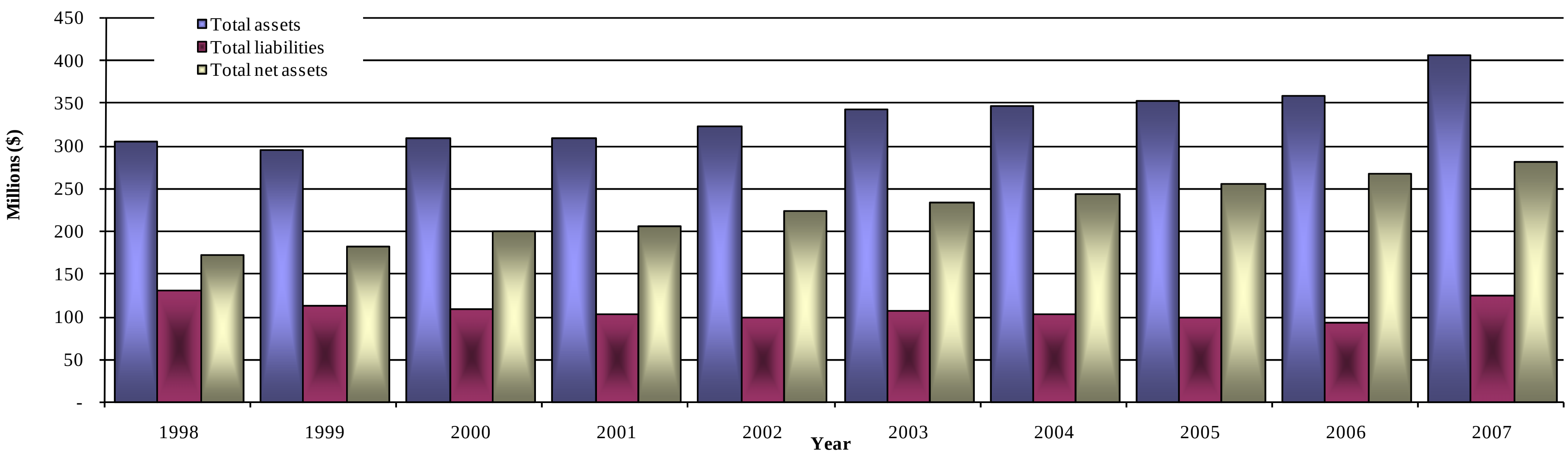
STATISTICAL SECTION
(UNAUDITED)

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**

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

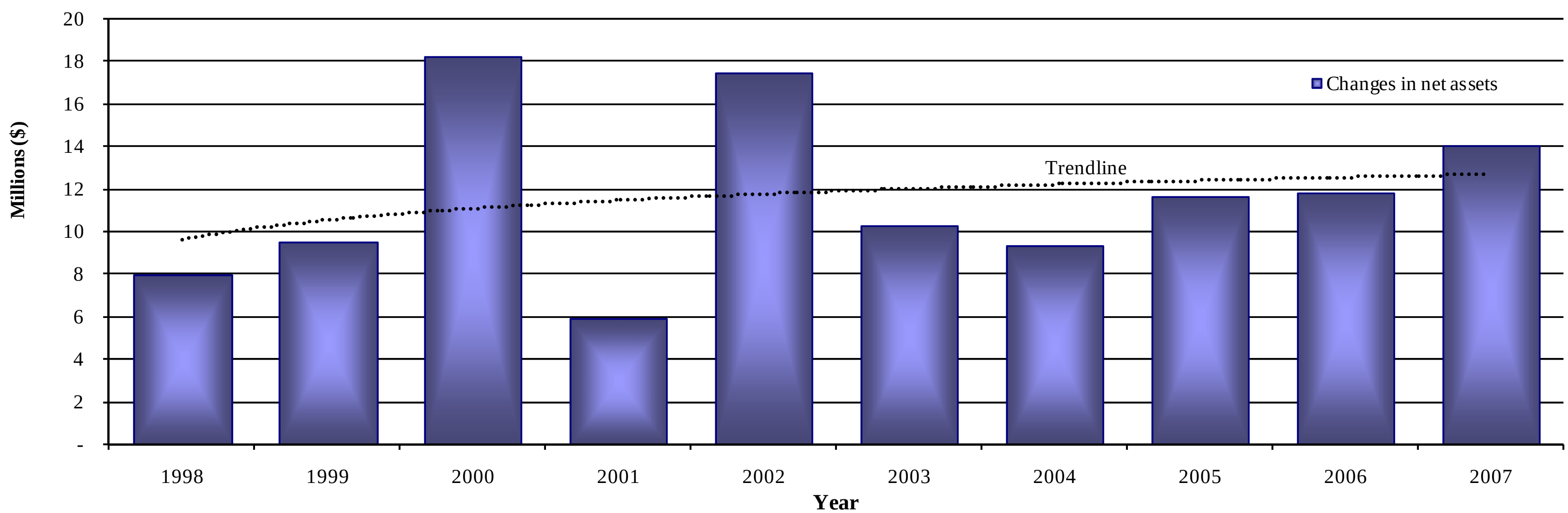
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Current assets	$ 38,594,773	$ 32,167,665	$ 32,291,609	$ 34,101,790	$ 37,770,731	$ 33,704,255	$ 37,231,424	$ 39,318,337	$ 41,073,115	$ 29,800,725
Noncurrent assets	265,771,498	263,724,021	276,261,656	275,773,688	284,872,862	308,317,224	308,849,860	313,858,623	318,546,124	375,686,541
Total assets	304,366,271	295,891,686	308,553,265	309,875,478	322,643,593	342,021,479	346,081,284	353,176,960	359,619,239	405,487,266
Current liabilities	12,687,046	11,709,700	14,441,120	14,640,158	15,007,426	14,940,648	17,638,491	18,809,409	20,013,673	16,547,767
Noncurrent liabilities	118,903,239	101,903,657	93,614,150	88,843,783	83,817,621	93,016,537	85,048,501	79,331,568	72,803,311	108,146,116
Total liabilities	131,590,285	113,613,357	108,055,270	103,483,941	98,825,047	107,957,185	102,686,992	98,140,977	92,816,984	124,693,883
Invested in capital assets, net of related debt	148,622,275	157,601,747	163,638,247	168,492,470	176,744,270	177,687,304	191,922,943	208,606,705	224,456,645	227,552,045
Restricted	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	22,874,616
Unrestricted	5,564,983	12,957,872	22,211,113	24,130,591	32,522,368	31,618,422	31,578,842	29,784,800	26,829,064	30,366,722
Total net assets	$ 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	$ 280,793,383



(Source: Annual Audited Financial Statements)

