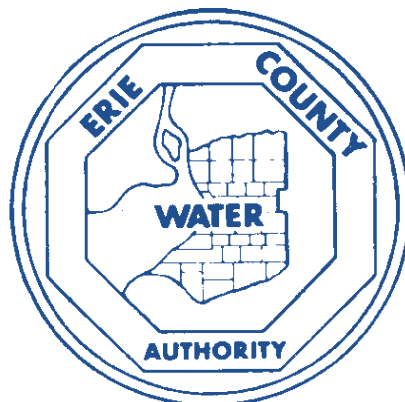


ERIE COUNTY WATER AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010



ERIE COUNTY



NEW YORK

ERIE COUNTY WATER AUTHORITY

Comprehensive Annual Financial Report For the Years Ended December 31, 2011 and 2010

295 Main Street
Room 350
Buffalo, New York 14203

Prepared By:
The Finance Department
Erie County Water Authority

ERIE COUNTY WATER AUTHORITY
Comprehensive Annual Financial Report
Table of Contents

Introductory Section

Letter of Transmittal.....	1
GFOA Certificate of Achievement.....	7
Members of the Board of Commissioners.....	8
Organizational Chart.....	9

Financial Section

Independent Auditors' Report.....	10
Management's Discussion and Analysis.....	11

Financial Statements

Statements of Net Assets.....	26
Statements of Revenue, Expenses and Changes in Net Assets.....	27
Statements of Cash Flows.....	28
Notes to Financial Statements.....	30

Required Supplementary Information

Schedule of Funding Progress – Other Postemployment Benefit Plan.....	47
---	----

Statistical Section

Summary Comparison of the Statements of Net Assets.....	48
Comparison of Statements of Revenue, Expenses and Changes in Net Assets.....	49
Operating Revenue by Source.....	50
Operating Expenses.....	51

(continued)

(concluded)

Nonoperating Revenue and Expenses	52
Metered Water Rate History	53
Largest Customers	54
Debt Service Coverage Ratio	55
Debt Service Maturity Schedule.....	56
Principal Debt Outstanding by Issue	57
Demographic and Economic Statistics	58
Largest Employers in Western New York.....	59
Operating Statistics.....	60
Number of Customers by Classification.....	61
Number of Employees by Function.....	62
Operating and Capital Indicators	63
Annual Capital Project Expenditures	64
Waterline Replacements and Improvements	65

INTRODUCTORY SECTION



Erie County Water Authority

295 Main Street, Rm. 350 • Buffalo, NY 14203-2494
716-849-8484 • Fax 716-849-8467

May 1, 2012

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.

Lumsden & McCormick, LLP have issued an unqualified (“clean”) opinion on the Erie County Water Authority’s financial statements for the years ended December 31, 2011 and December 31, 2010. The independent auditor’s report is located at the front of the financial section of this report.

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

The Management Discussion and Analysis beginning on page 11 provides complementary information not included in this introduction.

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 160,088 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 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. No financial consideration is afforded municipalities in lease managed agreements with the Authority.

The Erie County Water Authority's water supply comes from Lake Erie and the Niagara River. Annually, the Authority treats and distributes approximately 25 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 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, 40 water tanks, 4 process tanks, 3,493 miles of distribution piping, 17,444 fire hydrants 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 Authority also reports annually to the New York State Public Authority Office as required by the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009.

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 to departmental policy and procedures manuals, an Authority-wide internal policy and procedures manual is maintained. It contains sections relating to employment policies, compensation, fringe benefits, code of ethics, 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, subject to provisions in current collective bargaining agreements.

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. The Authority's procedures fully comply with the provisions of the New York State Finance Law relative 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.

The Authority applied for, and received, upgrades from all three credit 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. Standard & Poor's reaffirmed the Authority's AA+ rating in 2011.

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.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge was implemented to maintain the Authority's infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide a dependable, high quality water supply and fire protection services to all customers. Revenues generated from the charge will be used for infrastructure improvements only.

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 are being used to fund a five year capital plan which prioritizes new investment and needed improvements.

The Authority is currently soliciting bids from lenders with the intent to issue bank qualified debt in an effort to take advantage of low interest rates to finance capital 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 significant cost increases primarily for employee health care costs and pension costs. To mitigate the negative cost pressures, the Authority has reduced its workforce from 276 budgeted full-time equivalents in 2002 to 250.9 budgeted full-time equivalents in 2011. 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-six 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.

