

ERIE COUNTY WATER AUTHORITY 2008 ANNUAL REPORT



PROVIDING WATER YOU CAN TRUST

This past year, the Erie County Water Authority (ECWA) delivered more than 25 Billion gallons of high-quality water at a rate that is one of the lowest in Western New York. We have worked hard, on behalf of our ratepayers, to make financial decisions that are prudent. We have also focused our attention on infrastructure investments that will serve our ratepayers in the short and long term.

The ECWA has earned the respect of Wall Street investors. When awarding the ECWA with upgraded bond ratings this past year, the three major credit-rating agencies cited ECWA's significant investment in its water system, continued implementation of cost containment measures, low debt load and ample financial liquidity. Having a strong bond rating enables the ECWA to borrow money at a lower interest rate with better terms. This ultimately saves ratepayer dollars as it allows the ECWA to reduce its debt-service, maintain a stabilized rate structure and invest more capital into its system.

The ECWA continues to prepare for the future. As part of its five-year, system-wide capital improvement plan, the ECWA invested more than \$33 Million improving system efficiencies in 2008.

- The total refurbishment of the Sturgeon Point Treatment Plant in the Town of Evans is nearing completion. This investment will ensure that water produced at this facility will continue to meet increased demand in the southern portion of ECWA's service area, and continue to meet and exceed stringent federal and state water quality standards.
- A study was commissioned to examine the capital needs of the Van de Water Treatment Plant in the Town of Tonawanda so that similar improvements can be made.
- The ECWA continued upgrading its extensive distribution system to further improve system efficiencies and service delivery.

The ECWA's Consolidated Annual Financial Report, including the audited financial report for the fiscal year ending December 31, 2008, performed by the independent accounting firm of Drescher and Malecki LLP and contained on the enclosed DVD, reaffirms ECWA's transparent and sound financial reporting and management practices and the fact that we continue to be financially well positioned for the future. For more information about the ECWA, please visit www.ecwa.org.

It is in celebration of our continued efforts at reliably delivering an affordable, high quality product to our ratepayers and our contributions to the quality of life in Western New York that we submit the **56th 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

FAST FACTS

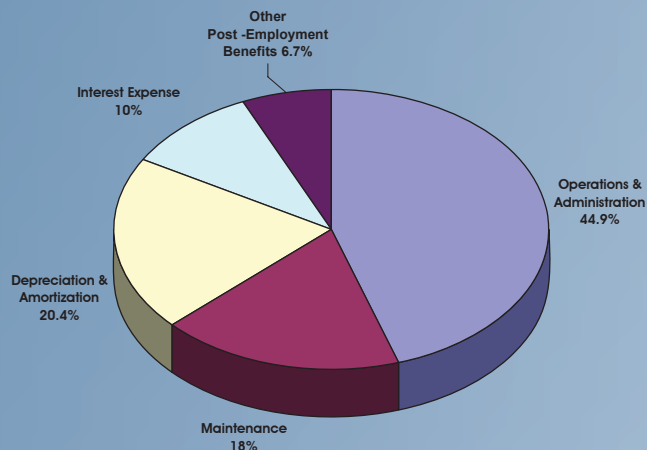
HIGHLIGHTS OF THE PAST DECADE

	1999	2008
Number of Customers	134,656	157,571
Number of Employees	284.7	267
Number of Customers per Employee	473	590
Outstanding Debt Service	\$161,670,995	\$159,803,389
Debt Service per Customer	\$1,201	\$1,014
Capital Spending Program	\$12,979,211	\$33,160,174
Number of Fire Hydrants	12,604	17,134
Miles of Water Mains	2,727	3,380
Water rate (per 1,000 gallons)	\$2.22	\$2.86

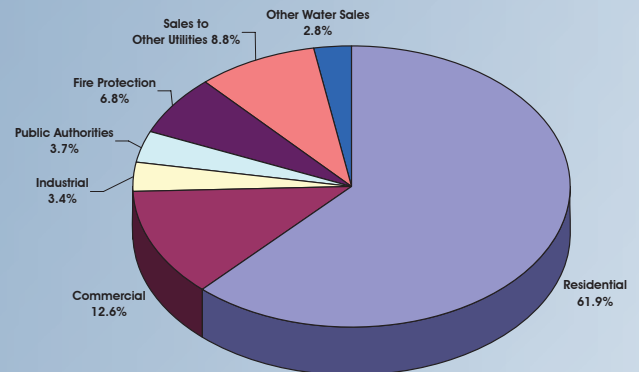
FINANCIAL SUMMARY

	2007	2008
Operating Revenue	\$61,227,617	\$56,284,871
Operating Expenses	\$47,491,290	\$45,830,369
Total Assets	\$405,487,266	\$417,239,560

2008 EXPENSES



2008 WATER SALES REVENUE



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



FRANK E. SWIATEK
Chair



KELLY VACCO
Vice-Chair



FRANCIS G. WARTHLING
Treasurer



ROBERT A. MENDEZ
Executive Director



ROBERT J. LICHTENTHAL, JR.
Deputy Director



WESLEY DUST
Executive Engineer

ECWA MANAGEMENT TEAM

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



ERIE COUNTY WATER AUTHORITY

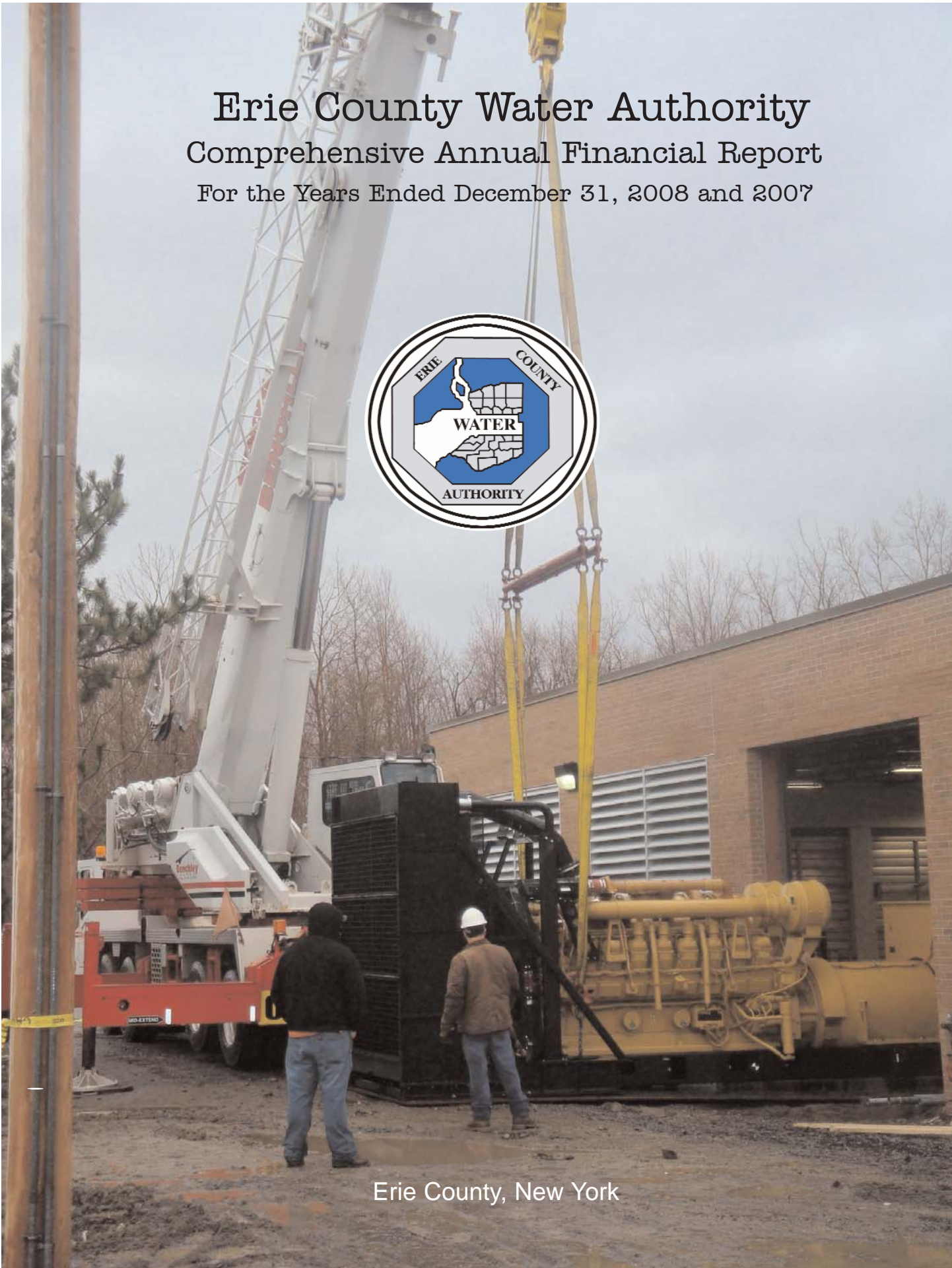
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WEB SITE: www.ecwa.org

Erie County Water Authority
Comprehensive Annual Financial Report
For the Years Ended December 31, 2008 and 2007



Erie County, New York

ERIE COUNTY WATER AUTHORITY

Comprehensive Annual Financial Report

For the Years Ended December 31, 2008 and 2007

350 Ellicott Square Building
295 Main Street
Buffalo New York 14203

Prepared By:
The Finance Department
Erie County Water Authority

ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
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ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
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INTRODUCTORY SECTION



Erie County Water Authority

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May 11, 2009

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, 2008 and 2007 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, 2008 and 2007. The independent auditors’ 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 157,571 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, 3,380 miles of distribution piping (2,151 miles owned by the Authority), 17,134 fire hydrants (7,175 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 obligated to legally 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.

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 comprehensive review by the New York State Comptroller's Office was conducted during the last calendar quarter of 2004, and resulted in no material findings. 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 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 applied for, and received, upgrades from all three rating agencies in 2008. Fitch Ratings rated the 2008 bonds and parity debt a long-term underlying rating of AA, Standard and Poor's Rating Services rating is AA+, and Moody's Investors Services rating is Aa3.

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.

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 267 budgeted full-time equivalents in 2008. 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. To that end, a new customer survey is planned for mid-2009.

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, 2006, and 2007.

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 2007 report, which is presented on page 7.

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

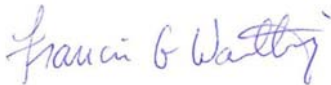
Respectfully Submitted,



Frank E. Swiatek, Chair



Kelly M. Vacco, Vice-Chair



Francis G. Warthling, Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Erie County Water Authority
New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

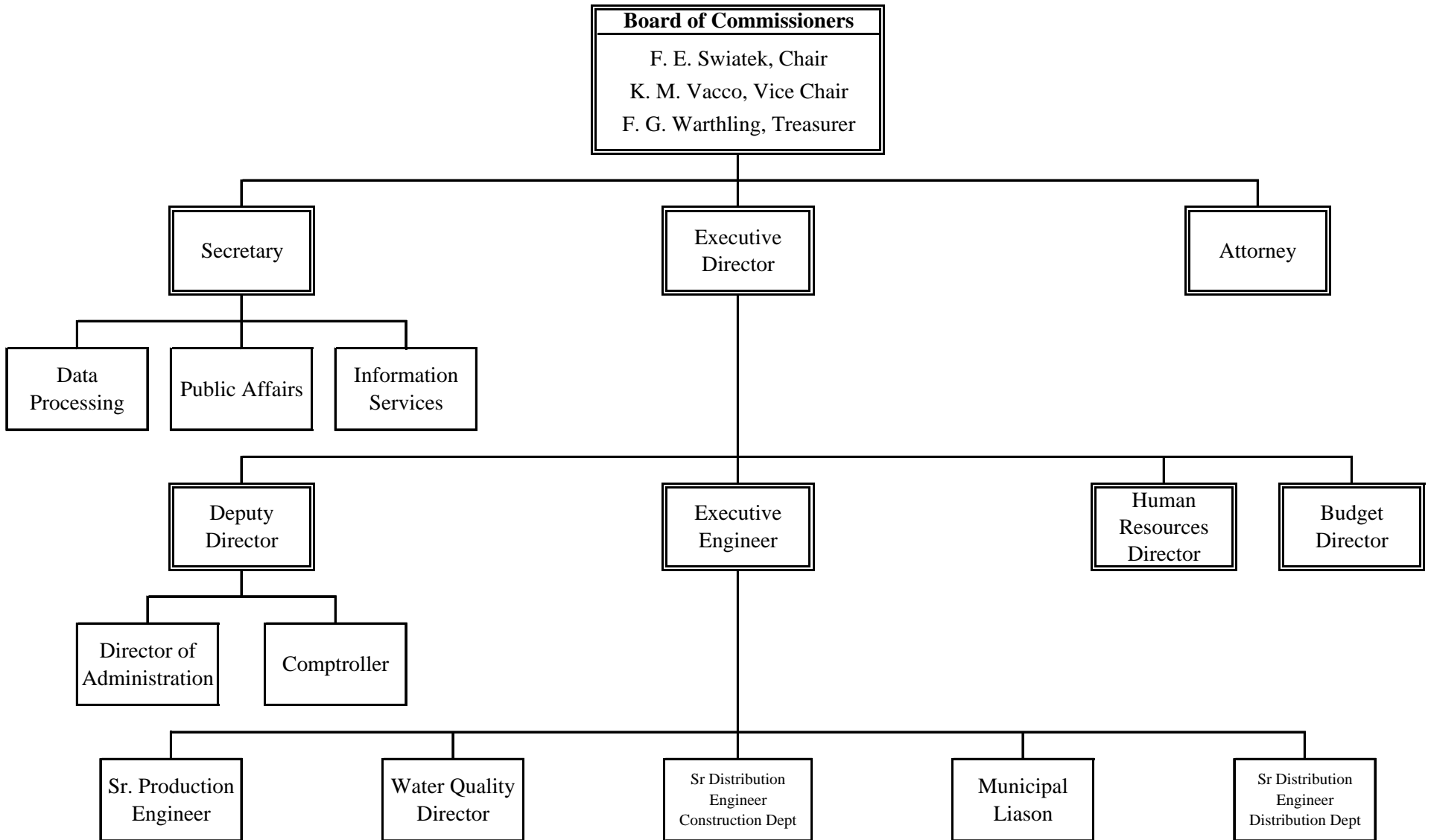
Executive Director

ERIE COUNTY WATER AUTHORITY
Members of the Board of Commissioners

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

Board Members on 12/31/2008	Most Recent Appointment Date
Frank E. Swiatek, Chair	April 2007
Kelly M. Vacco, Vice-Chair	April 2008
Francis G. Warthling, Treasurer	April 2006

ERIE COUNTY WATER AUTHORITY
Organizational Chart



FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Erie County Water Authority (the "Authority"), as of and for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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.

Management's Discussion and Analysis, on pages 11 through 24, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads 'Drescher & Malecki LLP'.

March 26, 2009

ERIE COUNTY WATER AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007

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, 2008 and 2007. 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 \$8,761,969 and \$13,991,128 as a result of activity for the years ended December 31, 2008 and 2007, respectively. For 2008, \$8,006,427 is net income and \$755,542 represents capital contributions. Comparatively, for 2007, \$12,999,041 is net income and \$992,087 represents capital contributions (contributions in aid of construction).
- The assets of the Authority exceeded its liabilities by \$289,555,352 and \$280,793,383, representing net assets at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, unrestricted net assets were \$27,963,032 and \$30,366,722, 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, decreased \$1,009,252 compared to an increase of \$30,863,771 during 2007.