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

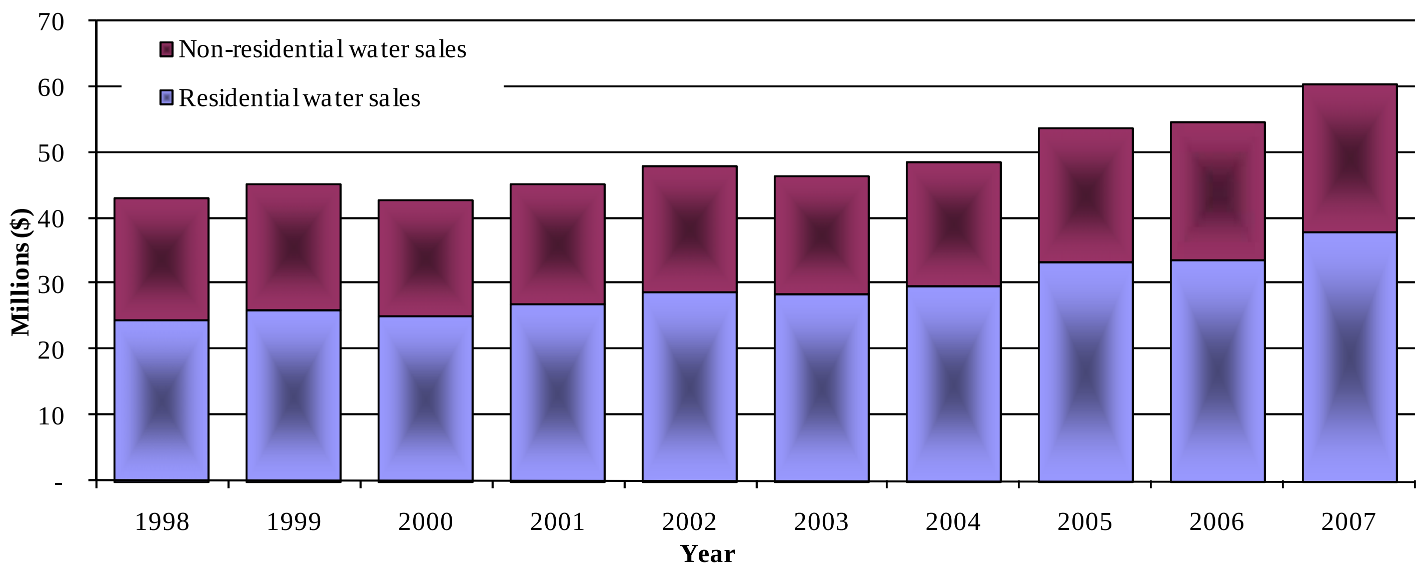
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating revenue	$ 43,460,852	$ 45,788,920	$ 43,013,977	$ 45,633,628	$ 48,362,387	$ 47,073,542	$ 48,982,522	$ 54,238,666	$ 55,744,905	$ 61,227,617
Operating expenses	33,314,952	34,039,368	34,554,244	37,954,241	37,318,985	37,204,461	39,654,104	41,831,636	43,929,734	47,491,290
Operating income	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	13,736,327
Nonoperating revenue(expenses)	(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)	(737,286)
Net income before contributions in aid of construction	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	12,999,041
Contributions in aid of construction	666,021	522,871	12,183,166	1,039,319	9,175,209	3,424,130	3,170,906	1,489,097	1,175,186	992,087
Change in net assets	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	13,991,128
Total net assets - beginning of year	164,789,475	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
Total net assets - end of year	$ 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	$ 280,793,383



(Source: Annual Audited Financial Statements)

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

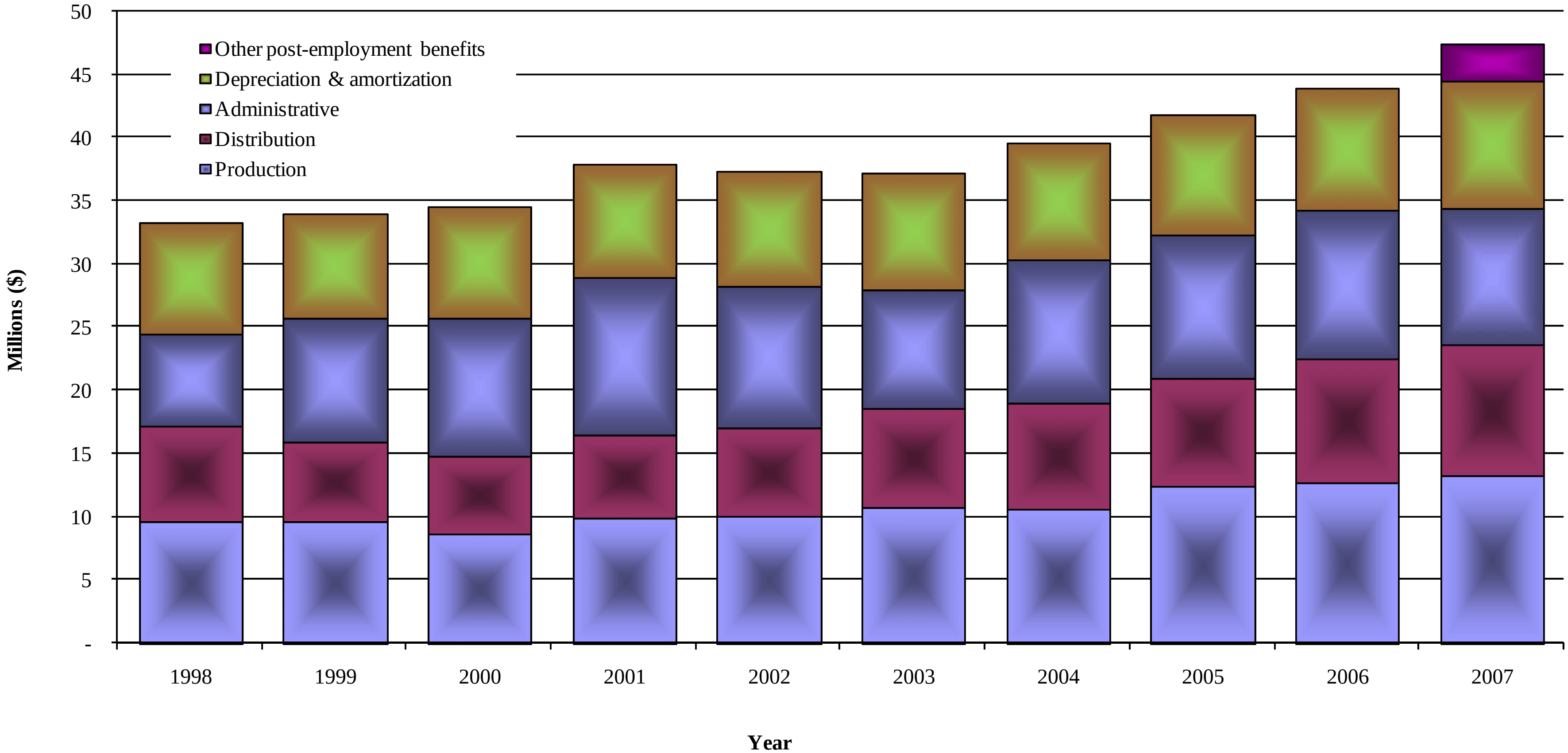
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Water sales										
Residential	$ 24,764,366	$ 26,120,470	$ 25,265,112	$ 27,042,922	$ 29,052,911	$ 28,482,355	$ 29,894,743	$ 33,370,134	$ 33,915,574	$ 38,059,827
Commercial	5,347,924	5,727,128	5,845,693	5,963,131	5,918,519	5,757,113	6,096,444	6,589,277	6,845,706	7,402,558
Industrial	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	1,917,907
Public authorities	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	2,170,407
Fire protection	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	3,774,006
Sales to other utilities	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	4,992,582
Other water revenue	1,201,772	1,421,199	1,044,501	1,488,505	1,542,886	1,419,298	1,251,430	1,906,305	1,801,691	2,353,620
Total water sales	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	60,670,907
Rents from water towers	71,361	83,113	132,667	159,614	299,550	326,573	353,887	419,872	446,806	547,075
Other operating revenue	141,174	362,892	70,105	12,744	30,298	69,647	14,514	13,752	467,531	9,635
Total operating revenue	$ 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	$ 61,227,617
Water sales as a percent of total operating revenue	99.5%	99.0%	99.5%	99.6%	99.3%	99.2%	99.2%	99.2%	98.4%	99.1%