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 resources to help meet the infrastructure needs of the system.

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 is an excellent opportunity to determine what aspects of the operation are working well and where attention needs to be focused to achieve more favorable results.

The Authority believes that it is very important to make sure that its customers are provided the most efficient service possible. To that end, the Authority has commissioned several customer surveys since 2001 – the most recent was completed in October 2009. The focus of the surveys is customer perception of the service they receive from the Authority as well as their opinion on emerging issues relevant to their experience with us.

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. In 2011, the Village of Blasdell converted their systems from bulk sales to a lease managed environment and the Town of Hamburg converted their system from lease managed to direct service. Work is currently being completed in the Town of Evans to convert their system from bulk sales to lease managed.

At the end of 2010, the Authority contracted with an outside firm to begin printing and mailing services. Beginning in 2011, the elimination of internal printing and mailing operations will save the Authority nearly \$100,000 per year in net operating costs. In addition, the Authority avoided a capital outlay in 2011 of \$258,000 for new printing and mail inserting equipment.

In September of 2011, the Authority began accepting credit card and ACH payments. Through December of 2011, 9,566 payments – \$779,000 in payments – have been received through telephone or website access. Customers absorb the total cost of processing these payments through a convenience charge paid directly to our payment agents. In addition to providing more convenience to our customers, new payment options have reduced the number of paper payments that require processing through a lockbox operation.

AWARDS AND ACKNOWLEDGEMENTS

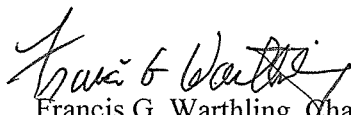
The Authority has received the American Public Works Association (APWA) 2011 Project of the Year Award in the Disaster Preparedness Category in Western New York for our standby power capital improvement program. In 2007, the Authority began to study the need for permanent standby power for key operations. Over the last five years, the Authority has invested in both permanent and portable generators to ensure the delivery of safe potable water in the event of a power outage. As a result of the award, our standby power capital improvement program will be considered for awards at the state and national level.


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 each fiscal year 2004 through 2010.

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 2010 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,


Francis G. Warthling, Chairman


Earl L. Jann, Jr., Vice-Chairman


John F. O'Donnell, 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, 2010

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.