Overview of the Financial Statements

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

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

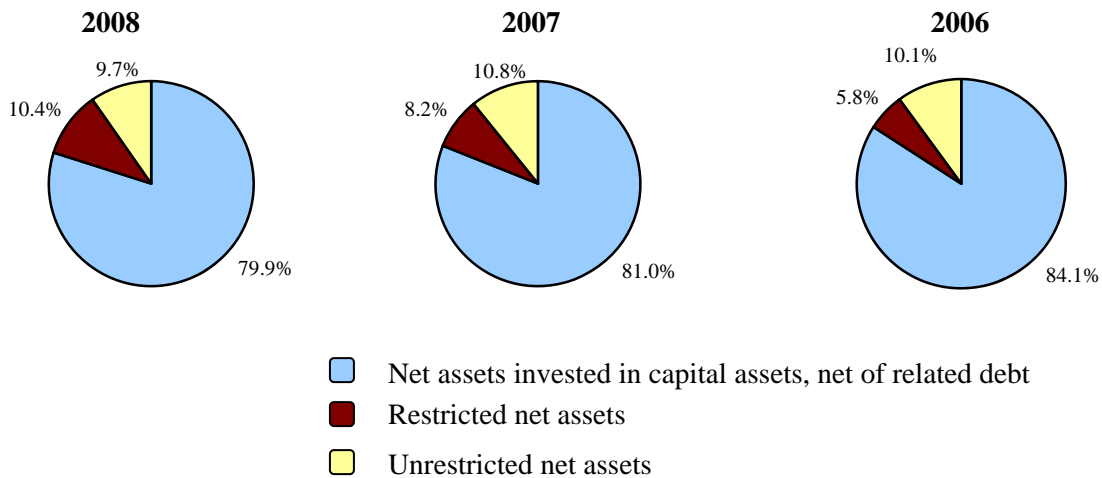
Financial Analysis

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 \$289,555,352 at December 31, 2008 as compared to \$280,793,383 at December 31, 2007, as presented below in Table 1:

Table 1 - Condensed Statement of Net Assets

	2008	2007	Increase/(Decrease)	
			Dollars	Percent
Current assets	\$ 31,471,998	\$ 29,800,725	\$ 1,671,273	5.6
Noncurrent assets:				
Other noncurrent assets	53,953,613	66,801,737	(12,848,124)	(19.2)
Capital assets	<u>331,813,950</u>	<u>308,884,804</u>	<u>22,929,146</u>	7.4
Total assets	<u>417,239,561</u>	<u>405,487,266</u>	<u>11,752,295</u>	2.9
Current liabilities	20,760,292	16,547,767	4,212,525	25.5
Noncurrent liabilities	<u>106,923,917</u>	<u>108,146,116</u>	<u>(1,222,199)</u>	(1.1)
Total liabilities	<u>127,684,209</u>	<u>124,693,883</u>	<u>2,990,326</u>	2.4
Invested in capital assets, net of related debt	231,473,809	227,552,045	3,921,764	1.7
Restricted	30,118,511	22,874,616	7,243,895	31.7
Unrestricted	<u>27,963,032</u>	<u>30,366,722</u>	<u>(2,403,690)</u>	(7.9)
Total net assets	<u>\$ 289,555,352</u>	<u>\$ 280,793,383</u>	<u>\$ 8,761,969</u>	3.1
	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	<u>308,884,804</u>	<u>299,017,487</u>	<u>9,867,317</u>	3.3
Total assets	<u>405,487,266</u>	<u>359,619,239</u>	<u>45,868,027</u>	12.8
Current liabilities	16,547,767	20,013,673	(3,465,906)	(17.3)
Noncurrent liabilities	<u>108,146,116</u>	<u>72,803,311</u>	<u>35,342,805</u>	48.5
Total liabilities	<u>124,693,883</u>	<u>92,816,984</u>	<u>31,876,899</u>	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	<u>30,366,722</u>	<u>26,829,064</u>	<u>3,537,658</u>	13.2
Total net assets	<u>\$ 280,793,383</u>	<u>\$ 266,802,255</u>	<u>\$ 13,991,128</u>	5.2

At December 31, 2008, the largest portion of the Authority's net assets (79.9%) consists of the Authority's investment in capital assets, as compared to 81.0% and 84.1% at December 31, 2007 and 2006, respectively. This amount is presented net of any outstanding debt which was used to acquire such capital assets. The second portion of net assets, 9.7% at December 31, 2008, as compared to 10.8% and 10.1%, at December 31, 2007, and 2006, 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 (10.4%, 8.2% and 5.8% at December 31, 2008, 2007 and 2006, respectively) is restricted for various purposes.



The Authority's liabilities totaled \$127,684,209, \$124,693,883, and \$92,816,984, at December 31, 2008, 2007 and 2006 respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority has had current ratios of 1.52, 1.80, and 2.05, at December 31, 2008, 2007 and 2006, 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, 2008, December 31, 2007 and December 31, 2006 follows:

Table 2 - Comparison of current assets and current liabilities

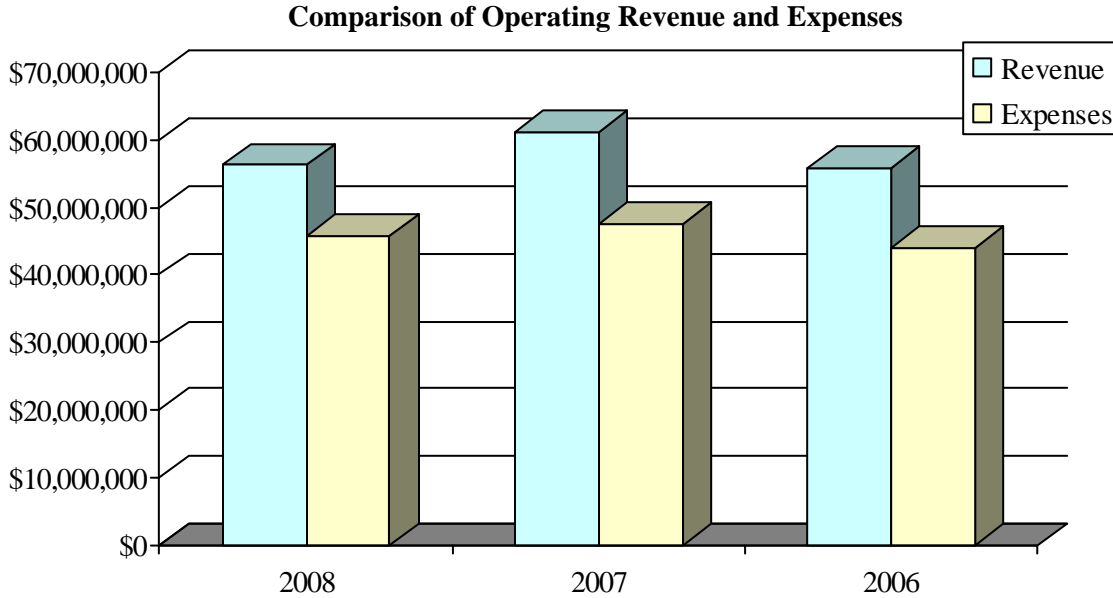
	2008	2007	2006
Current assets	\$ 31,471,998	\$ 29,800,725	\$ 41,073,115
Current liabilities	20,760,292	16,547,767	20,013,673
Ratio of current assets to current liabilities	1.52	1.80	2.05

Table 3, as presented below, shows the changes in net assets for the years ended December 31, 2008, December 31, 2007 and December 31, 2006:

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

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Operating revenue	\$ 56,284,871	\$ 61,227,617
Operating expenses:		
Operation and administration	22,892,786	24,927,064
Maintenance	9,148,964	9,434,577
Depreciation and amortization	10,383,433	10,075,578
Other post-employment benefits	3,405,184	3,054,071
Total operating expenses	<u>45,830,367</u>	<u>47,491,290</u>
Operating income	<u>10,454,504</u>	<u>13,736,327</u>
Nonoperating revenues (expenses):		
Interest income	2,353,043	3,138,936
Interest capitalization during construction	273,651	159,197
Interest expense	<u>(5,074,771)</u>	<u>(4,035,419)</u>
Total nonoperating revenues (expenses)	<u>(2,448,077)</u>	<u>(737,286)</u>
Net income before contributions in aid of construction	8,006,427	12,999,041
Contributions in aid of construction	<u>755,542</u>	<u>992,087</u>
Change in net assets	8,761,969	13,991,128
Total net assets - beginning of year	<u>280,793,383</u>	<u>266,802,255</u>
Total net assets - end of year	<u>\$ 289,555,352</u>	<u>\$ 280,793,383</u>
	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Operating revenue	\$ 61,227,617	\$ 55,744,905
Operating expenses:		
Operation and administration	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	<u>47,491,290</u>	<u>43,929,734</u>
Operating income	<u>13,736,327</u>	<u>11,815,171</u>
Nonoperating revenues (expenses):		
Interest income	3,138,936	2,498,889
Interest capitalization during construction	159,197	145,090
Interest expense	<u>(4,035,419)</u>	<u>(3,868,064)</u>
Total nonoperating revenues (expenses)	<u>(737,286)</u>	<u>(1,224,085)</u>
Net income before contributions in aid of construction	12,999,041	10,591,086
Contributions in aid of construction	<u>992,087</u>	<u>1,175,186</u>
Change in net assets	13,991,128	11,766,272
Total net assets - beginning of year	<u>266,802,255</u>	<u>255,035,983</u>
Total net assets - end of year	<u>\$ 280,793,383</u>	<u>\$ 266,802,255</u>

The following chart depicts an 8.1% operating revenue decline from \$61,227,617 in 2007 to \$56,284,871 in 2008, compared to a 9.8% growth from \$55,744,905 in 2006 to \$61,227,617 in 2007. Operating expenses decreased 3.5% from \$47,491,290 in 2007 to \$45,830,367 in 2008 and increased 8.1% from \$43,929,734 in 2006 to \$47,491,290 in 2007.



A summary of operating revenue for the years ended December 31, 2008, December 31, 2007 and December 31, 2006 is presented below in Table 4:

Table 4 - Summary of Operating Revenue

	2008	2007	Increase/(Decrease)	
			Dollars	Percent
Water sales:				
Residential	\$ 34,520,149	\$ 38,059,827	\$ (3,539,678)	(9.3)
Commercial	7,003,921	7,402,558	(398,637)	(5.4)
Industrial	1,901,354	1,917,907	(16,553)	(0.9)
Public authorities	2,052,689	2,170,407	(117,718)	(5.4)
Fire protection	3,799,498	3,774,006	25,492	0.7
Sales to other utilities	4,920,668	4,992,582	(71,914)	(1.4)
Other water sales	<u>1,584,878</u>	<u>2,353,620</u>	<u>(768,742)</u>	<u>(32.7)</u>
Total water sales	55,783,157	60,670,907	(4,887,750)	(8.1)
Other operating income:				
Rents from water towers	492,929	547,075	(54,146)	(9.9)
Miscellaneous	<u>8,785</u>	<u>9,635</u>	<u>(850)</u>	<u>(8.8)</u>
Operating revenue	<u>\$ 56,284,871</u>	<u>\$ 61,227,617</u>	<u>\$ (4,942,746)</u>	<u>(8.1)</u>

	2007	2006	Increase/(Decrease)	
			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	<u>2,353,620</u>	<u>1,801,691</u>	<u>551,929</u>	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	<u>9,635</u>	<u>467,531</u>	<u>(457,896)</u>	(97.9)
Operating revenue	<u>\$ 61,227,617</u>	<u>\$ 55,744,905</u>	<u>\$ 5,482,712</u>	9.8

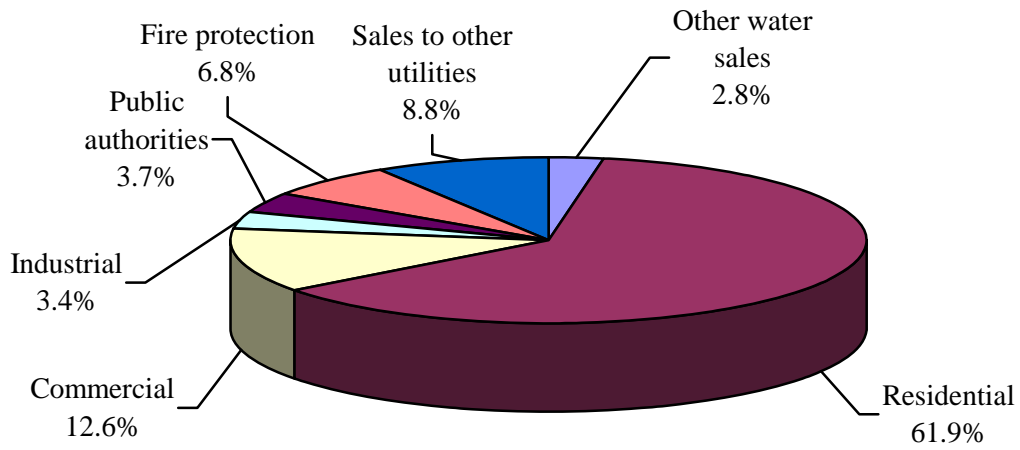
Water sales represent the vast majority of revenue for the Authority, 99.1%, for 2008 and 2007, and 98.4%, year ended December 31, 2006.

The 8.1% decrease in water sales resulted from a decrease in billed consumption of 9.4%, or \$4,523,375. This was partially offset by a 1.8% rate increase effective January 1, 2008. Rents from water towers decreased due to a one-time termination payment of \$48,125 from Cingular Wireless in 2007. Their lease was assumed by another wireless company at a lower rate. These reductions were somewhat offset by contractual escalation increases in lease payments.

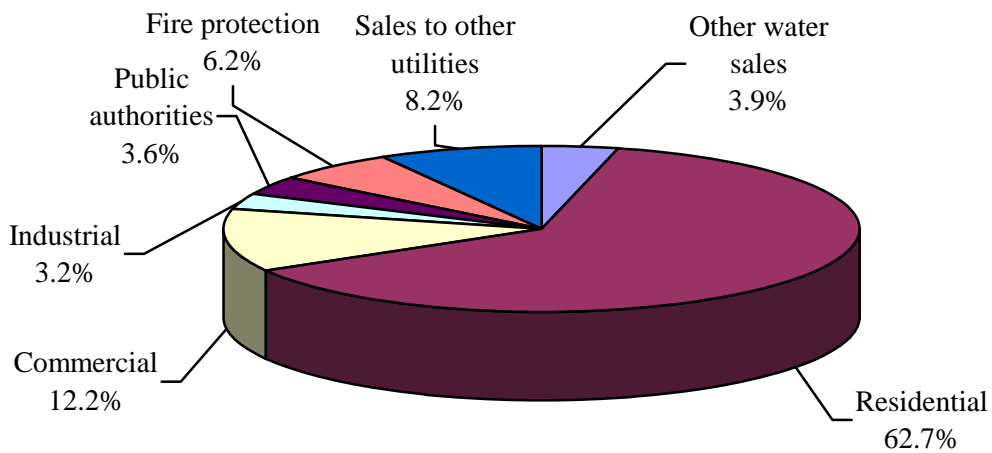
Total water sales increased \$5,840,339, 10.7%, during the year ended December 31, 2007 primarily due to a 4% rate increase on January 1, 2007 and a 5.3% increase in consumption over 2006. Total billings increased \$5,266,524 in 2007 over 2006 billings due to the overall increase in consumption. Miscellaneous 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 the one time termination payment from Cingular Wireless of \$48,125 discussed above.

As presented in the illustration on the following page, residential water sales represent the largest portion of water sales for the Authority, which was 61.9%, 62.7%, and 61.9%, of total water sales for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 12.6%, 12.2%, and 12.5%, of total water sales for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively.