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Operating Expenses
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Production	$ 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	$ 13,215,672
Distribution	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	10,418,967
Administrative	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	10,727,002
Depreciation & amortization	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	10,075,578
Other post-employment benefits	-	-	-	-	-	-	-	-	-	3,054,071
Total operating expenses	$ 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	$ 47,491,290



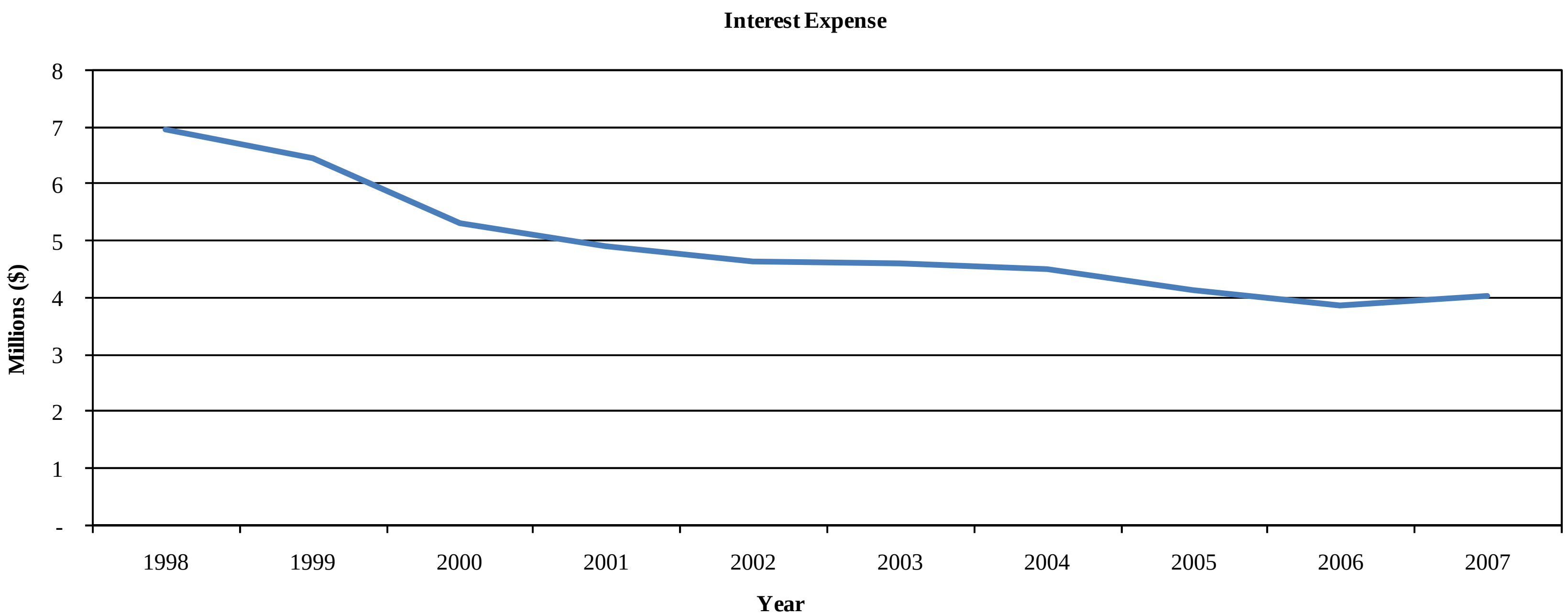
(Source: Annual Audited Financial Statements)

Erie County Water Authority

Nonoperating Revenue (Expenses)

Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Nonoperating revenues (expenses)										
Interest expense	$ (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)	$ (4,035,419)
Interest revenue	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	3,138,936
Interest capitalized during construction	420,866	670,154	18,299	39,409	61,539	365,823	143,378	99,076	145,090	159,196
Other nonoperating revenue (expenses)	310,086	-	-	-	-	-	-	-	-	-
Nonoperating revenues (expenses)	$ (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)	$ (737,287)

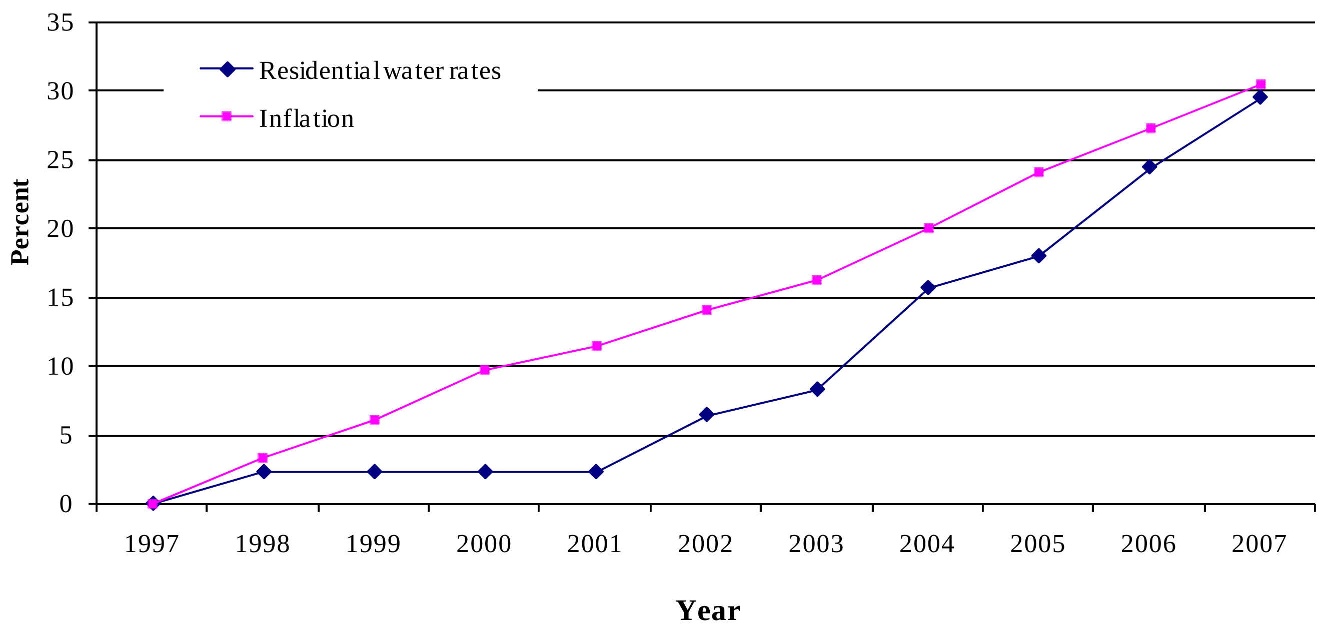


(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Residential Water Rate History
Last Ten Fiscal Years