Linda C. Danison

President

Jeffrey R. Emer

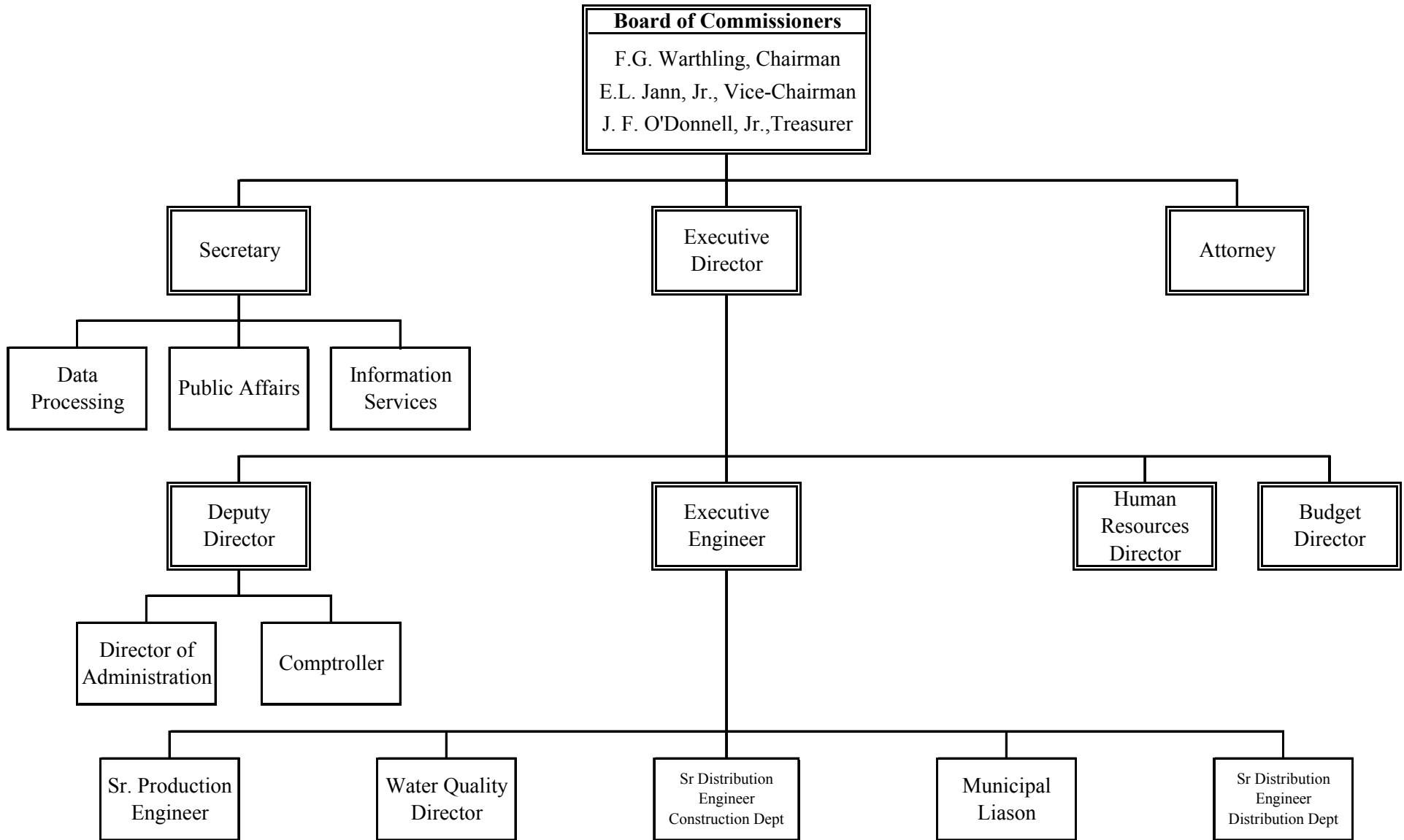
Executive Director

ERIE COUNTY WATER AUTHORITY
Members of the Board of Commissioners

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

Board Members on 12/31/2011	Most Recent Appointment Date
Francis G. Warthling, Chairman	April 2009
John F. O'Donnell, Jr., Treasurer	May 2010
Earl L. Jann, Jr., Vice Chairman	May 2011

ERIE COUNTY WATER AUTHORITY
Organizational Chart



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Erie County Water Authority

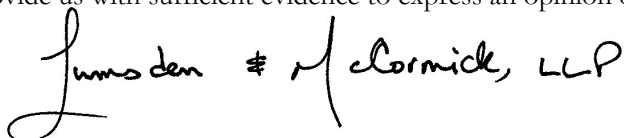
We have audited the accompanying financial statements of Erie County Water Authority (the Authority), a business-type activity, as of December 31, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other postemployment benefits on pages 4 through 18 and 40 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



March 22, 2012

ERIE COUNTY WATER AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
UNAUDITED

Management provides the following discussion and analysis ("MD&A") of the Erie County Water Authority's (the "Authority") financial activities and statements for the years ended December 31, 2011 and 2010. 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 \$6,938,735 as a result of activity for the year ended December 31, 2011. For 2011 \$5,953,503 is net income, and \$985,232 represents capital contributions. Conversely, net assets decreased \$12,550,178 as a result of activity for the year ended December 31, 2010. In 2010, \$3,965,783 is net income, \$1,088,835 represents capital contributions, and \$17,604,796 is a special item resulting in a loss from a change in estimated fair value of acquired assets.
- The assets of the Authority exceeded its liabilities by \$289,735,786 and \$282,797,051, representing net assets at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, unrestricted net assets were \$19,211,536 and \$26,346,449 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 \$5,782,479 compared to a decrease of \$9,213,201 during 2010.