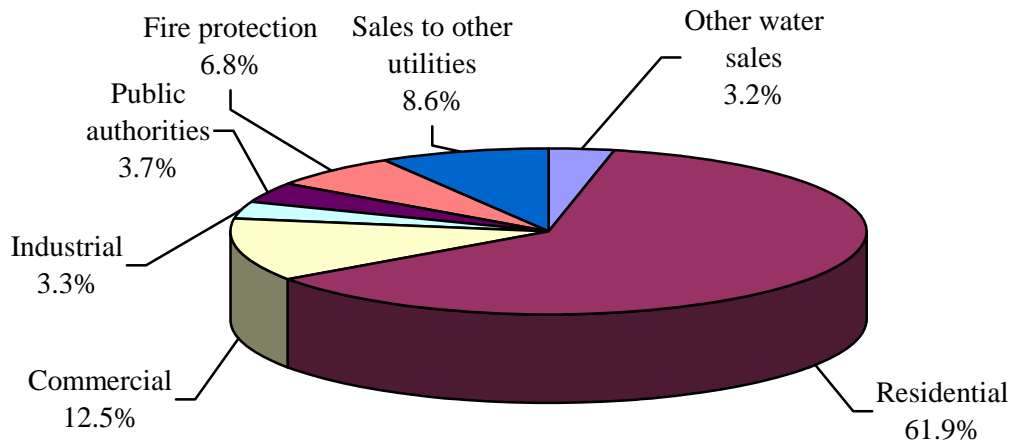
2008 Water Sales Revenue



2007 Water Sales Revenue



2006 Water Sales Revenue

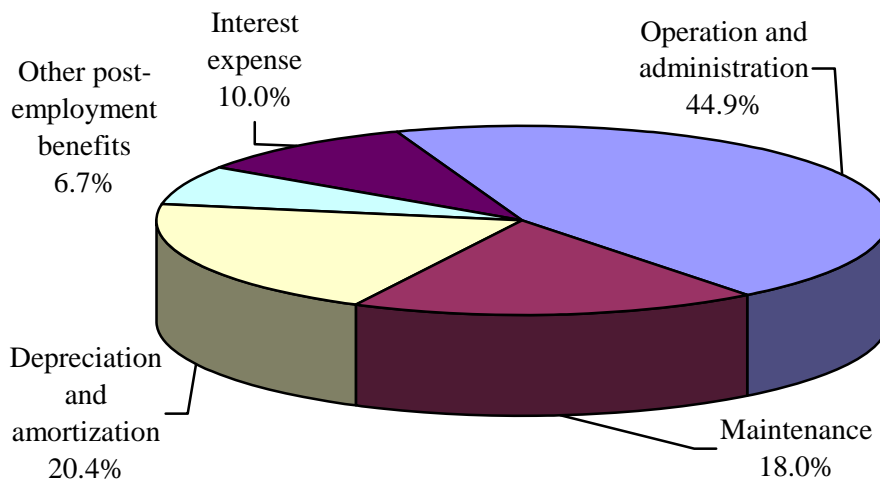


As illustrated below, operation and administration expenses are the largest expense and account for 44.9%, 48.4%, and 54.9%, of the Authority's expenses for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were, 20.4%, 19.6%, and 20.3%, for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively.

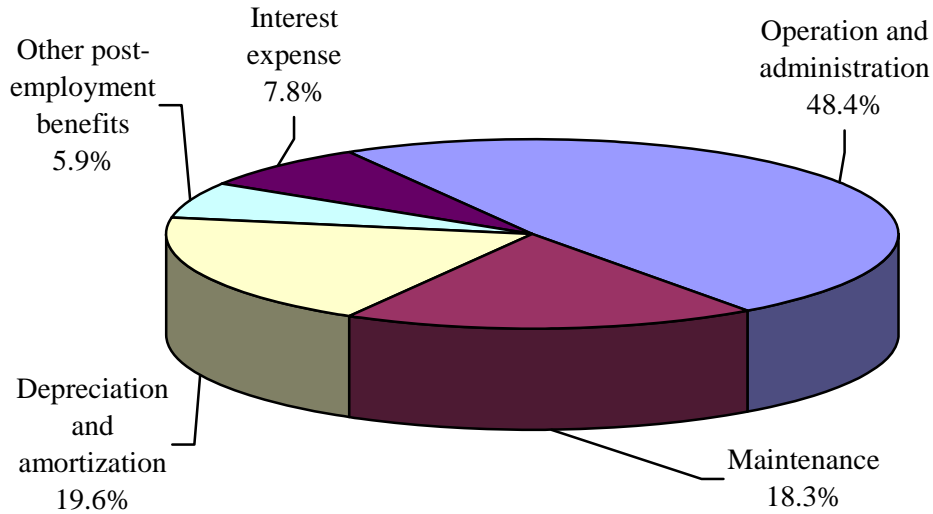
	2008	2007	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 22,892,786	\$ 24,927,064	\$ (2,034,278)	(8.2)
Maintenance	9,148,964	9,434,577	(285,613)	(3.0)
Depreciation and amortization	10,383,433	10,075,578	307,855	3.1
Interest expense	5,074,771	4,035,419	1,039,352	25.8
Other post-employment benefits	3,405,184	3,054,071	351,113	100.0
Total	<u>\$ 50,905,138</u>	<u>\$ 51,526,709</u>	<u>\$ (621,571)</u>	(1.2)

	2007	2006	Increase/(Decrease)	
			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	<u>\$ 51,526,709</u>	<u>\$ 47,797,798</u>	<u>\$ 3,728,911</u>	7.8

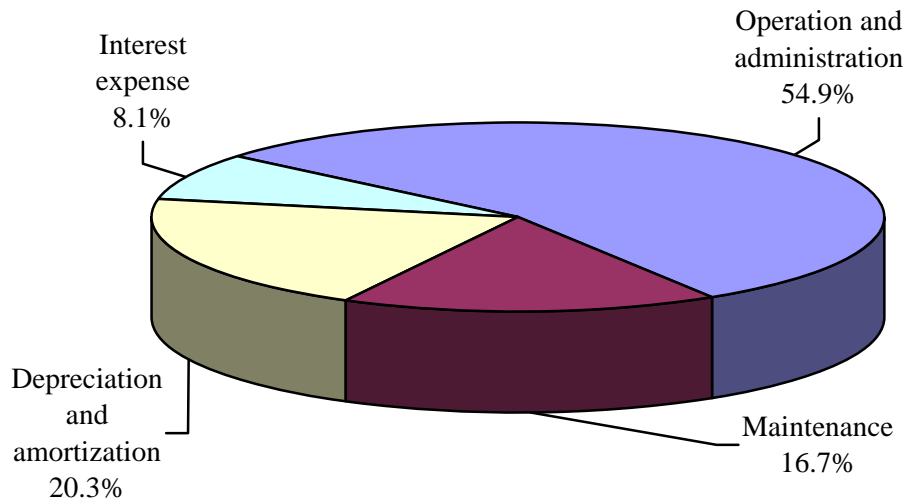
2008 Expenses



2007 Expenses



2006 Expenses



Operating and administrative expenses decreased \$2,034,278 or 8.2%, from \$24,927,064 in 2007 to \$22,892,786 in 2008 due, in part, to a 51.0% increase in the amount of capitalized expenses resulting from the completion of several large capital projects in 2008. Construction of capital projects increased from \$15,961,948 in 2007 to \$22,454,999 in 2008 generating an increase of \$1,986,094 in administrative credits. Power purchased decreased \$242,038, or 4.0% due to a 7.7% decrease in production from 27,291.5 million gallons in 2007 to 25,174.7 million gallons in 2008. Fringe benefit costs decreased 10.0%, or \$467,394 in 2008 due to a change in insurance carriers for workers' compensation, life and disability insurance. Other insurance costs decreased 22.0%, or \$179,160 due to a change in carriers. These decreases in insurance and fringe benefits were partially offset by a 10.0% increase in health insurance costs and a 34.2% increase in chemical costs. Chemical costs increased \$254,963 due largely to an increase in the cost of fluoride which went from \$210/ton in 2007 to \$538/ton in 2008.

Generator lease expense increased \$555,597 to \$1,179,550 in 2008 which represents a full year of lease payments compared to five-months of payments in 2007. This increase was somewhat offset by a \$543,294 decrease in the cost of personal computers and peripheral data processing equipment. In 2007

the Authority purchased 105 new computers, 2 new servers and 26 laptops. These purchases were not repeated in 2008.

Maintenance expenses decreased 3.0%, or \$285,613 from \$9,434,577 in 2007 to \$9,148,964 in 2008 due largely to a 8.5% decrease in the number of leaks in 2008 – 1,943 as compared to 2,109 in 2007. This resulted in reductions of overtime costs, material and supply costs, and payments to contractors for repairs and restorations totaling \$523,676. These reductions were somewhat offset by an \$116,491, or 27.5% increase in transportation costs resulting from increased gasoline and diesel prices. The average price per gallon in 2008 was \$2.79/gallon for gasoline and \$3.18/gallon for diesel. The average price in 2007 was \$2.04/gallon and \$2.19/gallon respectively.

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 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 \$3,405,184 and \$3,054,071 for other post-employment benefits were recorded in 2008 and 2007, respectively. Additional information about other post employment benefits can be found in Note 7 to the basic financial statements.

Table 5 presents a summary of the Authority’s cash flow activities for the years ended December 31, 2008, December 31, 2007 and December 31, 2006:

Table 5 - Summary of Cash Flow Activities

	2008	2007	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	\$ 25,308,187	\$ 26,638,354	\$ (1,330,167)
Capital and related financing activities	(38,481,479)	5,736,139	(44,217,618)
Investing activities	<u>3,118,846</u>	<u>5,644,787</u>	<u>(2,525,941)</u>
Net (decrease)increase in cash and cash equivalents	(10,054,446)	38,019,280	(48,073,726)
Cash and cash equivalents, beginning of year	<u>82,788,752</u>	<u>44,769,472</u>	<u>38,019,280</u>
Cash and cash equivalents, end of year	<u>\$ 72,734,306</u>	<u>\$ 82,788,752</u>	<u>\$ (10,054,446)</u>

	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	<u>\$ 82,788,752</u>	<u>\$ 44,769,472</u>	<u>\$ 38,019,280</u>

At the December 31, 2008, 2007, and 2006, cash and cash equivalents were restricted for various purposes as presented below:

Table 6 - Summary of Cash and Cash Equivalents

	2008	2007	2006
Unrestricted	\$ 18,780,693	\$ 15,987,015	\$ 26,767,602
Restricted	53,953,613	66,801,737	18,001,870
Total	<u>\$ 72,734,306</u>	<u>\$ 82,788,752</u>	<u>\$ 44,769,472</u>

Total cash and cash equivalents decreased \$10,054,446 from \$82,788,752 in 2007 to \$72,734,306 in 2008 due to the increase in capital spending using bond funds from the 2007 issue. This \$12,848,125 decrease in restricted cash and cash equivalents was somewhat offset by a \$2,793,678 increase in unrestricted cash and cash equivalents due to the use of more bond funds and less operating funds for capital projects.

Total cash and cash equivalents increased by \$38,019,280 in 2007 from 2006 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.

Capital Assets

The Authority's investment in capital assets, as of December 31, 2008 amounted to \$331,813,950 (net of accumulated depreciation), as compared to \$308,884,804 and \$299,017,487 as of December 31, 2007 and December 31, 2006, 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)

	2008	2007	Increase/(Decrease)	
			Dollars	Percent
Land	\$ 2,218,274	\$ 2,218,274	\$ -	-
Construction work in progress	<u>13,135,715</u>	<u>6,650,443</u>	<u>6,485,272</u>	97.5
Total capital assets, not being depreciated	<u>15,353,989</u>	<u>8,868,717</u>	<u>6,485,272</u>	73.1
Buildings and structures	209,058,723	193,942,053	15,116,670	7.8
Mains and hydrants	214,333,344	208,849,255	5,484,089	2.6
Equipment	40,137,616	36,904,786	3,232,830	8.8
Other	<u>48,031,908</u>	<u>46,607,176</u>	<u>1,424,732</u>	3.1
Total capital assets, being depreciated	511,561,591	486,303,270	25,258,321	5.2
Less accumulated depreciation	<u>195,101,630</u>	<u>186,287,183</u>	<u>8,814,447</u>	4.7
Total capital assets, being depreciated, net	<u>316,459,961</u>	<u>300,016,087</u>	<u>16,443,874</u>	5.5
Total capital assets	<u>\$ 331,813,950</u>	<u>\$ 308,884,804</u>	<u>\$ 22,929,146</u>	7.4

	2007	2006	Increase/(Decrease)	
			Dollars	Percent
Land	\$ 2,218,274	\$ 2,300,935	\$ (82,661)	(3.6)
Construction work in progress	<u>6,650,443</u>	<u>3,211,426</u>	<u>3,439,017</u>	107.1
Total capital assets, not being depreciated	<u>8,868,717</u>	<u>5,512,361</u>	<u>3,356,356</u>	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	<u>46,607,176</u>	<u>44,585,384</u>	<u>2,021,792</u>	4.5
Total capital assets, being depreciated	486,303,270	470,438,842	15,864,428	3.4
Less accumulated depreciation	<u>186,287,183</u>	<u>176,933,716</u>	<u>9,353,467</u>	5.3
Total capital assets, being depreciated, net	<u>300,016,087</u>	<u>293,505,126</u>	<u>6,510,961</u>	2.2
Total capital assets	<u>\$ 308,884,804</u>	<u>\$ 299,017,487</u>	<u>\$ 9,867,317</u>	3.3

Debt Administration

At December 31, 2008 the Authority had \$104,415,361 in water revenue bond principal outstanding, net of deferred amounts for bond premium and issuance costs, as compared to \$105,424,613 and \$74,560,842 at December 31, 2007 and 2006. Water revenue bonds outstanding, net of deferred amounts from bond premium and issuance costs, decreased \$1,009,252 during the year ended December 31, 2008, compared to a \$30,863,771 increase during the year ended December 31, 2007, as a result of issuing \$45,770,000 in new bond debt, redemption of the Series 1993A and 1993B bonds, and making scheduled principal payments, as shown on the following page.

	2008	2007
Series 1992FR*	\$ 149,756	\$ 2,169,497
Series 1993A	27,500,000	-
Series 1993B	15,000,000	-
Series 1998B	380,000	370,000
Series 1998D	775,000	750,000
Series 2003F	625,000	615,000
Series 2007FR*	295,000	-
Total water revenue bond payments	44,724,756	3,904,497
Add (subtract) deferred amounts:		
For bond premiums	154,334	1,912
For issuance costs	(831,378)	(135,827)
Total water revenue bond payments, net of deferred amounts	<u>\$ 44,047,712</u>	<u>\$ 3,770,582</u>

*Fourth Resolution

On June 25, 2008, the Series 2008FR bonds were issued to refund the Authority's Series 1993A & Series 1993B Bonds, to fund a reserve account for the Series 2008 bonds, to pay costs associated with terminating the swap agreement and to pay a portion of the Series 2008 bond issuance costs.

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.

In 2008 the Authority applied for, and received upgrades from all three rating agencies. Moody's assigned the 2008 bonds and parity debt a long-term underlying rating of Aa3. S&P assigned the 2008 bonds and parity debt a long-term underlying rating of AA+. Fitch Ratings assigned the 2008 bonds and parity debt a long-term underlying rating of AA.

Economic Factors

The Authority's 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 of 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. 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 below:

Meters read and billed quarterly (To Nearest 1,000 Gallons)			
	2009	2008	
First 300,000 gallons per quarter	\$ 2.86	\$ 2.86	per 1,000 gallons
Next 1,950,000	2.54	2.54	per 1,000 gallons
Next 5,250,000	2.33	2.33	per 1,000 gallons
Over 7,500,000	2.05	2.05	per 1,000 gallons

Meters read and billed monthly (To Nearest 1,000 Gallons)			
	2009	2008	
First 100,000 gallons per month	\$ 2.86	\$ 2.86	per 1,000 gallons
Next 650,000	2.54	2.54	per 1,000 gallons
Next 1,750,000	2.33	2.33	per 1,000 gallons
Over 2,500,000	2.05	2.05	per 1,000 gallons

Size of Meter (inches)	Quarterly Minimum Charge (\$)		Allowance per Quarter (gallons)	Monthly Minimum Charge (\$)	
	2009	2008		2009	2008
5/8	\$ 25.74	\$ 25.74	9,000	\$ 8.58	\$ 8.58
3/4	34.32	34.32	12,000	11.44	11.44
1	60.06	60.06	21,000	20.02	20.02
1 1/4	77.22	77.22	27,000	25.74	25.74
1 1/2	111.54	111.54	39,000	37.18	37.18
2	180.18	180.18	63,000	60.06	60.06
3	343.20	343.20	120,000	114.40	114.40
4	566.28	566.28	198,000	188.76	188.76
6	1,086.60	1,086.60	390,000	362.20	362.20
8	1,696.20	1,696.20	630,000	565.40	565.40
10	2,382.00	2,382.00	900,000	794.00	794.00
12	3,220.20	3,220.20	1,230,000	1,073.40	1,073.40
20	7,139.10	7,139.10	2,820,000	2,379.70	2,379.70
24	9,515.70	9,515.70	3,840,000	3,171.90	3,171.90

For 2009, 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 2008.

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. Lichtenhal, Jr., Deputy Director, Erie County Water Authority, 295 Main Street, Room 350, Buffalo, New York 14203-2494.