	1997 (Base Year)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Residential water rate	$ 2.17	$ 2.22	$ 2.22	$ 2.22	$ 2.22	$ 2.31	$ 2.35	$ 2.51	$ 2.56	$ 2.70	$ 2.81
Percentage increase (%)	-	2.30	-	-	-	4.05	1.73	6.81	1.99	5.47	4.07
Cumulative increase (%)	-	2.30	2.30	2.30	2.30	6.44	8.28	15.65	17.95	24.40	29.46
Inflation rate (%)	1.70	1.61	2.68	3.39	1.55	2.38	1.88	3.26	3.42	2.54	4.08
Cumulative increase (%)	-	3.34	6.11	9.71	11.41	14.06	16.20	19.99	24.09	27.24	30.47

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

Year End December 31, 2007		Year End December 31, 1998	
Non-Municipal Customers		**Non-Municipal Customers**	
State University of NY at Buffalo	$ 520,397	Bethlehem Steel Corporation	$ 754,386
Accelor Mittel	473,272	State University of NY at Buffalo	387,388
Developers Diversified	246,487	Benderson Development Company	217,389
Seneca Nation of Indians	239,883	Republic Technologies International	141,089
Mayer Bros Apple Prod Inc.	209,693	Seneca Nation of Indians	138,705
Upstate Farms Cooperative	196,009	Ford Motor Company	100,489
Benderson Development Company	170,407	West Seneca Developmental Center	100,157
Rosina Food Products Inc.	164,093	Delta Sonic	98,641
Republic Engineered Products	138,054	Ahold Financial Services	92,525
Uniland Development Company	129,302	New York State Department of Corrections	87,233
Total of Largest Non-Municipal Customers	$2,487,597	Total of Largest Non-Municipal Customers	$2,118,002
Percent of total billings	4.1%	Percent of total billings	4.9%
Municipal Customers		**Municipal Customers**	
Town of Elma	$1,322,802	Town of Clarence*	$1,545,854
Town of Evans	959,152	Town of Elma	874,016
Village of Williamsville	523,495	Town of Evans	751,133
Village of East Aurora	501,318	Village of Lancaster*	732,235
Village of Angola	339,954	Village of East Aurora	460,336
Village of Blasdell	298,433	Village of Williamsville	415,900
Village of Orchard Park	248,001	Village of Orchard Park	354,679
Village of Silver Creek	212,531	Village of Depew*	290,289
Monroe County Water Authority	183,682	Village of Blasdell	245,747
Town of Amherst	166,034	Village of Angola	230,178
Total of Largest Municipal Customers	$4,755,402	Total of Largest Municipal Customers	$5,900,367
Percent of total billings	8.0%	Percent of total billings	13.6%

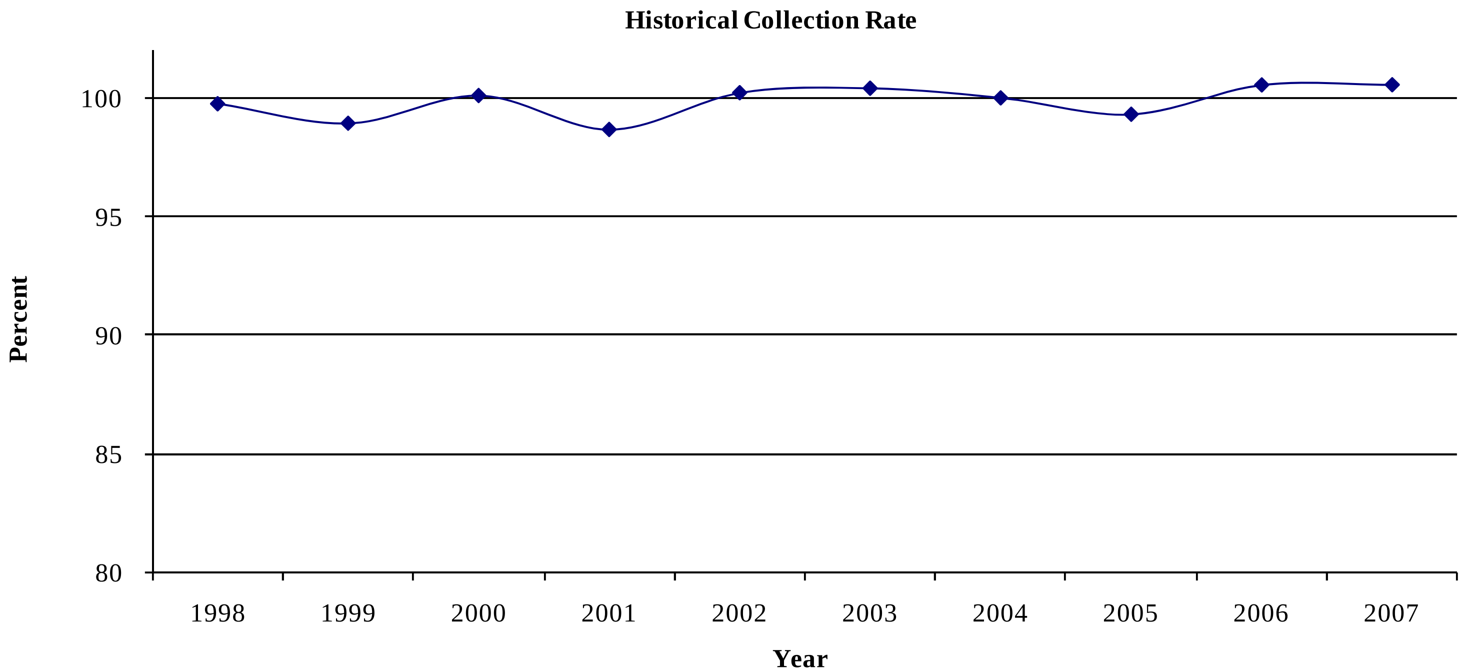
* These municipalities converted from bulk sale to direct service customers between 1998 and 2007

(Source: Authority Business Office Records)

ERIE COUNTY WATER AUTHORITY
Collection Rates
Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total billings	$ 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	$ 60,437,396
Collections*	$ 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	$ 60,799,593
Collection rate (%)	99.80	98.98	100.15	98.72	100.26	100.45	100.05	99.36	100.59	100.60

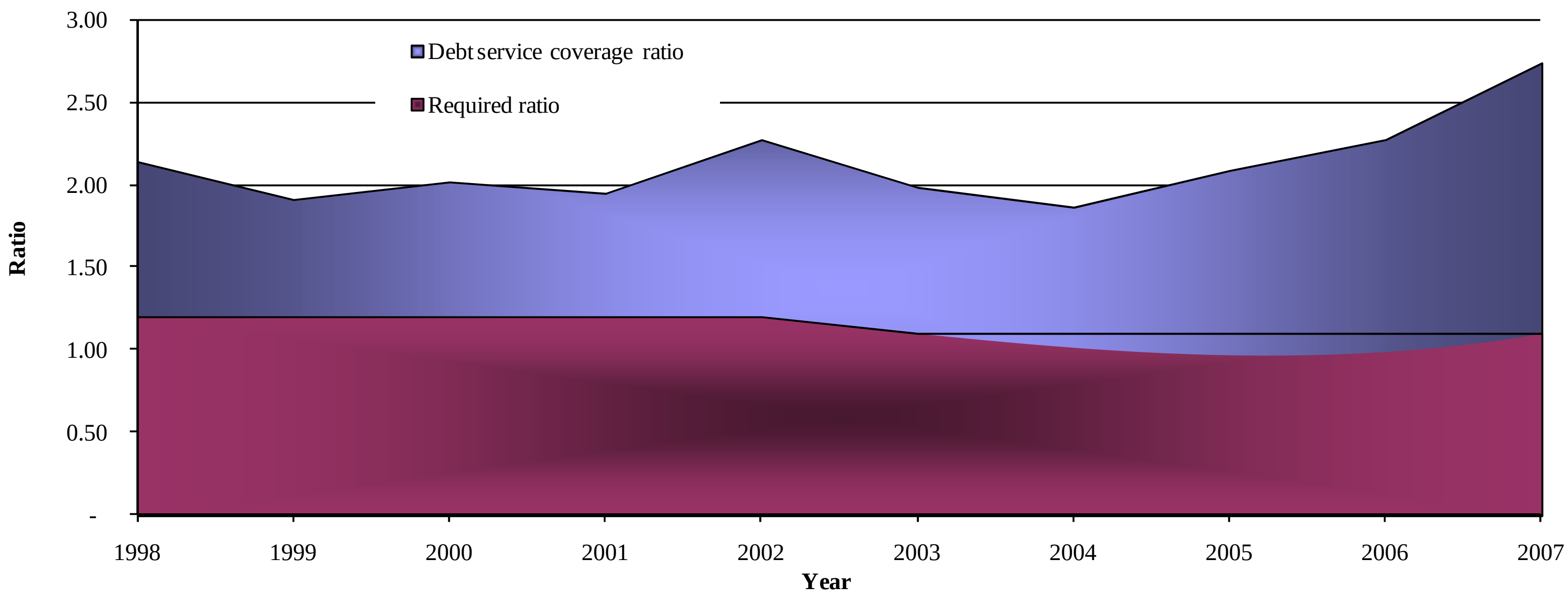
*collections include collections of current year billings and prior year billings



(Source: Authority Financial and Business Office Records)

ERIE COUNTY WATER AUTHORITY
Ratios of Outstanding Debt
Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating revenue	$ 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	$ 61,227,617
Interest income	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	3,138,936
Operating expense less non-cash expenses	(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)	(34,361,641)
Net revenue	$ 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	$ 30,004,912
Debt service	$ 10,382,163	$ 12,058,831	$ 9,979,103	$ 9,644,694	$ 9,661,533	$ 10,190,804	$ 10,642,769	$ 11,379,335	$ 10,563,883	$ 10,958,058
Debt service coverage ratio	2.14	1.91	2.02	1.95	2.27	1.99	1.87	2.09	2.27	2.74



(Source: Authority Financial Records)

ERIE COUNTY WATER AUTHORITY
Debt Maturity Schedule

	Issued Directly by the Authority						EFC Financings		
	Capital Appreciation Bonds*		Variable Weekly & Current Interest Bonds		2007 Fourth Resolution Bonds		Serial Bonds		Total
	Initial Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal & Interest
2008	$ 149,756	$ 240,065	$ -	$ 2,324,500	$ 295,000	$ 1,989,054	$ 1,780,000	$ 1,282,715	$ 8,061,089
2009	-	-	4,300,000	2,324,500	635,000	1,621,564	1,825,000	1,217,235	11,923,299
2010	-	-	4,600,000	2,089,430	660,000	1,592,989	1,870,000	1,146,751	11,959,170
2011	-	-	4,900,000	1,837,990	685,000	1,563,289	1,925,000	1,070,538	11,981,817
2012	-	-	5,100,000	1,570,180	710,000	1,532,464	1,985,000	989,414	11,887,058
2013	-	-	5,400,000	1,291,240	740,000	1,500,514	2,045,000	903,875	11,880,629
2014	-	-	5,700,000	995,930	770,000	1,467,214	2,120,000	813,662	11,866,806
2015	-	-	6,100,000	684,250	800,000	1,432,564	2,190,000	718,007	11,924,821
2016	-	-	6,400,000	350,310	835,000	1,396,564	2,270,000	617,037	11,868,911
2017	-	-	-	-	865,000	1,358,989	2,345,000	510,565	5,079,554
2018	-	-	-	-	905,000	1,320,064	1,885,000	399,318	4,509,382
2019	-	-	-	-	940,000	1,279,339	1,950,000	311,588	4,480,927
2020	-	-	-	-	980,000	1,237,039	805,000	218,604	3,240,643
2021	-	-	-	-	1,025,000	1,192,939	830,000	183,869	3,231,808
2022	-	-	-	-	1,065,000	1,146,814	855,000	147,432	3,214,246
2023	-	-	-	-	1,115,000	1,098,889	2,430,000	109,350	4,753,239
2024	-	-	-	-	1,165,000	1,048,714	-	-	2,213,714
2025	-	-	-	-	1,215,000	996,289	-	-	2,211,289
2026	-	-	-	-	1,270,000	941,614	-	-	2,211,614
2027	-	-	-	-	1,325,000	882,876	-	-	2,207,876
2028-2032	-	-	-	-	7,565,000	3,423,420	-	-	10,988,420
2033-2037	-	-	-	-	9,435,000	1,444,450	-	-	10,879,450
Total	$ 149,756	$ 240,065	$ 42,500,000	$ 13,468,330	$ 35,000,000	$ 31,467,648	$ 29,110,000	$ 10,639,960	$ 162,575,758

* Capital appreciation bonds reflect balances as of 12/31/2007. Interest accretion will continue as the bonds approach maturity.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total principal debt outstanding	$ 117,193,185	$ 98,749,809	$ 91,244,219	$ 87,333,747	$ 83,607,830	$ 93,347,273	$ 86,847,273	$ 79,507,273	$ 75,664,253	$ 106,759,756
Total interest outstanding	72,506,416	62,921,186	55,767,924	49,690,744	43,426,410	46,549,435	42,172,293	37,216,280	31,094,194	55,816,002
Total outstanding debt	$ 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	$ 162,575,758
Outstanding debt per customer	$ 1,522	$ 1,201	$ 1,078	$ 997	$ 916	$ 968	$ 841	$ 755	$ 682	$ 1,034

(Source: Official Statements from Bond Issues and Authority Business Office Records)