BASIC FINANCIAL STATEMENTS

ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

	December 31,	
	2008	2007
ASSETS		
Current assets:		
Unrestricted cash and cash equivalents	\$ 18,780,693	\$ 15,987,015
Current investments	-	715,584
Customer accounts receivable, less allowance for doubtful accounts	5,416,006	6,051,569
Materials and supplies	1,906,966	1,867,580
Interest receivable and other assets	5,368,333	5,178,977
Total current assets	31,471,998	29,800,725
Noncurrent assets:		
Restricted cash and cash equivalents	53,953,613	66,801,737
Capital assets, not being depreciated	15,353,988	8,868,717
Capital assets, being depreciated, net of accumulated depreciation	316,459,962	300,016,087
Total noncurrent assets	385,767,563	375,686,541
Total assets	417,239,561	405,487,266
LIABILITIES		
Current liabilities:		
Accounts payable	7,498,369	6,379,080
Advances for construction	440,541	425,783
Construction retention	884,272	390,834
Interest and other accrued liabilities	6,160,198	7,243,789
Water revenue bonds - current portion, net of deferred amounts for issuance costs and bond premiums	5,776,912	2,108,281
Total current liabilities	20,760,292	16,547,767
Noncurrent liabilities:		
Compensated absences	1,826,213	1,775,713
Long-term other post employment benefit liability	6,459,255	3,054,071
Water revenue bonds - long-term, net of deferred amounts for issuance costs and bond premiums	98,638,449	103,316,332
Total noncurrent liabilities	106,923,917	108,146,116
Total liabilities	127,684,209	124,693,883
NET ASSETS		
Invested in capital assets, net of related debt	231,473,809	227,552,045
Restricted:		
Future construction reserve fund	17,981,144	10,752,458
Debt service reserve fund	10,237,888	9,449,249
Debt service fund	1,899,479	2,672,909
Unrestricted	27,963,032	30,366,722
Total net assets	\$ 289,555,352	\$ 280,793,383

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,	
	2008	2007
Operating revenue	\$ 56,284,871	\$ 61,227,617
Operating expenses:		
Operation and administration	22,892,786	24,927,064
Maintenance	9,148,964	9,434,577
Depreciation and amortization	10,383,433	10,075,578
Other post-employment benefit expense	3,405,184	3,054,071
Total operating expenses	45,830,367	47,491,290
Operating income	10,454,504	13,736,327
Nonoperating revenues (expenses):		
Interest income	2,353,043	3,138,936
Interest capitalization during construction	273,651	159,197
Interest expense	(5,074,771)	(4,035,419)
Total nonoperating revenues (expenses)	(2,448,077)	(737,286)
Net income before contributions in aid of construction	8,006,427	12,999,041
Contributions in aid of construction	755,542	992,087
Change in net assets	8,761,969	13,991,128
Total net assets - beginning of year	280,793,383	266,802,255
Total net assets - end of year	\$ 289,555,352	\$ 280,793,383

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,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 56,718,692	\$ 60,583,962
Payments to contractors	(11,239,514)	(12,486,893)
Payments to employees including fringe benefits	<u>(20,170,991)</u>	<u>(21,458,715)</u>
Net cash provided by operating activities	<u>25,308,187</u>	<u>26,638,354</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(32,533,240)	(19,682,887)
Bond issuance and principal repayment	(1,295,153)	30,729,856
Interest paid on revenue bonds, net of amount capitalized	(5,423,394)	(6,469,614)
Advances for construction	14,766	166,697
Contributions in aid of construction	<u>755,542</u>	<u>992,087</u>
Net cash (used) provided by capital and related financing activities	<u>(38,481,479)</u>	<u>5,736,139</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(13,118,059)	(1,380,583)
Proceeds from sale or maturity of investments	13,833,643	4,049,816
Interest received	<u>2,403,262</u>	<u>2,975,554</u>
Net cash provided by investing activities	<u>3,118,846</u>	<u>5,644,787</u>
Net (decrease) increase in cash	(10,054,446)	38,019,280
Cash and cash equivalents - beginning of year (including amounts restricted for future construction, debt service reserve, debt service, sick pay reserve and customer deposits)	<u>82,788,752</u>	<u>44,769,472</u>
Cash and cash equivalents - end of year (including amounts restricted for future construction, debt service reserve, debt service, sick pay reserve and customer deposits)	<u>\$ 72,734,306</u>	<u>\$ 82,788,752</u>

(continued)

ERIE COUNTY WATER AUTHORITY
Statements of Cash Flows

(concluded)

	Year Ended December 31,	
	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 10,454,504	\$ 13,736,327
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	10,097,532	9,941,663
Amortization expense	285,901	133,915
Other post-employment benefits expense	3,405,184	3,054,071
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	635,563	(146,781)
(Increase) decrease in material and supplies	(39,386)	(141,471)
(Increase) decrease in other assets	(239,575)	(199,028)
Increase (decrease) in accounts payable	1,119,289	607,035
Increase (decrease) in other accrued liabilities	(463,983)	(321,784)
Increase (decrease) in accrued compensated absences	53,158	(25,593)
Total adjustments	14,853,683	12,902,027
Net cash provided by operating activities	\$ 25,308,187	\$ 26,638,354

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

ERIE COUNTY WATER AUTHORITY
Notes to the Financial Statements
Years Ended December 31, 2008 and 2007

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 \$1,092,467 is a current liability, with the remaining \$1,826,213 as a long-term liability at December 31, 2008; and \$1,076,635 is a current liability, with the remaining \$1,775,713 as a long-term liability at December 31, 2007, 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 including cash on hand, demand deposits, time deposits and highly liquid investments which are readily convertible to known amounts of cash and have a 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, adjusted to market value changes to reflect the combined net change in these elements in the income statement.

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, 2008 and 2007.

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 2008 and 2007, \$440,235 and \$135,827, 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, 2008 and 2007 totaled \$1,172,758 and \$1,377,055, 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, 2008 and 2007.

Reclassifications—Certain amounts relating to the financial statements as of and for the year ended December 31, 2007 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. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for the year ending December 31, 2009; No. 51, *Accounting and Financial Reporting for Intangible Assets* and No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the year ending December 31, 2010; and No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the year ending December 31, 2011. The Authority is therefore unable to disclose the impact that adopting GASB Statements No. 51, No. 52, No. 53 and No. 54 will have on its financial position and results of operations when such Statements are adopted.

During the year ended December 31, 2008, the Authority implemented 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*, both of which did not have a material impact on the Authority’s financial position or results of operations.

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, 2008 and 2007, the Authority had the following unrestricted cash and cash equivalents:

	December 31, 2008		December 31, 2007	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Unrestricted cash and cash equivalents:				
Cash and cash equivalents	\$ 18,780,693	\$ 18,780,693	\$ 11,323,232	\$ 11,323,232
Discounted commercial paper	-	-	4,605,875	4,663,783
Total unrestricted cash and cash equivalents	<u>\$ 18,780,693</u>	<u>\$ 18,780,693</u>	<u>\$ 15,929,107</u>	<u>\$ 15,987,015</u>

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

The following is a brief synopsis of restricted cash:

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

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

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

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, 2008 and 2007, the Authority had the following restricted cash and cash equivalents:

	December 31, 2008		December 31, 2007	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Restricted for future construction:				
Cash and cash equivalents	\$ 35,014,499	\$ 35,014,499	\$ 27,843,765	\$ 27,843,765
Discounted commercial paper	4,028,302	4,041,919	21,052,517	21,149,182
Mortgage backed securities	-	-	2,836,573	2,851,366
Total restricted for future construction	<u>39,042,801</u>	<u>39,056,418</u>	<u>51,732,855</u>	<u>51,844,313</u>
Restricted for debt service reserve:				
Cash and cash equivalents	6,970,771	6,970,771	139,621	139,621
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
Total restricted for debt service reserve	<u>10,237,887</u>	<u>10,237,887</u>	<u>9,423,371</u>	<u>9,449,249</u>
Restricted for debt service:				
Cash and cash equivalents	1,587,519	1,587,519	101,246	101,246
U.S. Treasury securities	311,961	311,906	2,564,589	2,571,663
Total restricted for debt service	<u>1,899,480</u>	<u>1,899,425</u>	<u>2,665,835</u>	<u>2,672,909</u>
Restricted for sick pay reserve:				
Cash and cash equivalents	1,922,330	1,922,330	32,760	32,760
Discounted commercial paper	-	-	1,836,412	1,859,500
Total restricted for sick pay reserve	<u>1,922,330</u>	<u>1,922,330</u>	<u>1,869,172</u>	<u>1,892,260</u>
Restricted for customer deposits:				
Cash and cash equivalents	837,553	837,553	943,006	943,006
Total restricted for customer deposits	<u>837,553</u>	<u>837,553</u>	<u>943,006</u>	<u>943,006</u>
Total restricted cash and cash equivalents	<u>\$ 53,940,051</u>	<u>\$ 53,953,613</u>	<u>\$ 66,634,239</u>	<u>\$ 66,801,737</u>

Custodial credit risk—In the case of deposits, this is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. For investments, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2008 and 2007, 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, 2008 and 2007, the zero coupon bond investment balance is \$0 and \$715,584, respectively. Interest on the investment is compounded monthly at a rate of 7.45%. On September 15, 2008 AIG’s S&P rating fell to A-. Instead of receiving the collateral required by the contract as a result of the downgrade, the Authority terminated the investment contract. On September 22, 2008 the Authority received \$771,364, which represents the contract value as of September 2, 2008 plus accrued interest through the payment date. The final maturity was scheduled for December 1, 2008.

Credit risk—The Authority has a commercial paper investment with Citigroup Funding maturing January 12, 2009. The Authority’s investment policy limits investments in commercial paper to the top rating issued by NRSOS. This investment was purchased on November 20, 2008 with 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, 2008 and 2007 total \$667,711 and \$444,942, respectively.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance 1/1/2008	Additions and Reclassifications	Deletions and Reclassifications	Balance 12/31/2008
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	6,650,443	33,397,273	(26,912,001)	13,135,715
Total capital assets, not being depreciated	<u>8,868,717</u>	<u>33,397,273</u>	<u>(26,912,001)</u>	<u>15,353,989</u>
Capital assets in service, being depreciated:				
Buildings and structures	193,942,053	15,721,213	(604,543)	209,058,723
Mains and hydrants	208,849,255	5,952,548	(468,459)	214,333,344
Equipment	36,904,786	3,878,693	(645,863)	40,137,616
Other	46,607,176	1,462,982	(38,250)	48,031,908
Total capital assets, being depreciated	<u>486,303,270</u>	<u>27,015,436</u>	<u>(1,757,115)</u>	<u>511,561,591</u>
Less accumulated depreciation:				
Buildings and structures	93,492,727	5,002,902	(604,142)	97,891,487
Mains and hydrants	44,548,981	2,080,571	14,226	46,643,778
Equipment	20,874,429	1,828,943	(710,970)	21,992,402
Other	27,371,046	1,185,116	17,801	28,573,963
Total accumulated depreciation	<u>186,287,183</u>	<u>10,097,532</u>	<u>(1,283,085)</u>	<u>195,101,630</u>
Total capital assets being depreciated, net	<u>300,016,087</u>	<u>16,917,904</u>	<u>(474,030)</u>	<u>316,459,961</u>
Total capital assets, net	<u>\$ 308,884,804</u>	<u>\$ 50,315,177</u>	<u>\$ (27,386,031)</u>	<u>\$ 331,813,950</u>

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

	Balance 1/1/2007	Additions and Reclassifications	Deletions and Reclassifications	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	<u>5,512,361</u>	<u>19,550,964</u>	<u>(16,194,608)</u>	<u>8,868,717</u>
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	<u>470,438,842</u>	<u>16,503,013</u>	<u>(638,585)</u>	<u>486,303,270</u>
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	<u>176,933,716</u>	<u>9,941,663</u>	<u>(588,196)</u>	<u>186,287,183</u>
Total capital assets being depreciated, net	<u>293,505,126</u>	<u>6,561,350</u>	<u>(50,389)</u>	<u>300,016,087</u>
Total capital assets, net	<u>\$ 299,017,487</u>	<u>\$ 26,112,314</u>	<u>\$ (16,244,997)</u>	<u>\$ 308,884,804</u>

Depreciation expense for the years ended December 31, 2008 and 2007 totaled \$10,129,559 and \$9,941,663, respectively. As discussed in Note 1, the Authority depreciates capital assets in accordance with PSC guidelines, and the cost of retirements of capital assets is charged against accumulated depreciation.

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, 2008:

Series	Final Annual Installment Payment Due	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding 12/31/2008
Series 1998B	12/15/2017	1998	3.65-5.20% (^)	\$ 7,780,931	\$ 4,090,000
Series 1998D	10/15/2019	2000	3.90-5.15% (^)	16,859,700	10,685,000
Series 2003F	7/15/2023	2004	.79-4.50% (^)	15,544,443	12,555,000
Series 2007	12/1/2037	2008	4.50-4.75%	35,000,000	34,705,000
Series 2008	12/1/2018	2009	4.00-5.00%	45,770,000	45,770,000
					107,805,000
Less portion due within one year					(6,215,000)
					<u>\$ 101,590,000</u>

(^) Gross rates subject to subsidy 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 2007 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. During the year ended December 31, 2008, the Series 1992FR Bonds fully matured on June 1, 2008; interest on the Series 1992FR Appreciation Bonds totaled \$250,244 upon maturity. Additionally, during the year ended December 31, 2008, the Series 1993A and Series 1993B Bonds were redeemed.

As a means to lower its borrowing costs bonds, 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 Bonds. The intention of the swap was to stabilize the Authority’s interest rate on the Series 1993A and 1993B Bonds. These bonds were redeemed on July 25, 2008.

On January 18, 2008, Fitch Ratings placed Ambac Assurance Corporation, the Bond Insurer of the Series 1993A and 1993B bonds, on negative watch. As a result, beginning in February 2008 Citigroup, the Remarketing Agent of the Series 1993A and 1993B bonds, was unable to remarket the Authority’s bonds on a weekly basis as required. Beginning on March 4, 2008 DEPFA Bank, the Standby Bond Purchaser of the Series 1993A and 1993B bonds, was required to buy the Authority’s bonds. As a result, the swap rate received from AIG changed to the alternative floating rate of 55% of 1-month LIBOR. In addition, the Authority had to pay DEPFA interest at a rate of prime plus 3 basis points on the bank bonds.

On April 29, 2008 DEPFA Bank agreed to a temporary waiver of automatic termination events, which waived a potential increase of the interest rate established for May 3, 2008. In addition, AIG agreed to revert to paying the bond rate instead of the alternative floating rate.

On June 25, 2008, the Authority issued \$45,770,000 of Water Revenue Refunding Bonds, Series 2008 (“Series 2008 Bonds”). The Series 2008 Bonds carry an interest rate of 4.0% to 5.0% and mature December 1, 2009 through December 1, 2018. The proceeds of the issue, including a \$3,081,304 premium which will be amortized over the life of the Series 2008 Bonds, were used to refund principal of Series 1993A and Series 1993B bonds, \$27,500,000 and \$15,000,000, respectively. A portion of the proceeds from the issuance covered the costs resulting from a fee in connection with the termination of the swap agreement related to the Series A and Series B Bonds. This cost of the swap termination, \$5,058,208, and other costs of refunding of \$391,137 will be amortized over the life of the redeemed bonds. Additional costs of \$363,499 were a result of the issuance and will be amortized over the life of the Series 2008 Bonds. The remaining portion of the proceeds, after the total \$5,894,523 cost of refunding the bonds, including the final interest payment on the swap agreement of \$81,679, has been deposited into the Series 2008 Debt Service Reserve Fund. The Series 1993A and Series 1993B bonds were redeemed on July 25, 2008. The issuance of the Series 2008 refunding bonds reduces the debt service by \$7,481,572 and a net present value of cash flow savings of \$8,393,467.

As a result of the redemption of the Series 1993A and Series 1993B, all of the current outstanding bonds have been issued under the Authority’s Fourth Resolution. Therefore, all of the current bondholders have equal claims against the Authority’s revenues.