ERIE COUNTY WATER AUTHORITY
Principal Debt Outstanding by Issue

	Series 1992FR	Series 1993A	Series 1993B	Series 1998B	Series 1998D	Series 2003F	Series 2007FR	Total
2008	$ 149,756	$ -	$ -	$ 380,000	$ 775,000	$ 625,000	$ 295,000	$ 2,224,756
2009	-	2,800,000	1,500,000	395,000	805,000	625,000	635,000	6,760,000
2010	-	3,000,000	1,600,000	405,000	830,000	635,000	660,000	7,130,000
2011	-	3,200,000	1,700,000	420,000	860,000	645,000	685,000	7,510,000
2012	-	3,300,000	1,800,000	435,000	890,000	660,000	710,000	7,795,000
2013	-	3,500,000	1,900,000	450,000	925,000	670,000	740,000	8,185,000
2014	-	3,700,000	2,000,000	470,000	960,000	690,000	770,000	8,590,000
2015	-	3,900,000	2,200,000	485,000	1,000,000	705,000	800,000	9,090,000
2016	-	4,100,000	2,300,000	505,000	1,040,000	725,000	835,000	9,505,000
2017	-	-	-	525,000	1,080,000	740,000	865,000	3,210,000
2018	-	-	-	-	1,125,000	760,000	905,000	2,790,000
2019	-	-	-	-	1,170,000	780,000	940,000	2,890,000
2020	-	-	-	-	-	805,000	980,000	1,785,000
2021	-	-	-	-	-	830,000	1,025,000	1,855,000
2022	-	-	-	-	-	855,000	1,065,000	1,920,000
2023	-	-	-	-	-	2,430,000	1,115,000	3,545,000
2024	-	-	-	-	-	-	1,165,000	1,165,000
2025	-	-	-	-	-	-	1,215,000	1,215,000
2026	-	-	-	-	-	-	1,270,000	1,270,000
2027	-	-	-	-	-	-	1,325,000	1,325,000
2028	-	-	-	-	-	-	1,385,000	1,385,000
2029	-	-	-	-	-	-	1,445,000	1,445,000
2030	-	-	-	-	-	-	1,510,000	1,510,000
2031	-	-	-	-	-	-	1,575,000	1,575,000
2032	-	-	-	-	-	-	1,650,000	1,650,000
2033	-	-	-	-	-	-	1,720,000	1,720,000
2034	-	-	-	-	-	-	1,800,000	1,800,000
2035	-	-	-	-	-	-	1,885,000	1,885,000
2036	-	-	-	-	-	-	1,970,000	1,970,000
2037	-	-	-	-	-	-	2,060,000	2,060,000
Total	$ 149,756	$ 27,500,000	$ 15,000,000	$ 4,470,000	$ 11,460,000	$ 13,180,000	$ 35,000,000	$ 106,759,756

(Source: Official Statements from Bond Issues)

ERIE COUNTY WATER AUTHORITY
Demographic and Economic Statistics
Last Ten Years

	Erie County			Unemployment Rate[1]		
	Population[2]	Per Capita Income[3]	Aggregate Income[4]	Erie County	New York State	Labor Force[1]
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	949,296	27,835	$ 19,181,203,026	4.2%	4.1%	575,475
2001	945,222	28,449	19,459,796,053	5.7%	6.0%	572,861
2002	941,127	29,126	19,348,895,930	5.6%	6.3%	579,977
2003	937,770	30,261	20,807,948,091	5.9%	6.0%	582,378
2004	933,379	31,854	20,743,073,400	5.5%	5.2%	585,994
2005	925,660	33,039	21,396,921,200	5.0%	4.8%	584,833
2006	918,339	n/a	21,730,920,800	4.5%	4.0%	579,570
2007	913,338	n/a	n/a	5.2%	4.7%	576,319

(n/a: not available)

Sources:
[1]US Department of Labor - Bureau of Labor Statistics
[2]US Bureau of the Census
[3]US Bureau of Economic Analysis
[4]US Bureau of the Census - American Community Survey

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

	2007			1998		
Employer	Employees	Percentage of Total Labor Force	Rank	Employees	Percentage of Total Labor Force	Rank
State of New York	16,508	2.9%	1	15,571	2.7%	1
United States of America	10,000	1.7%	2	13,000	2.2%	2
Kaleida Health	9,500	1.6%	3	-	-	
Erie County	7,269	1.3%	4	6,555	1.1%	4
HSBC Bank USA N.A. (formerly Marine Midland Bank)	5,867	1.0%	5	4,499	0.8%	8
Buffalo City School District	5,181	0.9%	6	6,205	1.1%	5
Catholic Health System	4,832	0.8%	7	-	-	
Employer Services Corp.	4,650	0.8%	8	-	-	
M&T Bank	4,422	0.8%	9	-	-	
Catholic Diocese of Buffalo	4,000	0.7%	10	4,500	0.8%	7
Ahold Financial Services (Tops Markets, Inc.)	-	-		4,409	0.8%	9
General Motors	-	-		11,100	1.9%	3
Buffalo General Health System	-	-		4,998	0.9%	6
City of Buffalo	-	-		4,032	0.7%	10
Total of largest employers	72,229	12.4%		74,869	12.8%	

(Source: Business First of Buffalo 2007 Book of Lists; Business First of Buffalo 1998 Book of Lists)

ERIE COUNTY WATER AUTHORITY

Operating Statistics
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total number of customers	124,606	134,656	136,359	137,403	138,752	144,464	153,418	154,505	156,579	157,163
Number of employees	293.4	284.7	284.8	280.9	276.0	272.0	270.8	269.4	261.8	262.8
Customers per employee	424.7	473.0	478.8	489.2	502.7	531.1	566.5	573.5	598.1	598.0
Total water output (million gallons)	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	27,291.5
Output per customer (gallons)	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	173,650.9
Total water sales (million gallons)	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	19,474.0
Sales per customer (gallons)	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	123,909.6
Percentage of water sold	83.0%	82.3%	76.2%	75.9%	75.2%	72.3%	73.8%	72.7%	73.7%	71.4%
Total operating expenses	$ 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	$ 47,491,290
Operating expense per customer	$ 267	$ 253	$ 253	$ 276	$ 269	$ 258	$ 258	$ 271	$ 281	$ 302
Total operating revenue	$ 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	$ 61,227,617
Operating revenue per customer	$ 349	$ 340	$ 315	$ 332	$ 349	$ 326	$ 319	$ 351	$ 356	$ 390

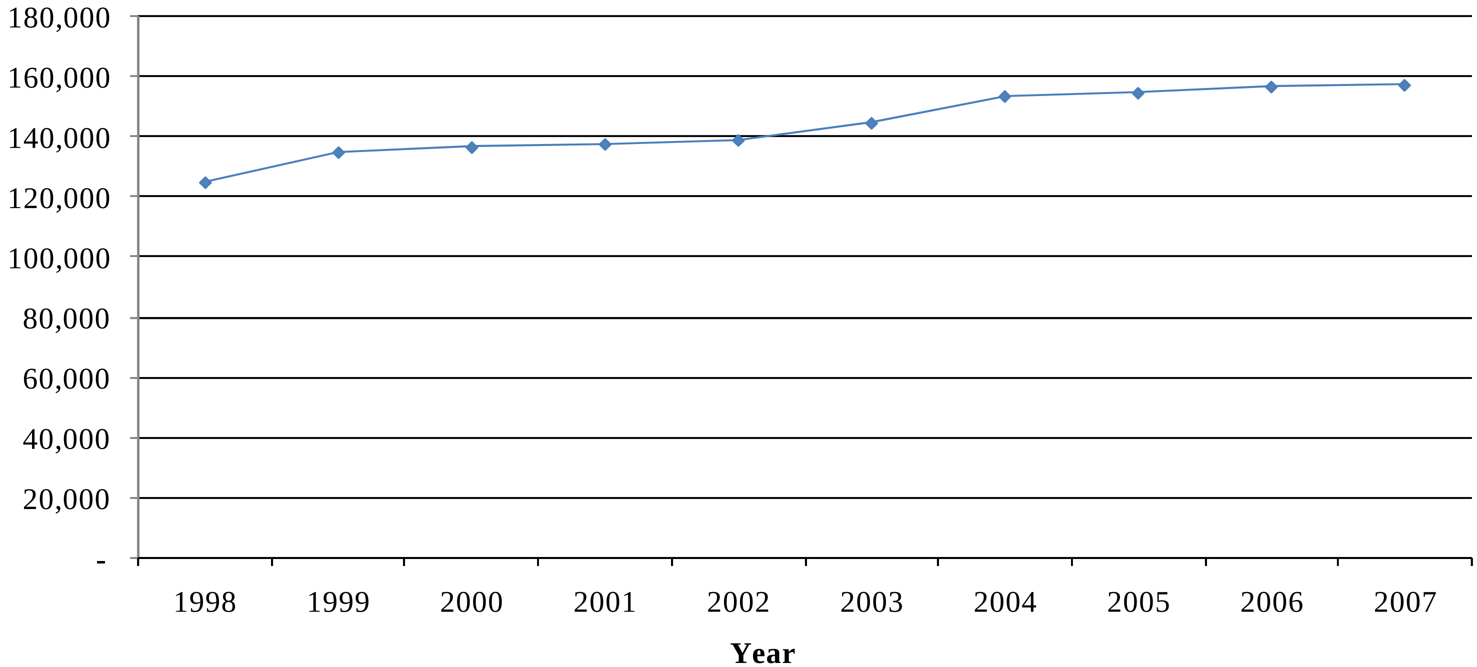
(Source: Authority Financial, Production and Business Office Records)

Operating Revenue by Customer Type

Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of customers:										
Residential	117,385	126,627	128,190	129,202	130,743	136,122	144,252	145,312	147,326	147,850
Commercial	5,650	6,362	6,450	6,474	6,289	6,547	7,210	7,188	7,197	7,224
Industrial	240	254	253	252	247	268	327	328	333	327
Public authorities	509	551	571	550	539	563	601	596	605	609
Fire protection	802	843	875	904	916	946	1,010	1,062	1,098	1,133
Bulk sales	20	19	20	21	18	18	18	19	20	20
Total number of customers	124,606	134,656	136,359	137,403	138,752	144,464	153,418	154,505	156,579	157,163

Total Number of Customers

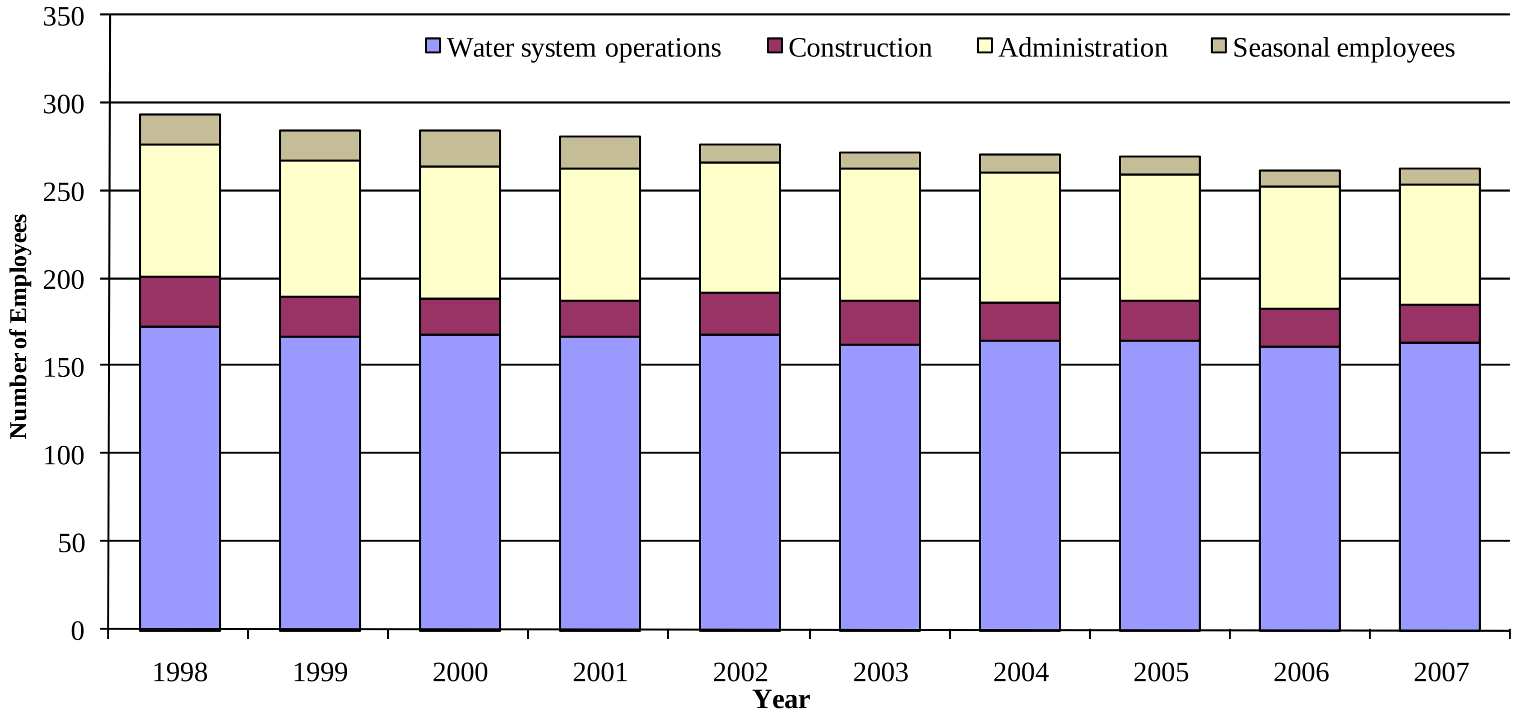


(Source: Authority Financial, Production and Business Office Records)

Erie County Water Authority
Number of Employees[1] by Function
Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Water system operations	173.0	167.0	168.0	167.0	168.0	163.0	164.3	165.3	161.3	163.3
Construction	28.0	23.0	21.0	20.0	24.0	24.0	22.0	22.0	22.0	22.0
Administration	75.9	76.9	75.4	76.1	74.6	75.8	73.7	71.7	69.7	68.7
Seasonal employees	16.5	17.8	20.4	17.8	9.4	9.2	10.8	10.4	8.8	8.8
Total Number of employees	293.4	284.7	284.8	280.9	276.0	272.0	270.8	269.4	261.8	262.8

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



(Source : Authority Internal Financial Records)