The swap, which was terminated through the Series 2008 Bonds issuance, is described below:

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 equal the variable interest rate on the Series 1993A and 1993B water revenue bonds unless market conditions cause the alternative floating rate to be initiated. The variable interest rate was 3.38% at December 31, 2007 for the Series 1993A and 1993B. At December 31, 2008 the swap did not exist. 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. At December 31, 2008 the swap did not exist. 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 previously insured 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, had the interest rates changed and the fair value of the swaps favor the Authority, the Authority would have been 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 would have been fully collateralized by the counterparty. Collateral would be posted with a third-party custodian. At December 31, 2008, the swap did not exist.

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. As discussed, the swap was terminated with proceeds from the Series 2008 Bonds.

The Current Interest Series 1998B and Series 1998D Series 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
	<u>\$ 15,544,443</u>

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 its 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 \$8,640,000 at December 31, 2008 with maturities ranging from the year 2009 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	Accrued Compensated Absences*	Total
2009	\$ 6,215,000	\$1,092,467	\$ 7,307,467
2010	6,400,000	-	6,400,000
2011	6,635,000	-	6,635,000
2012	6,920,000	-	6,920,000
2013	7,180,000	-	7,180,000
2014-2018	40,485,000	-	40,485,000
2019-2023	11,995,000	-	11,995,000
2024-2028	6,360,000	-	6,360,000
2029-2033	7,900,000	-	7,900,000
2034-2037	7,715,000	-	7,715,000
Various years	-	1,826,213	1,826,213
	107,805,000	2,918,680	110,723,680
Less portion due within one year	6,215,000	1,092,467	7,307,467
	<u>\$ 101,590,000</u>	<u>\$1,826,213</u>	<u>\$ 103,416,213</u>

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

Annual interest payments due on water revenue bonds:

	<u>Interest Due on Bonded Debt</u>
2009	\$ 5,008,798
2010	4,759,542
2011	4,498,827
2012	4,185,628
2013	3,899,138
2014-2018	13,983,228
2019-2023	6,925,864
2024-2028	4,691,088
2029-2033	3,064,776
2034-2037	<u>981,500</u>
	51,998,389
Less portion due within one year	<u>5,008,798</u>
	<u>\$ 46,989,591</u>

Compensated Absences—as explained in Note 1, the Authority records the value of compensated absences. The Authority provides funds for these benefits as they become payable. The value recorded in the statements of net assets at December 31, 2008 is \$2,918,680, as compared to \$2,852,348 at December 31, 2007. At December 31, 2008 management estimates \$1,092,467 is a current liability, as compared to \$1,076,632 at December 31, 2007. 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, 2008:

Series	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008	Due Within One Year
Series 1992FR	\$ 149,756	\$ -	\$ (149,756)	\$ -	\$ -
Series 1993A	27,500,000	-	(27,500,000)	-	-
Series 1993B	15,000,000	-	(15,000,000)	-	-
Series 1998B	4,470,000	-	(380,000)	4,090,000	395,000
Series 1998D	11,460,000	-	(775,000)	10,685,000	805,000
Series 2003F	13,180,000	-	(625,000)	12,555,000	625,000
Series 2007FR	35,000,000	-	(295,000)	34,705,000	635,000
Series 2008	<u>-</u>	<u>45,770,000</u>	<u>-</u>	<u>45,770,000</u>	<u>3,755,000</u>
Bonds payable	106,759,756	45,770,000	(44,724,756)	107,805,000	6,215,000
Add (subtract) deferred amounts:					
For refunding premiums	192,376	3,081,304	(154,334)	3,119,346	302,235
For issuance discounts/costs	<u>(1,527,519)</u>	<u>(5,812,844)</u>	<u>831,378</u>	<u>(6,508,985)</u>	<u>(740,323)</u>
Total bonds payable	<u>\$ 105,424,613</u>	<u>\$43,038,460</u>	<u>\$ (44,047,712)</u>	<u>\$ 104,415,361</u>	<u>\$5,776,912</u>

6. PENSION PLAN

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

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

The Authority is required to contribute at an actuarially determined rate. The Authority's required contributions to the State Plan amounted to \$1,123,063, \$1,332,308, and \$1,329,422 in 2008, 2007 and 2006, respectively.

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems; requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible and changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2008 would be based on the pension value as of March 31, 2007).

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule; for State fiscal year ("SFY") 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted, for SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries, and for SFY 2007-08, the amount in excess of 10.5 percent of employees' covered pensionable salaries.

Legislation requires participating employers to make payments on a current basis. The Authority contributions made to the Systems were equal to 100 percent of the contributions required for each year, and has not bonded or amortized any of the excess amounts.

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 128 and 122 retirees receiving health care benefits, at December 31, 2008 and December 31, 2007.

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 make no 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, the amount actually contributed to the plan, and the changes in the Authority’s net OPEB obligation for 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Annual required contribution	\$ 4,579,161	\$ 4,301,381
Interest on net OPEB obligation	137,434	-
Adjustment to annual required contribution	<u>(187,494)</u>	<u>-</u>
Annual OPEB costs (expense)	4,529,101	4,301,381
Contributions made	<u>(1,123,917)</u>	<u>(1,247,310)</u>
Increase in net OPEB obligation	3,405,184	3,054,071
Net OPEB obligation - beginning of year	<u>3,054,071</u>	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 6,459,255</u></u>	<u><u>\$ 3,054,071</u></u>

Funding Status and Funding Progress—As of January 1, 2008, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$44,227,440.

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.

As of December 31, 2008, the Authority has had only two actuarial valuations performed. Accordingly, information from the past two studies are presented in the Authority’s Schedule of Funding Progress and the Schedule of Authority’s Contributions.

The Authority's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Budgeted Covered Payroll	Ratio of UAAL to Budget Covered Payroll
As of January 1, 2007	\$ -	\$ 41,426,643	\$ 41,426,643	-	\$ 14,736,405	2.81
As of January 1, 2008	-	44,227,440	44,227,440	-	15,340,957	2.88

The Schedule of the Authority's Contributions is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2007	\$ 4,301,381	\$ 1,247,310	29.0%
2008	4,579,161	1,123,917	24.5%

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. The projection of benefits does not incorporate the potential effect of a change in the pattern of cost sharing between the employer and plan members in the future. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2008 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation and measurement date of January 1, 2008. 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, 2008 was twenty-eight 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. Both contracts are currently in negotiations.

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, 2008	December 31, 2007
Capital assets, net of accumulated depreciation	\$ 331,813,950	\$ 308,884,804
Related debt:		
Water revenue bonds:		
Total water revenue bonds issued	(107,805,000)	(106,759,756)
Unspent debt proceeds in future construction reserve fund	<u>4,075,220</u>	<u>24,091,854</u>
Water revenue bonds issued for capital assets	(103,729,780)	(82,667,902)
Bond issue costs on related debt	6,508,985	1,527,519
Bond premium on related debt	<u>(3,119,346)</u>	<u>(192,376)</u>
Investment in capital assets, net of related debt	<u>\$ 231,473,809</u>	<u>\$ 227,552,045</u>

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, 2008 and 2007 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. The final maturity of these bonds was June 1, 2008.

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.

During 2008, the Authority established a Debt Service Reserve Fund as required by the Series 2008 bond resolution to maintain a specified amount of funds to meet future debt service requirements. The Authority established the Debt Service Reserve Fund based on ten percent of the total principal of the loan.

- ***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 unrestricted net assets to partially finance the remainder of the Authority’s current five year capital plan, which will require future financing in excess of \$60 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 2008 and 2007 aggregated \$327,054 and \$313,334, respectively. Future minimum annual rentals to be paid under such leases are not significant.

The Authority is involved in litigation and other matters arising in its normal operating, financing, and investing activities. While the resolution of such litigation or other matters could have a material effect on earnings and cash flows in the year of resolution, the Authority has obtained various liability, property, and workers’ compensation insurance policies which would mitigate any exposure to loss on the part of the Authority. None of this litigation and none of these other matters are expected to have a material effect on the financial condition of the Authority at this time.

STATISTICAL SECTION

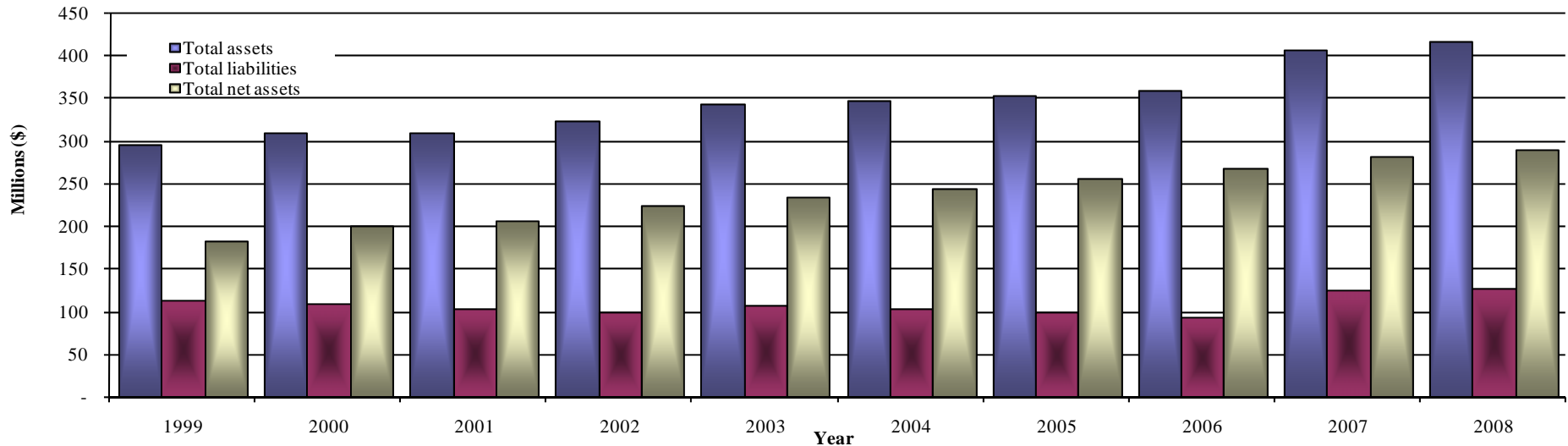
(UNAUDITED)

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

Contents	Page
Financial Trends	47
<i>These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time.</i>	
Revenue Capacity	52
<i>These schedules contain information to help the reader assess the Authority’s most significant revenue source – water sales.</i>	
Debt Capacity	55
<i>These schedules present information to help the reader assess the affordability of the Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information	58
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.</i>	
Operating Information	60
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs.</i>	

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

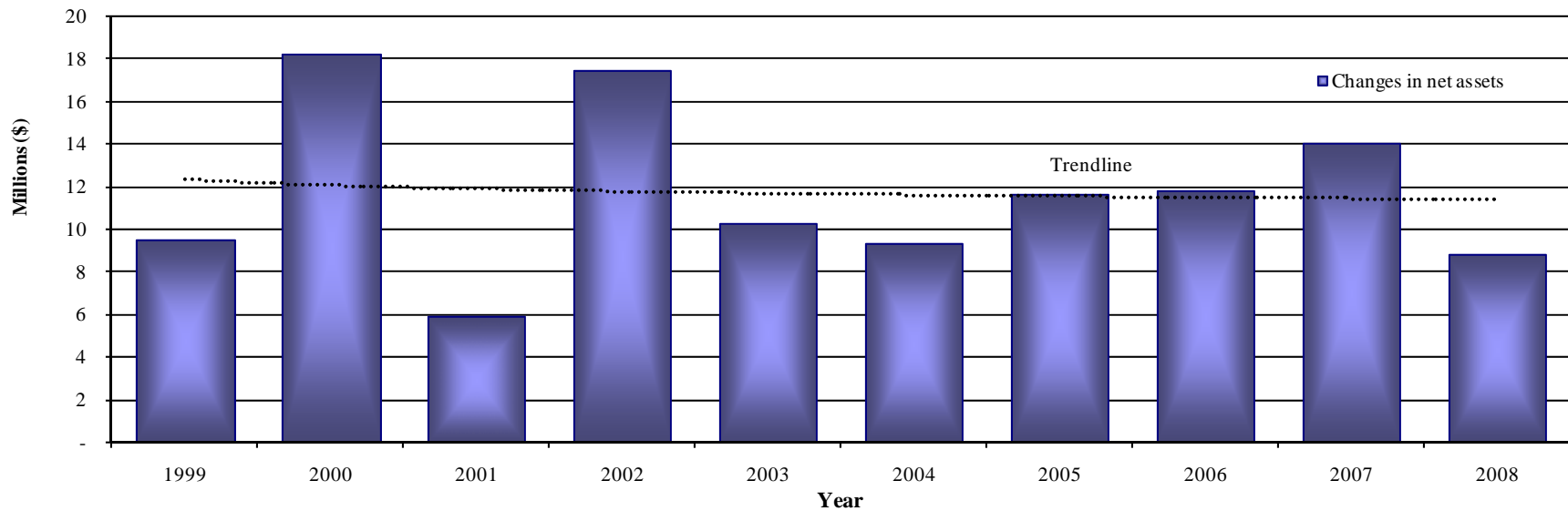
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Current assets	\$ 32,167,665	\$ 32,291,609	\$ 34,101,790	\$ 37,770,731	\$ 33,704,255	\$ 37,231,424	\$ 39,318,337	\$ 41,073,115	\$ 29,800,725	\$ 31,471,998
Noncurrent assets	263,724,021	276,261,656	275,773,688	284,872,862	308,317,224	308,849,860	313,858,623	318,546,124	375,686,541	385,767,563
Total assets	<u>295,891,686</u>	<u>308,553,265</u>	<u>309,875,478</u>	<u>322,643,593</u>	<u>342,021,479</u>	<u>346,081,284</u>	<u>353,176,960</u>	<u>359,619,239</u>	<u>405,487,266</u>	<u>417,239,561</u>
Current liabilities	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	20,760,292
Noncurrent liabilities	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	106,923,917
Total liabilities	<u>113,613,357</u>	<u>108,055,270</u>	<u>103,483,941</u>	<u>98,825,047</u>	<u>107,957,185</u>	<u>102,686,992</u>	<u>98,140,977</u>	<u>92,816,984</u>	<u>124,693,883</u>	<u>127,684,209</u>
Invested in capital assets, net of related debt	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	231,473,809
Restricted	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	30,118,511
Unrestricted	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	27,963,032
Total net assets	<u>\$ 182,278,329</u>	<u>\$ 200,497,995</u>	<u>\$ 206,391,537</u>	<u>\$ 223,818,546</u>	<u>\$ 234,064,294</u>	<u>\$ 243,394,292</u>	<u>\$ 255,035,983</u>	<u>\$ 266,802,255</u>	<u>\$ 280,793,383</u>	<u>\$ 289,555,352</u>



(Source: Annual Audited Financial Statements)

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating revenue	\$ 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	\$ 56,284,871
Operating expenses	<u>34,039,368</u>	<u>34,554,244</u>	<u>37,954,241</u>	<u>37,318,985</u>	<u>37,204,461</u>	<u>39,654,104</u>	<u>41,831,636</u>	<u>43,929,734</u>	<u>47,491,290</u>	<u>45,830,367</u>
Operating income	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	10,454,504
Nonoperating revenue(expenses)	(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)	(2,448,077)
Net income before contributions in aid of construction	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	8,006,427
Contributions in aid of construction	<u>522,871</u>	<u>12,183,166</u>	<u>1,039,319</u>	<u>9,175,209</u>	<u>3,424,130</u>	<u>3,170,906</u>	<u>1,489,097</u>	<u>1,175,186</u>	<u>992,087</u>	<u>755,542</u>
Change in net assets	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	8,761,969
Total net assets - beginning of year	<u>172,775,986</u>	<u>182,278,329</u>	<u>200,497,995</u>	<u>206,391,537</u>	<u>223,818,546</u>	<u>234,064,294</u>	<u>243,394,292</u>	<u>255,035,983</u>	<u>266,802,255</u>	<u>280,793,383</u>
Total net assets - end of year	<u>\$ 182,278,329</u>	<u>\$ 200,497,995</u>	<u>\$ 206,391,537</u>	<u>\$ 223,818,546</u>	<u>\$ 234,064,294</u>	<u>\$ 243,394,292</u>	<u>\$ 255,035,983</u>	<u>\$ 266,802,255</u>	<u>\$ 280,793,383</u>	<u>\$ 289,555,352</u>



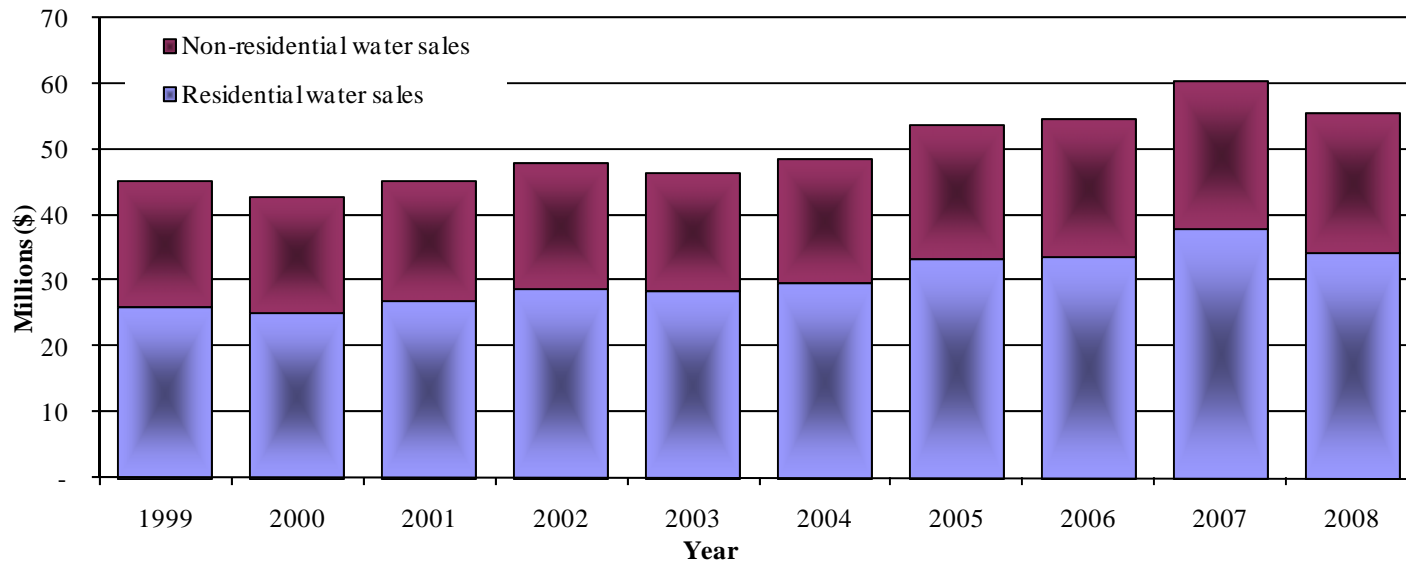
(Source: Annual Audited Financial Statements)

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Water sales										
Residential	\$ 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	\$ 34,520,149
Commercial	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	7,003,921
Industrial	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	1,901,354
Public authorities	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	2,052,689
Fire protection	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	3,799,498
Sales to other utilities	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	4,920,668
Other water revenue	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	1,584,878
Total water sales	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	55,783,157
Rents from water towers	83,113	132,667	159,614	299,550	326,573	353,887	419,872	446,806	547,075	492,929
Other operating revenue	362,892	70,105	12,744	30,298	69,647	14,514	13,752	467,531	9,635	8,785
Total operating revenue	<u>\$ 45,788,920</u>	<u>\$ 43,013,977</u>	<u>\$ 45,633,628</u>	<u>\$ 48,362,387</u>	<u>\$ 47,073,542</u>	<u>\$ 48,982,522</u>	<u>\$ 54,238,666</u>	<u>\$ 55,744,905</u>	<u>\$ 61,227,617</u>	<u>\$ 56,284,871</u>

Water sales as a percent
of total operating revenue

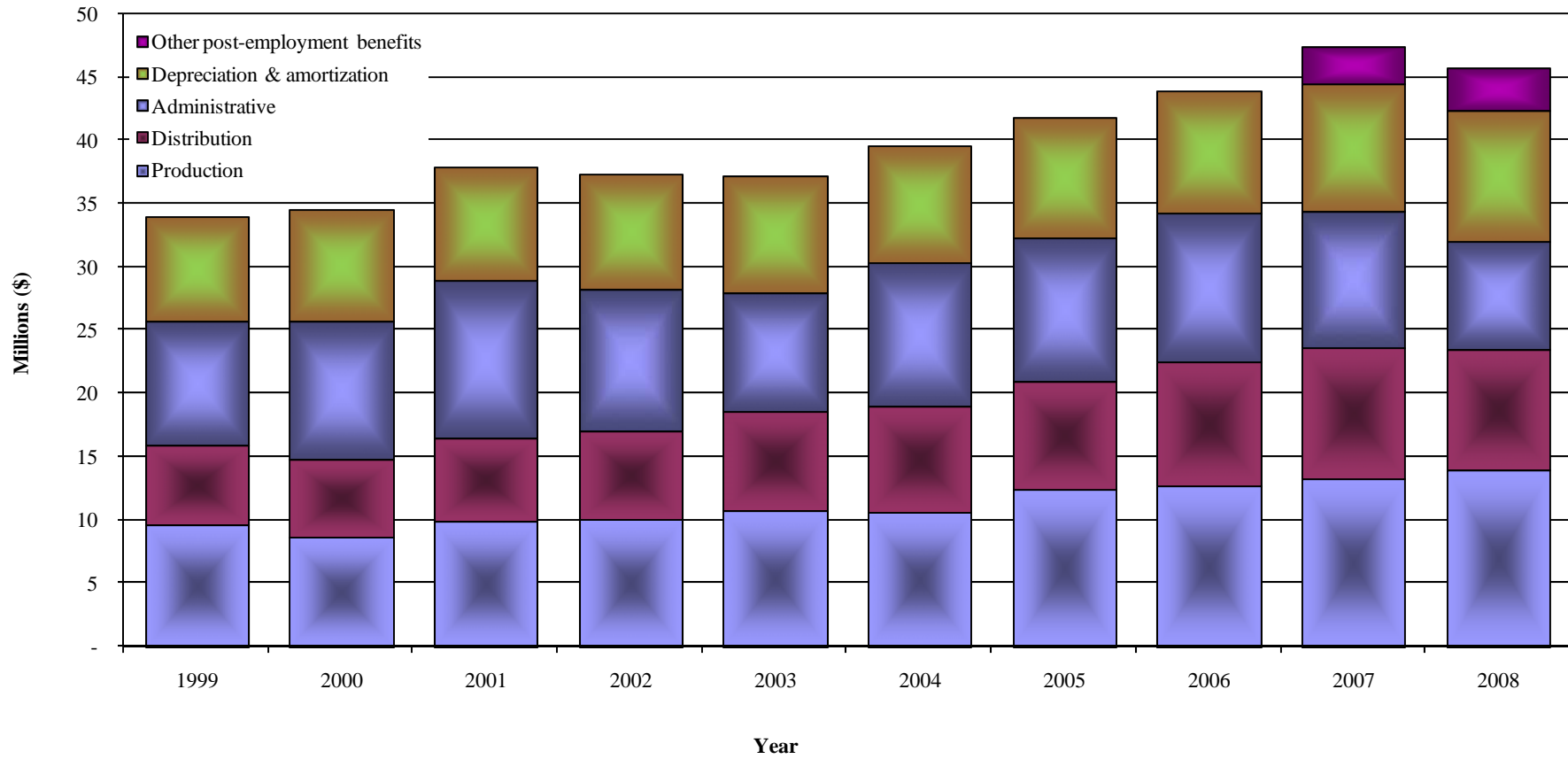
99.0% 99.5% 99.6% 99.3% 99.2% 99.2% 99.2% 98.4% 99.1% 99.1%



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
Operating Expenses
Last Ten Fiscal Years

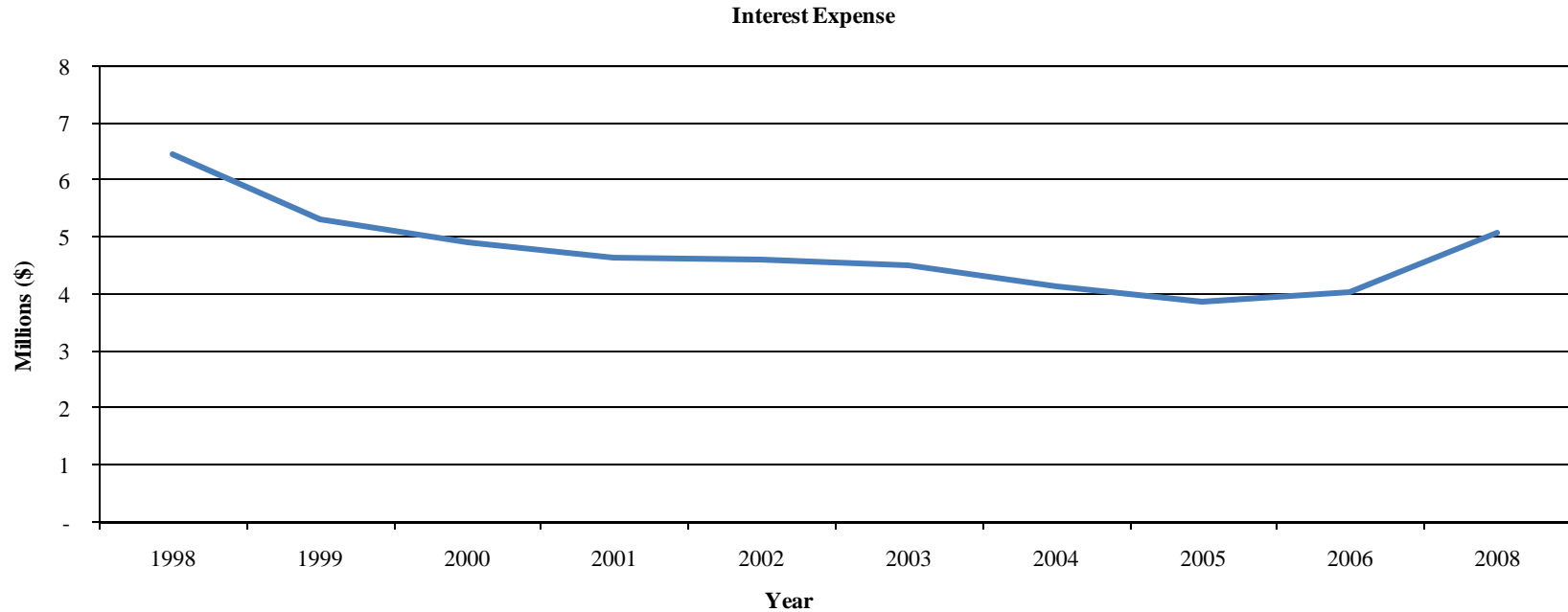
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Production	\$ 9,578,566	\$ 8,647,310	\$ 9,915,731	\$ 10,088,719	\$ 10,732,803	\$ 10,619,126	\$ 12,393,279	\$ 12,721,482	\$ 13,215,672	\$ 14,020,769
Distribution	6,405,098	6,230,632	6,568,349	6,999,349	7,825,476	8,462,789	8,629,594	9,822,375	10,418,967	9,471,675
Administrative	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	8,549,306
Depreciation & amortization	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	10,383,433
Other post-employment benefits	-	-	-	-	-	-	-	-	3,054,071	3,405,184
Total operating expenses	\$ 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	\$ 45,830,367



(Source: Annual Audited Financial Statements)

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2008</u>
Nonoperating revenues (expenses)										
Interest expense	\$ (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)	\$ (5,074,771)
Interest income	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	2,353,043
Interest capitalized during construction	670,154	18,299	39,409	61,539	365,823	143,378	99,076	145,090	159,196	273,651
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-	-	-	-
Nonoperating revenues (expenses)	<u>\$ (2,770,080)</u>	<u>\$ (2,423,233)</u>	<u>\$ (2,825,164)</u>	<u>\$ (2,791,602)</u>	<u>\$ (3,047,463)</u>	<u>\$ (3,169,326)</u>	<u>\$ (2,254,436)</u>	<u>\$ (1,224,085)</u>	<u>\$ (737,287)</u>	<u>\$ (2,448,077)</u>

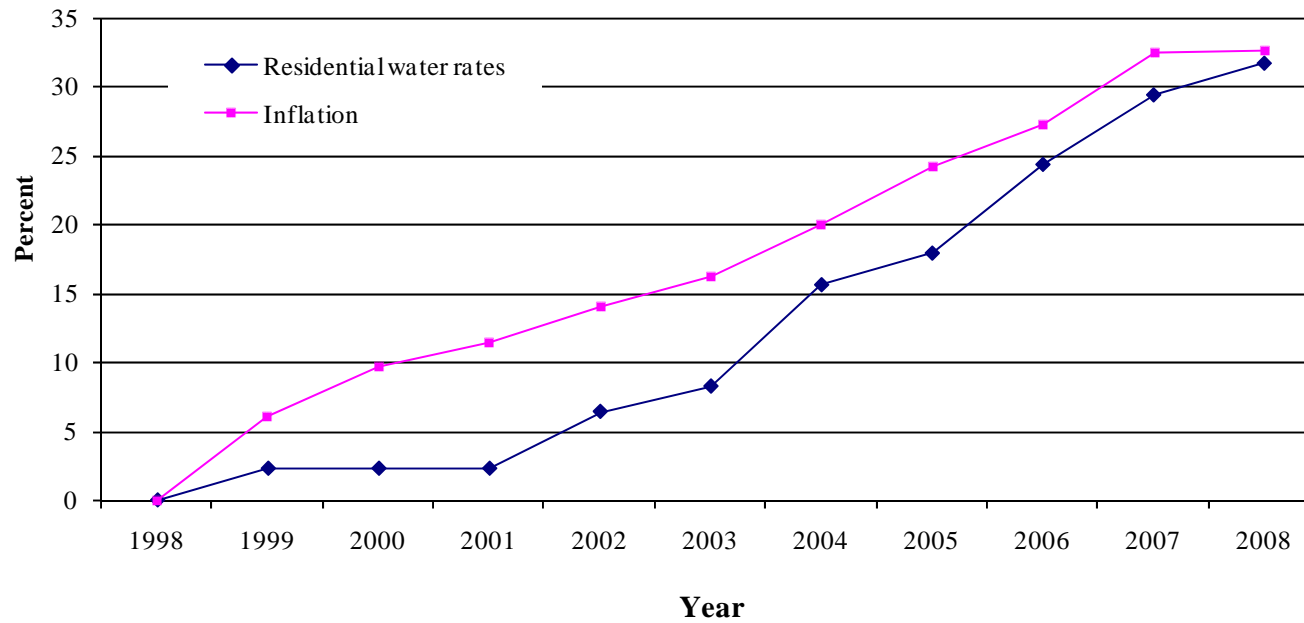


(Source: Annual Audited Financial Statements)

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(Base Year)										
Residential water rate	\$ 2.22	\$ 2.22	\$ 2.22	\$ 2.22	\$ 2.31	\$ 2.35	\$ 2.51	\$ 2.56	\$ 2.70	\$ 2.81	\$ 2.86
Percentage increase (%)	-	-	-	-	4.05	1.73	6.81	1.99	5.47	4.07	1.78
Cumulative increase (%)	-	2.30	2.30	2.30	6.44	8.28	15.65	17.95	24.40	29.46	31.76
Inflation rate (%)	1.61	2.68	3.39	1.55	2.38	1.88	3.26	3.42	2.54	4.08	0.09
Cumulative increase (%)	-	6.11	9.71	11.41	14.06	16.20	19.99	24.09	27.24	32.43	32.55