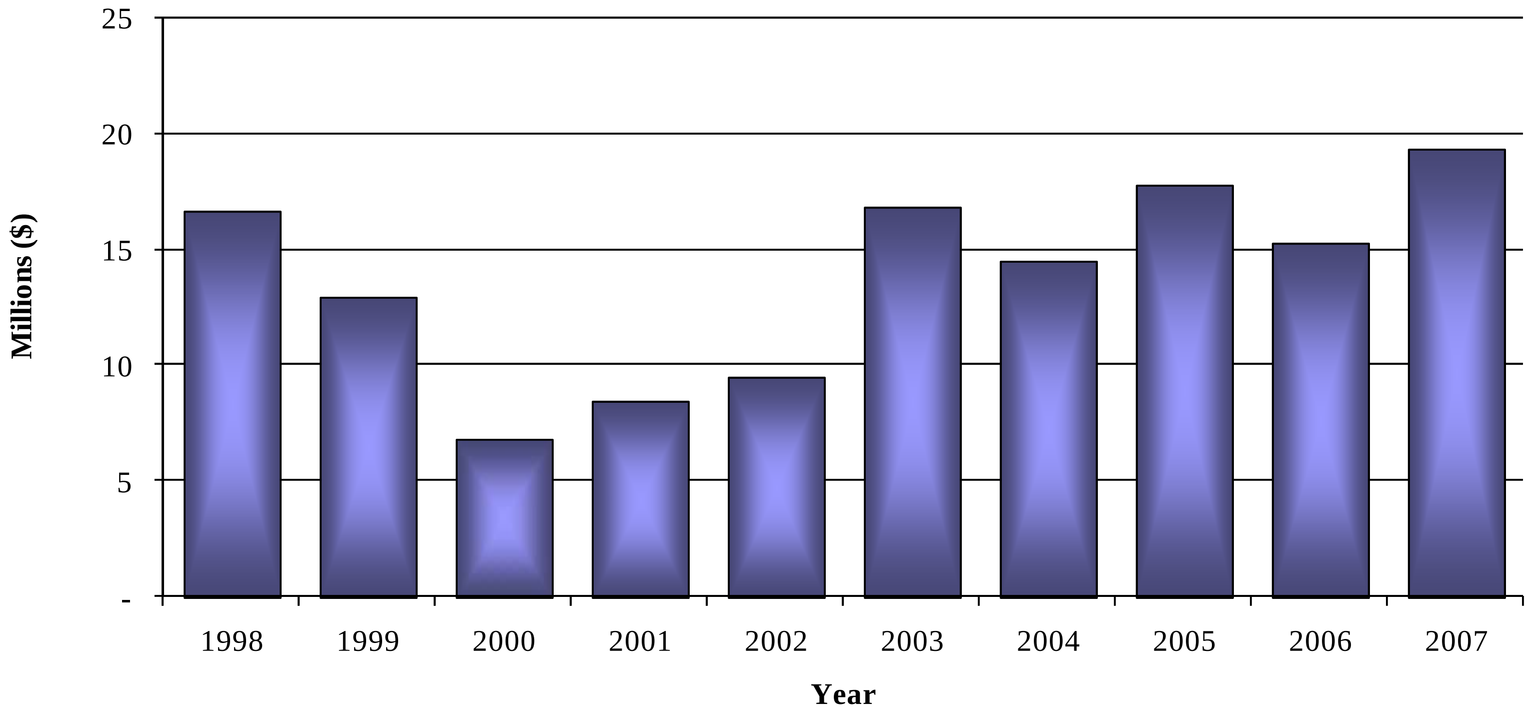
ERIE COUNTY WATER AUTHORITY
Operating and Capital Indicators
Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total miles of distribution piping	2,620	2,727	2,939	2,967	3,017	3,057	3,190	3,267	3,329	3,372
Number of hydrants	12,229	12,604	14,439	14,350	14,480	15,080	15,742	16,000	16,792	17,126
Number of water tanks	29	31	32	32	32	33	37	37	40	40
Storage capacity of water tanks (million gallons)	54.6	65.2	66.3	66.3	66.3	67.0	72.7	72.7	74.9	74.9
Number of pump stations	26	26	26	26	26	29	32	33	37	38
Number of new service taps	830	924	1,034	1,261	1,290	1,210	949	800	673	730

(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Annual Capital Expenditures
Last Ten Years

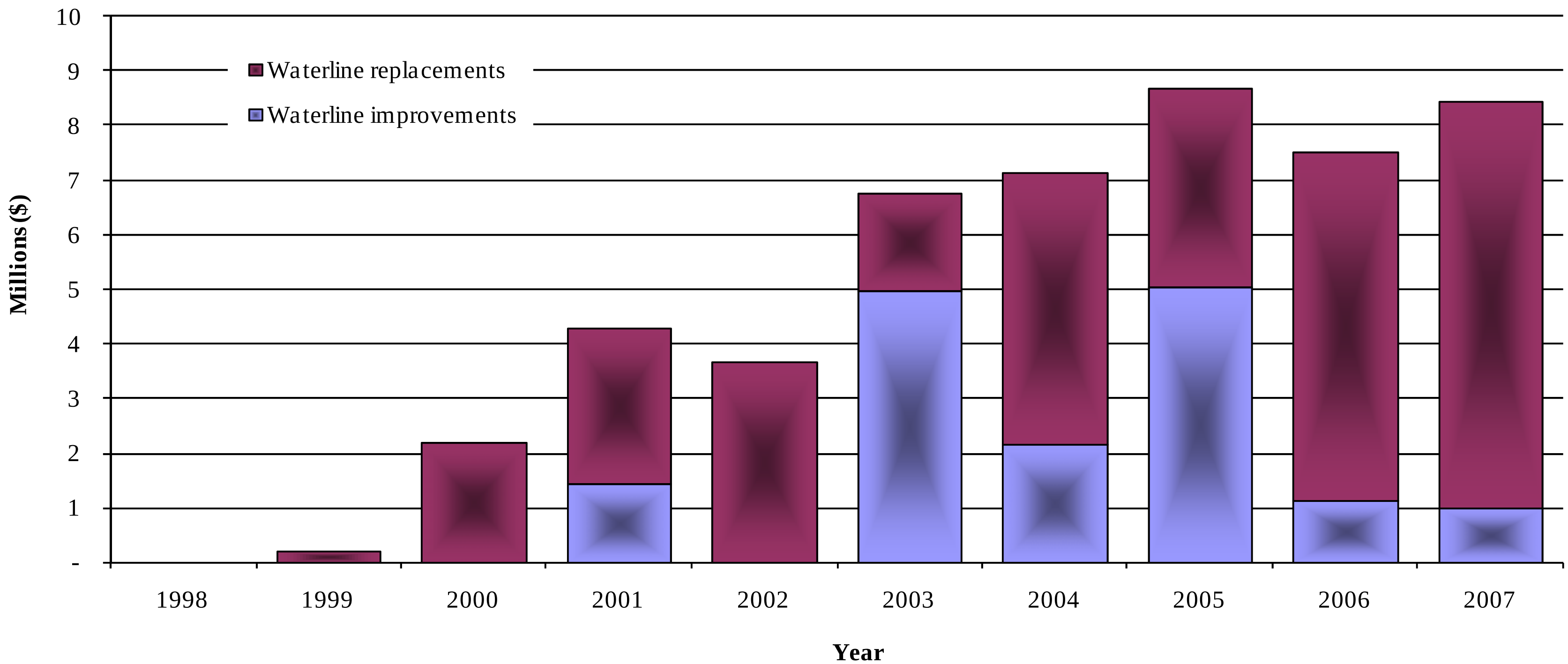
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Capital expenditures	$16,661,988	$12,979,211	$ 6,848,116	$8,489,478	$9,478,977	$16,802,468	$14,518,527	$17,778,175	$15,242,944	$19,348,363
Capital expenditures per customer	$ 134	$ 96	$ 50	$ 62	$ 68	$ 116	$ 95	$ 115	$ 97	$ 123



(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Waterline Replacements and Improvements
Last Ten Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Waterline replacements	$ -	$ 210,000	$2,194,000	$2,838,000	$3,672,000	$1,793,000	$4,979,000	$3,671,787	$6,424,712	$7,485,895
Waterline improvements	$ -	$ -	$ -	$1,446,000	$ -	$4,986,000	$2,168,000	$5,038,033	$1,117,537	$ 984,638



(Source: Authority Geographic Information System and Construction Records)