Cumulative Rate Change vs. Inflation



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

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

<u>Year End December 31, 2008</u>		<u>Year End December 31, 1999</u>	
<u>Non-Municipal Customers</u>		<u>Non-Municipal Customers</u>	
State University of NY at Buffalo	\$ 483,178	Bethlehem Steel Corporation	\$ 768,869
Accelor Mittel	409,513	State University of NY at Buffalo	430,299
Seneca Nation of Indians	254,253	Benderson Development Company	247,538
Upstate Farms Cooperative	216,825	Seneca Nation of Indians	176,907
Mayer Bros Apple Prod Inc.	215,498	Republic Technologies International	165,273
Developers Diversified	206,785	Delta Sonic	108,259
Rosina Food Products Inc.	183,983	West Seneca Developmental Center	103,098
Benderson Development Co.	167,696	Ford Motor Co.	96,077
Republic Engineered Products	126,137	New York State Department of Corrections	95,008
Niagara Frontier Transportation Authority	121,752	Rosina Food Products, Inc.	85,870
Total of Largest Non-Municipal Customers	<u>\$2,385,620</u>	Total of Largest Non-Municipal Customers	<u>\$2,277,198</u>
Percent of total billings	4.3%	Percent of total billings	5.0%
<u>Municipal Customers</u>		<u>Municipal Customers</u>	
Town of Elma	\$1,183,945	Town of Clarence*	\$1,320,825
Town of Evans	1,005,104	Town of Elma	930,805
Village of East Aurora	508,632	Village of Lancaster*	803,301
Village of Williamsville	502,461	Town of Evans	767,514
Village of Angola	307,834	Village of East Aurora	485,029
Village of Blasdell	293,072	Village of Williamsville	442,533
Village of Orchard Park	229,549	Village of Orchard Park	350,014
Monroe County Water Authority	219,107	Village of Angola	258,569
Village of Silver Creek	193,729	Village of Blasdell	247,224
Town of Hanover	130,472	Village of Silver Creek	214,385
Total of Largest Municipal Customers	<u>\$4,573,905</u>	Total of Largest Municipal Customers	<u>\$5,820,199</u>
Percent of total billings	8.2%	Percent of total billings	12.7%

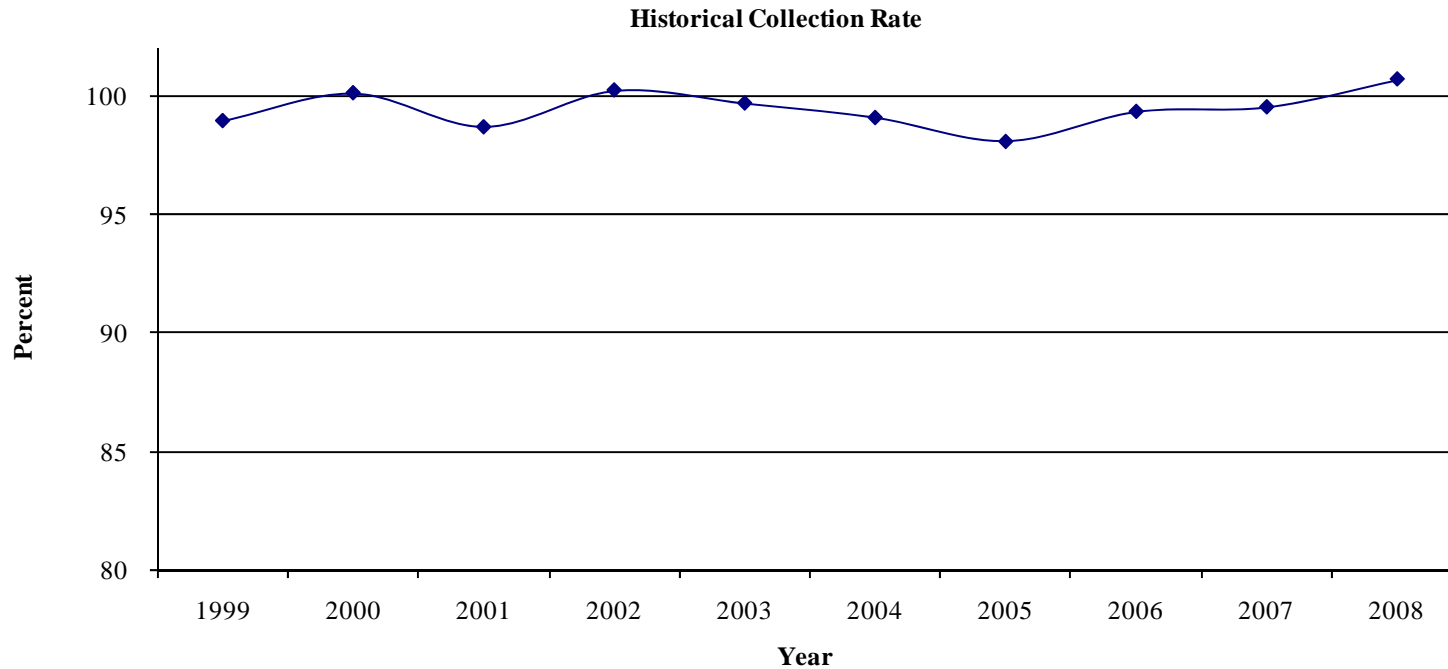
* These municipalities converted from bulk sale to direct service customers between 1999 and 2008

(Source: Authority Business Office Records)

ERIE COUNTY WATER AUTHORITY
Collection Rates
Last Ten Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total billings	\$ 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	\$ 55,914,021
Collections*	\$ 45,356,388	\$ 42,906,211	\$ 45,310,705	\$ 48,183,792	\$ 46,905,832	\$ 48,577,905	\$ 53,053,993	\$ 54,821,020	\$ 60,170,133	\$ 56,320,787
Collection rate (%)	98.98	100.15	98.72	100.26	99.72	99.11	98.10	99.37	99.56	100.73

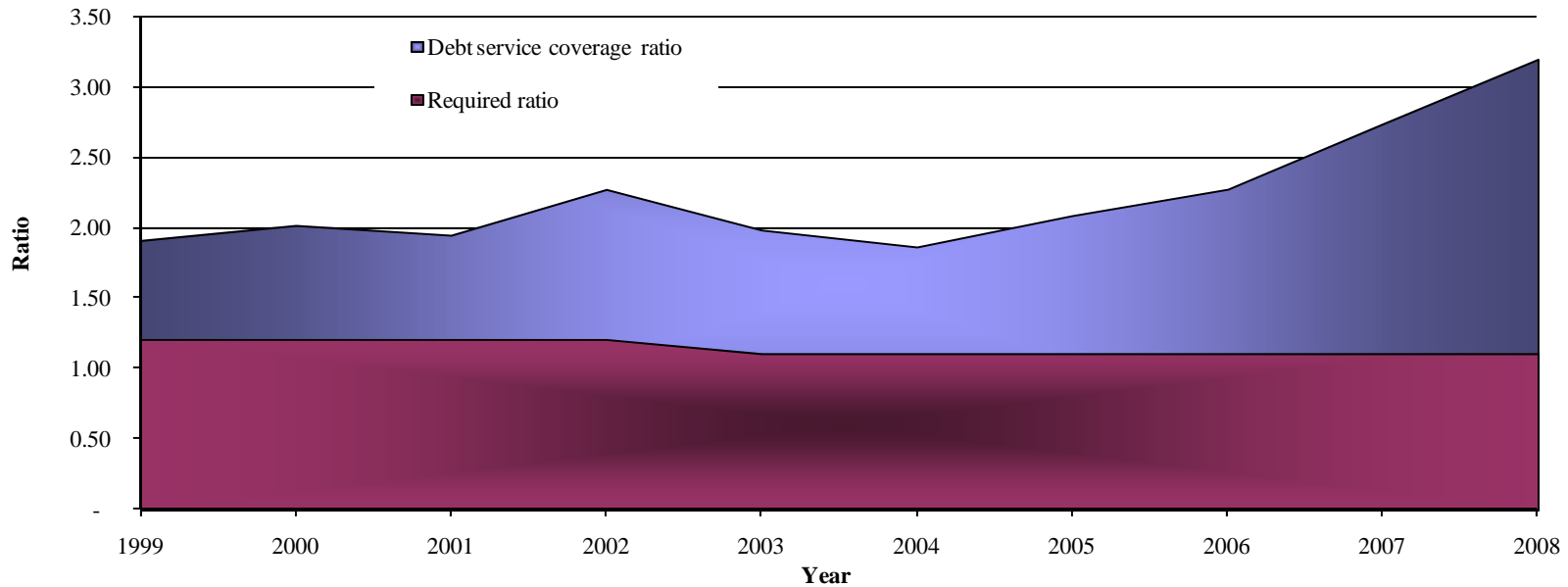
*collections include collections of current year billings and prior year billings



(Source: Authority Financial and Business Office Records)

ERIE COUNTY WATER AUTHORITY
Ratios of Outstanding Debt
Last Ten Years

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating revenue	\$ 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	\$ 56,284,871
Interest income	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	2,353,043
Operating expense less non-cash expenses	<u>(25,804,007)</u>	<u>(25,761,076)</u>	<u>(28,892,340)</u>	<u>(28,207,023)</u>	<u>(28,036,374)</u>	<u>(30,322,552)</u>	<u>(32,282,887)</u>	<u>(34,220,762)</u>	<u>(34,361,641)</u>	<u>(32,041,750)</u>
Net revenue	\$ 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	\$ 26,596,164
Debt service	\$ 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	\$ 8,320,776
Debt service coverage ratio	1.91	2.02	1.95	2.27	1.99	1.87	2.09	2.27	2.74	3.20



(Source: Authority Financial Records)

ERIE COUNTY WATER AUTHORITY
Debt Maturity Schedule

	Issued Directly by the Authority				EFC Financings		Total Principal & Interest
	2007 Fourth Resolution Bonds		2008 Fourth Resolution Bonds		Serial Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 635,000	\$ 1,621,564	\$ 3,755,000	\$ 2,170,000	\$ 1,825,000	\$ 1,217,235	\$ 11,223,799
2010	660,000	1,592,989	3,870,000	2,019,800	1,870,000	1,146,751	11,159,540
2011	685,000	1,563,289	4,025,000	1,865,000	1,925,000	1,070,538	11,133,827
2012	710,000	1,532,464	4,225,000	1,663,750	1,985,000	989,414	11,105,628
2013	740,000	1,500,514	4,395,000	1,494,750	2,045,000	903,875	11,079,139
2014	770,000	1,467,214	4,615,000	1,275,000	2,120,000	813,662	11,060,876
2015	800,000	1,432,564	4,845,000	1,044,250	2,190,000	718,007	11,029,821
2016	835,000	1,396,564	5,090,000	802,000	2,270,000	617,037	11,010,601
2017	865,000	1,358,989	5,340,000	547,500	2,345,000	510,565	10,967,054
2018	905,000	1,320,064	5,610,000	280,500	1,885,000	399,318	10,399,882
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	1,385,000	821,595	-	-	-	-	2,206,595
2029-2033	7,900,000	3,064,775	-	-	-	-	10,964,775
2034-2037	7,715,000	981,500	-	-	-	-	8,696,500
Total	\$ 34,705,000	\$ 29,478,594	\$ 45,770,000	\$ 13,162,550	\$ 27,330,000	\$ 9,357,245	\$ 159,803,389

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total principal debt outstanding	\$ 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	\$ 107,805,000
Total interest outstanding	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	51,998,389
Total outstanding debt	\$ 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	\$ 159,803,389
Outstanding debt per customer	\$ 1,201	\$ 1,078	\$ 997	\$ 916	\$ 968	\$ 841	\$ 755	\$ 682	\$ 1,034	\$ 1,014

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

ERIE COUNTY WATER AUTHORITY
Principal Debt Outstanding by Issue

	Principal Outstanding by Issue					
	Series 1998B	Series 1998D	Series 2003F	Series 2007FR	Series 2008	Total
2009	\$ 395,000	\$ 805,000	\$ 625,000	\$ 635,000	\$ 3,755,000	\$ 6,215,000
2010	405,000	830,000	635,000	660,000	3,870,000	6,400,000
2011	420,000	860,000	645,000	685,000	4,025,000	6,635,000
2012	435,000	890,000	660,000	710,000	4,225,000	6,920,000
2013	450,000	925,000	670,000	740,000	4,395,000	7,180,000
2014	470,000	960,000	690,000	770,000	4,615,000	7,505,000
2015	485,000	1,000,000	705,000	800,000	4,845,000	7,835,000
2016	505,000	1,040,000	725,000	835,000	5,090,000	8,195,000
2017	525,000	1,080,000	740,000	865,000	5,340,000	8,550,000
2018	-	1,125,000	760,000	905,000	5,610,000	8,400,000
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	\$ 4,090,000	\$ 10,685,000	\$ 12,555,000	\$ 34,705,000	\$ 45,770,000	\$ 107,805,000

(Source: Official Statements from Bond Issues)

ERIE COUNTY WATER AUTHORITY
Demographic and Economic Statistics
Last Ten Years

	Erie County			Unemployment Rate ¹		Labor Force ¹
	Population ²	Per Capita Income ³	Aggregate Income ⁴	Erie County	New York State	Erie County
1999	952,546	26,343	n/a	4.7%	4.5%	574,198
2000	949,461	27,838	\$ 19,181,203,026	4.2%	4.1%	575,475
2001	945,205	28,459	19,459,796,053	5.7%	6.0%	572,861
2002	940,800	29,144	19,348,895,930	5.6%	6.3%	579,977
2003	937,298	30,295	20,807,948,091	5.8%	6.0%	581,781
2004	932,637	31,889	20,743,073,400	5.5%	5.2%	585,309
2005	924,748	32,711	21,396,921,200	5.0%	4.8%	584,057
2006	917,209	34,786	21,730,920,800	4.6%	4.0%	581,615
2007	912,158	n/a	23,742,483,500	5.2%	4.6%	577,917
2008	909,845	n/a	n/a	7.2%	6.8%	578,946

(n/a: not available)

Sources:

¹US Department of Labor - Bureau of Labor Statistics

²US Bureau of the Census

³US Bureau of Economic Analysis

⁴US Bureau of the Census - American Community Survey

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

Employer	2008			1999		
	Employees	Percentage of Total Labor Force	Rank	Employees	Percentage of Total Labor Force	Rank
State of New York	16,608	2.9%	1	18,839	3.3%	1
Kaleida Health (formerly CGF Health System)	10,000	1.7%	2	6,768	1.2%	5
United States of America	9,500	1.6%	3	13,000	2.3%	2
Erie County	6,383	1.1%	4	7,532	1.3%	4
HSBC Bank USA N.A. (formerly Marine Midland Bank)	5,848	1.0%	5	4,546	0.8%	8
Buffalo City School District	5,389	0.9%	6	6,205	1.1%	6
Catholic Health System	4,949	0.9%	7	5,502	1.0%	7
Employer Services Corp.	4,880	0.8%	8	-	-	
M&T Bank	4,820	0.8%	9	-	-	
Tops Markets, LLC	4,673	0.8%	10	4,442	0.8%	9
General Motors	-	-		10,100	1.8%	3
City of Buffalo	-	-		4,212	0.7%	10
Total of largest employers	<u>73,050</u>	12.6%		<u>81,146</u>	14.3%	

(Source: Business First of Buffalo 2008 Book of Lists; Business First of Buffalo 1999 Book of Lists)

ERIE COUNTY WATER AUTHORITY
Operating Statistics
Last Ten Fiscal Years

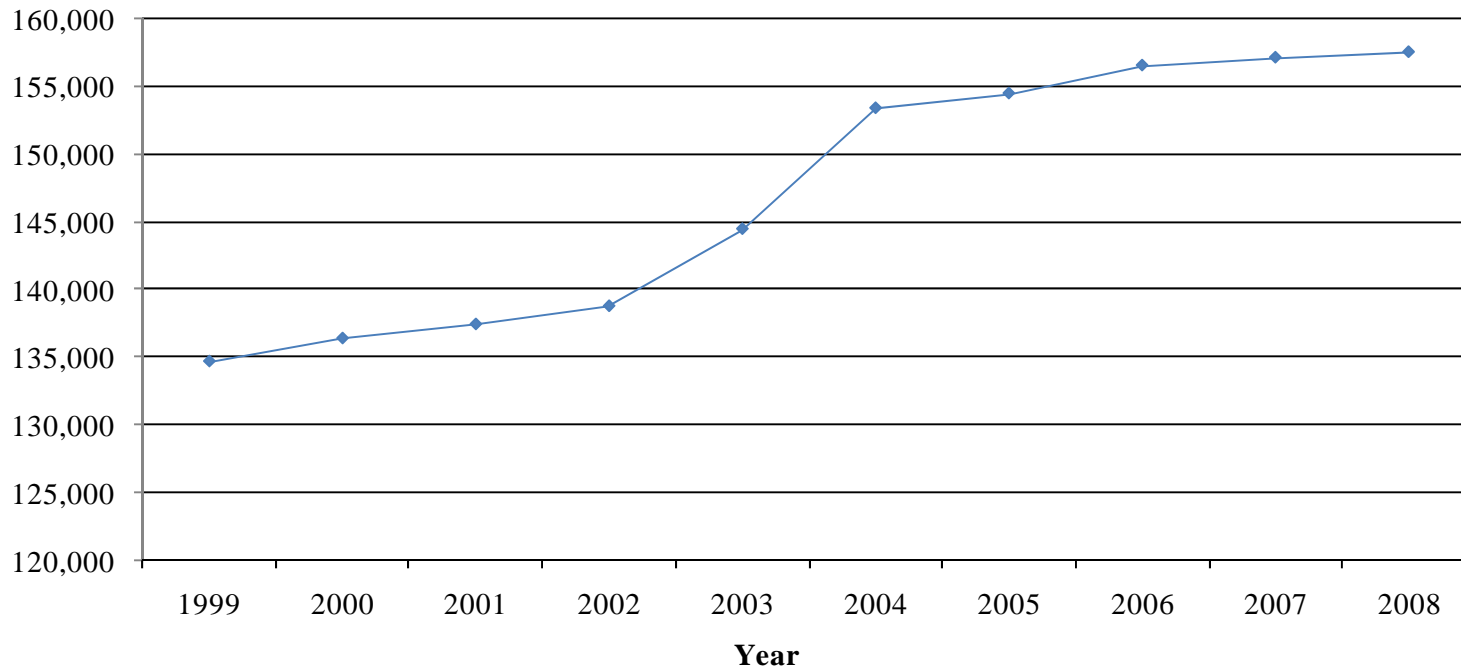
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total number of customers	134,656	136,359	137,403	138,752	144,464	153,418	154,505	156,579	157,163	157,571
Number of employees	284.7	284.8	280.9	276.0	272.0	270.8	269.4	261.8	262.8	267.0
Customers per employee	473.0	478.8	489.2	502.7	531.1	566.5	573.5	598.1	598.0	590.2
Total water output (million gallons)	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	25,174.7
Output per customer (gallons)	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	159,767.3
Total water sales (million gallons)	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	17,637.5
Sales per customer (gallons)	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	111,933.7
Percentage of water sold	82.3%	76.2%	75.9%	75.2%	72.3%	73.8%	72.7%	73.7%	71.4%	70.1%
Total operating expenses	\$ 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	\$ 45,830,367
Operating expense per customer	\$ 253	\$ 253	\$ 276	\$ 269	\$ 258	\$ 258	\$ 271	\$ 281	\$ 302	\$ 291
Total operating revenue	\$ 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	\$ 56,284,871
Operating revenue per customer	\$ 340	\$ 315	\$ 332	\$ 349	\$ 326	\$ 319	\$ 351	\$ 356	\$ 390	\$ 357

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

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Number of customers:										
Residential	126,627	128,190	129,202	130,743	136,122	144,252	145,312	147,326	147,850	148,218
Commercial	6,362	6,450	6,474	6,289	6,547	7,210	7,188	7,197	7,224	7,244
Industrial	254	253	252	247	268	327	328	333	327	333
Public authorities	551	571	550	539	563	601	596	605	609	595
Fire protection	843	875	904	916	946	1,010	1,062	1,098	1,133	1,161
Bulk sales	19	20	21	18	18	18	19	20	20	20
Total number of customers	<u>134,656</u>	<u>136,359</u>	<u>137,403</u>	<u>138,752</u>	<u>144,464</u>	<u>153,418</u>	<u>154,505</u>	<u>156,579</u>	<u>157,163</u>	<u>157,571</u>

Total Number of Customers

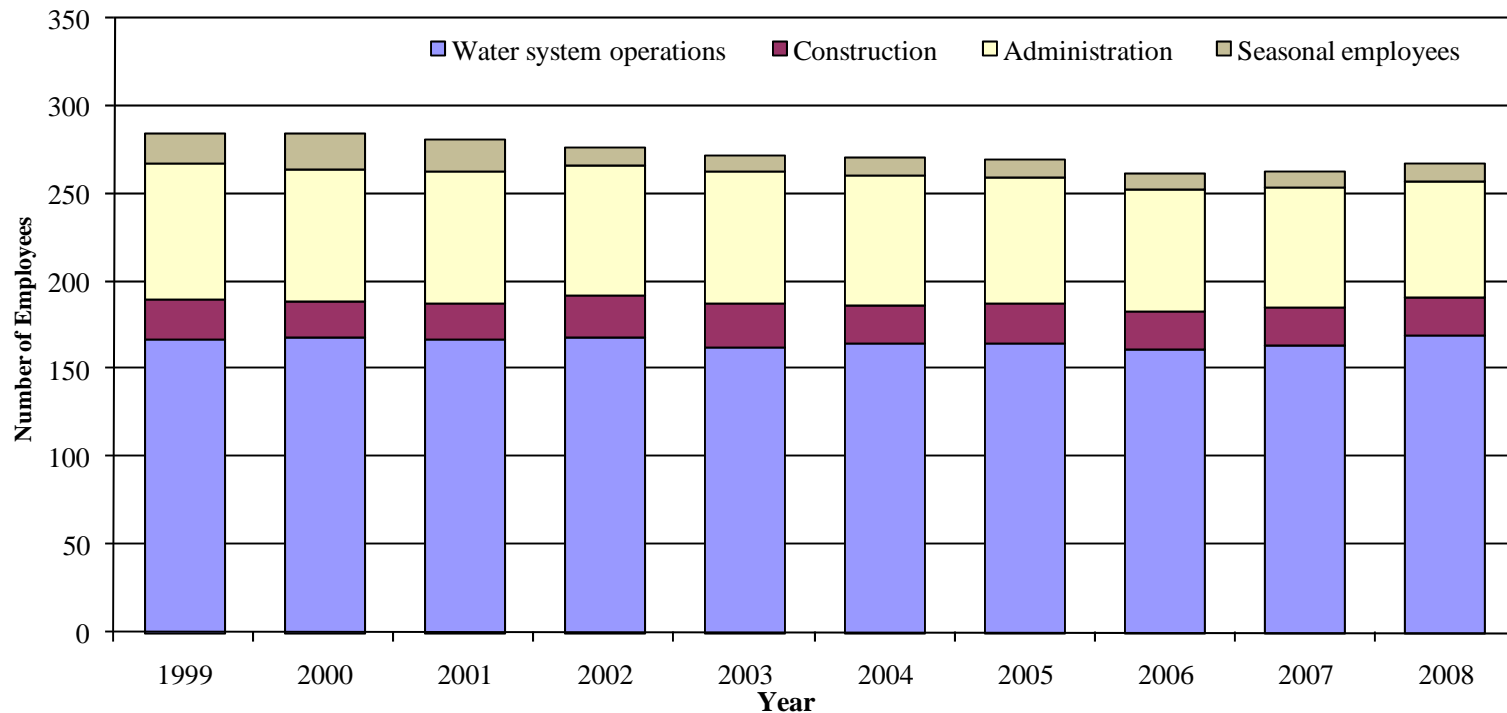


(Source: Authority Financial, Production and Business Office Records)

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Water system operations	167.0	168.0	167.0	168.0	163.0	164.3	165.3	161.3	163.3	169.2
Construction	23.0	21.0	20.0	24.0	24.0	22.0	22.0	22.0	22.0	22.0
Administration	76.9	75.4	76.1	74.6	75.8	73.7	71.7	69.7	68.7	66.4
Seasonal employees	<u>17.8</u>	<u>20.4</u>	<u>17.8</u>	<u>9.4</u>	<u>9.2</u>	<u>10.8</u>	<u>10.4</u>	<u>8.8</u>	<u>8.8</u>	<u>9.4</u>
Total Number of employees	<u>284.7</u>	<u>284.8</u>	<u>280.9</u>	<u>276.0</u>	<u>272.0</u>	<u>270.8</u>	<u>269.4</u>	<u>261.8</u>	<u>262.8</u>	<u>267.0</u>

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



(Source : Authority Internal Financial Records)

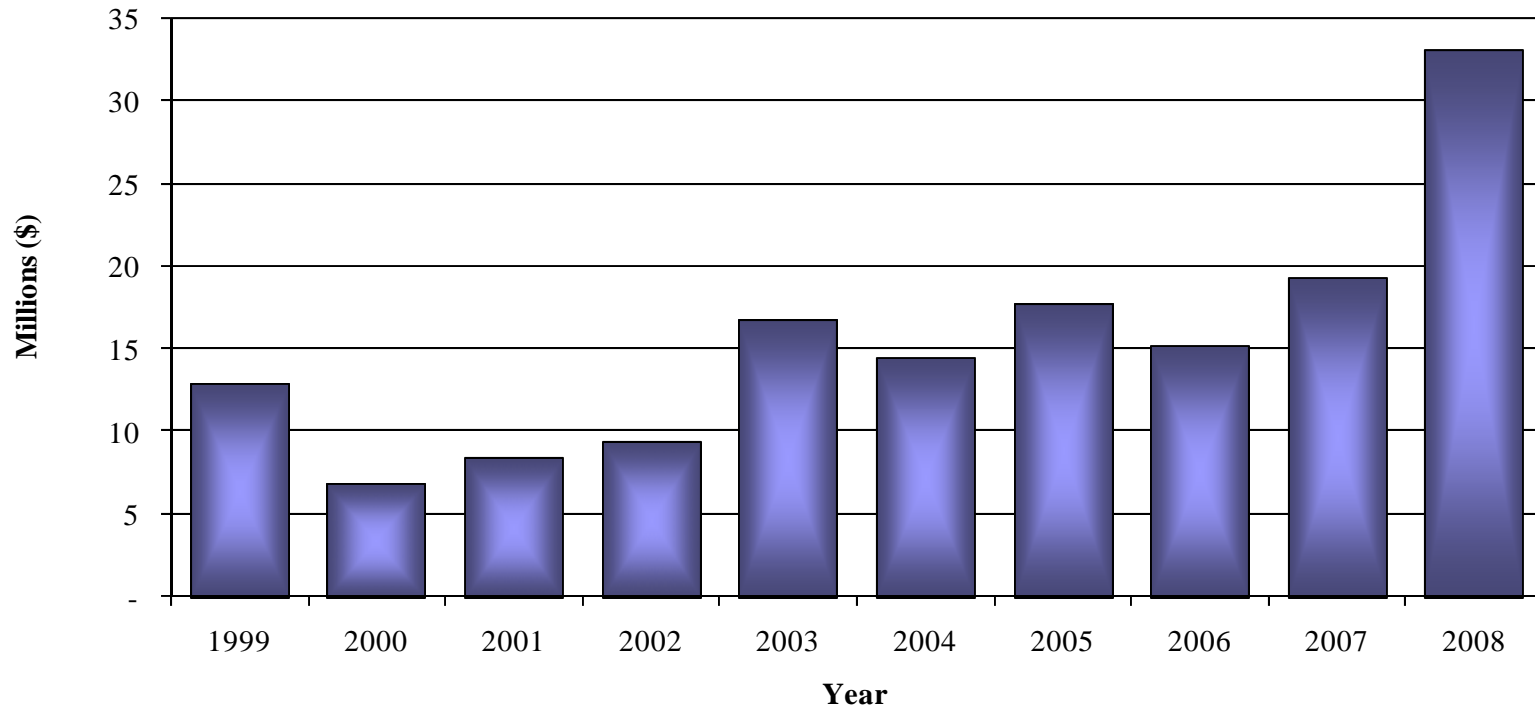
ERIE COUNTY WATER AUTHORITY
 Operating and Capital Indicators
 Last Ten Years

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total miles of distribution piping	2,727	2,939	2,967	3,017	3,057	3,190	3,267	3,329	3,372	3,380
Number of hydrants	12,604	14,439	14,350	14,480	15,080	15,742	16,000	16,792	17,126	17,134
Number of water tanks	31	32	32	32	33	37	37	40	40	40
Storage capacity of water tanks (million gallons)	65.2	66.3	66.3	66.3	67.0	72.7	72.7	74.9	74.9	74.9
Number of pump stations	26	26	26	26	29	32	33	37	38	38
Number of new service taps	924	1,034	1,261	1,290	1,210	949	800	673	730	551

(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Annual Capital Expenditures
Last Ten Years

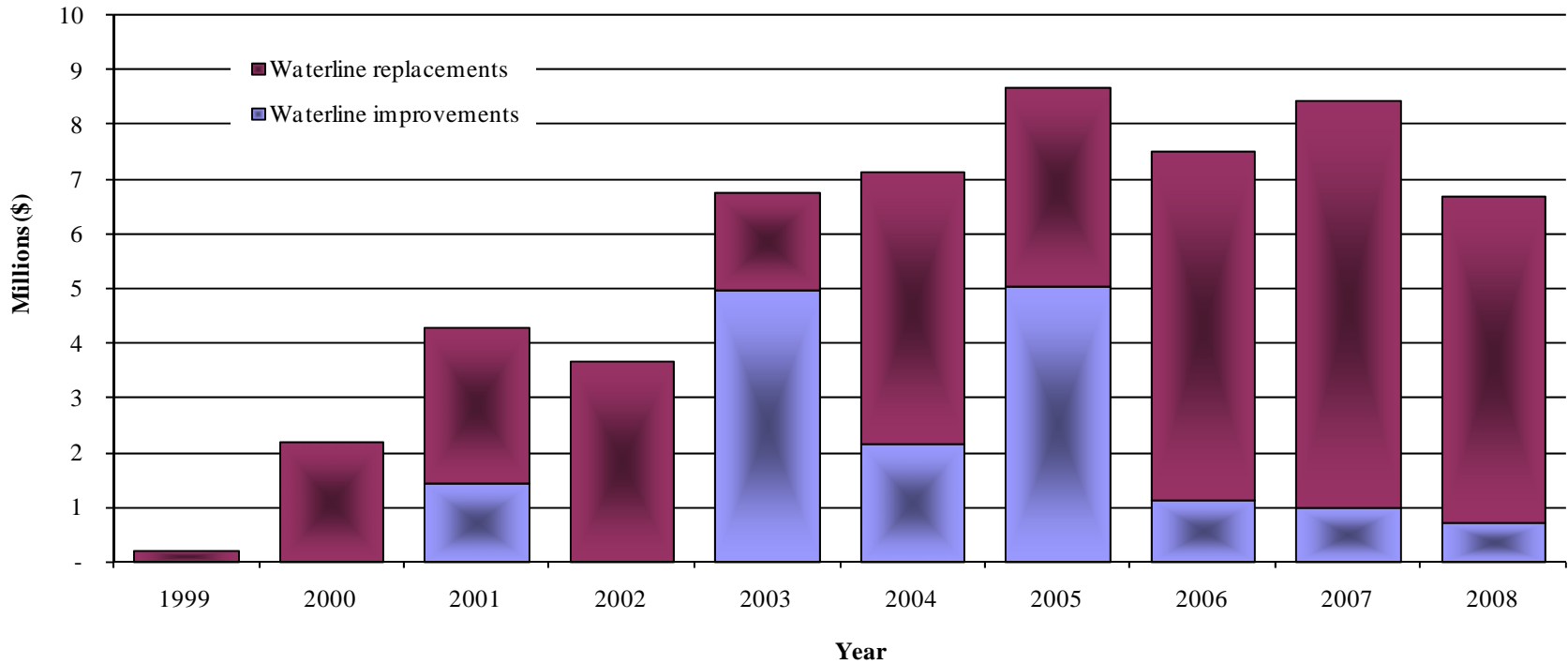
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Capital expenditures	\$12,979,211	\$ 6,848,116	\$ 8,489,478	\$9,478,977	\$16,802,468	\$14,518,527	\$17,778,175	\$15,242,944	\$19,348,363	\$33,160,174
Capital expenditures per customer	\$ 96	\$ 50	\$ 62	\$ 68	\$ 116	\$ 95	\$ 115	\$ 97	\$ 123	\$ 210



(Source : Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
Waterline Replacements and Improvements
Last Ten Years

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
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	\$5,980,572
Waterline improvements	\$ -	\$ -	\$1,446,000	\$ -	\$4,986,000	\$2,168,000	\$5,038,033	\$1,117,537	\$ 984,638	\$ 737,481



(Source: Authority Geographic Information System and Construction Records)