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 serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *Statement of Revenue, 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.
- The *Statement of Cash Flows* presents information depicting the Authority's cash flow activities for the reporting period 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

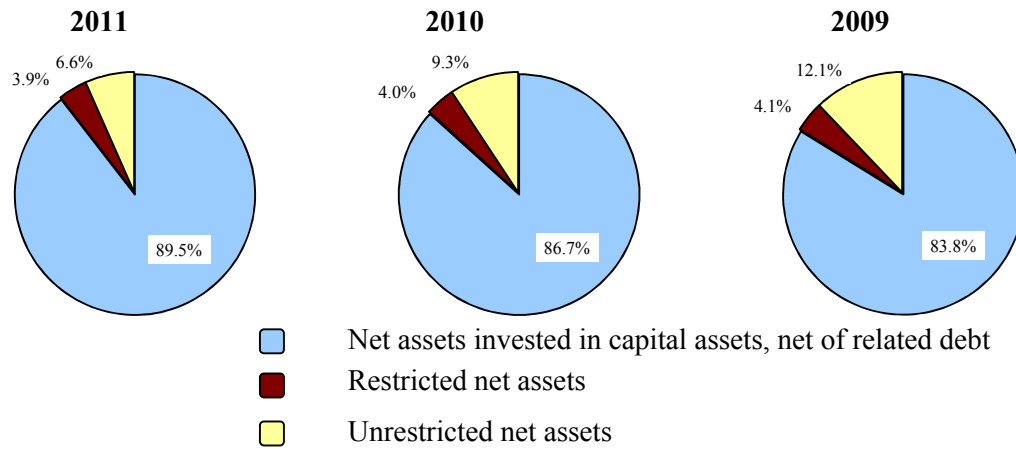
As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$289,735,786 at December 31, 2011 as compared to \$282,797,051 at December 31, 2010, as presented below in Table 1:

Table 1 - Condensed Statement of Net Assets

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Current assets	\$ 33,559,085	\$ 32,428,335	\$ 1,130,750	3.5
Noncurrent assets:				
Other noncurrent assets	22,493,695	29,383,276	(6,889,581)	(23.4)
Capital assets	<u>347,171,722</u>	<u>339,622,802</u>	<u>7,548,920</u>	2.2
Total assets	<u>403,224,502</u>	<u>401,434,413</u>	<u>1,790,089</u>	0.4
Current liabilities	16,305,905	19,422,202	(3,116,297)	(16.0)
Noncurrent liabilities	<u>97,182,811</u>	<u>99,215,160</u>	<u>(2,032,349)</u>	(2.0)
Total liabilities	<u>113,488,716</u>	<u>118,637,362</u>	<u>(5,148,646)</u>	(4.3)
Invested in capital assets, net of related debt	259,274,082	245,207,926	14,066,156	5.7
Restricted	11,250,168	11,242,676	7,492	0.1
Unrestricted	<u>19,211,536</u>	<u>26,346,449</u>	<u>(7,134,913)</u>	(27.1)
Total net assets	<u>\$ 289,735,786</u>	<u>\$ 282,797,051</u>	<u>\$ 6,938,735</u>	2.5
	2010	2009	Decrease	
			Dollars	Percent
Current assets	\$ 32,428,335	\$ 34,091,966	\$ (1,663,631)	(4.9)
Noncurrent assets:				
Other noncurrent assets	29,383,276	33,426,598	(4,043,322)	(12.1)
Capital assets	<u>339,622,802</u>	<u>351,859,544</u>	<u>(12,236,742)</u>	(3.5)
Total assets	<u>401,434,413</u>	<u>419,378,108</u>	<u>(17,943,695)</u>	(4.3)
Current liabilities	19,422,202	19,575,321	(153,119)	(0.8)
Noncurrent liabilities	<u>99,215,160</u>	<u>104,455,558</u>	<u>(5,240,398)</u>	(5.0)
Total liabilities	<u>118,637,362</u>	<u>124,030,879</u>	<u>(5,393,517)</u>	(4.3)
Invested in capital assets, net of related debt	245,207,926	247,452,433	(2,244,507)	(0.9)
Restricted	11,242,676	12,132,185	(889,509)	(7.3)
Unrestricted	<u>26,346,449</u>	<u>35,762,611</u>	<u>(9,416,162)</u>	(26.3)
Total net assets	<u>\$ 282,797,051</u>	<u>\$ 295,347,229</u>	<u>\$ (12,550,178)</u>	(4.2)

At December 31, 2011, the largest portion of the Authority's net assets, 89.5%, consists of the Authority's investment in capital assets, as compared to 86.7% and 83.8% at December 31, 2010 and 2009, respectively. This amount is presented net of any outstanding debt which was used to acquire

such capital assets. The second largest portion of net assets, 6.6%, at December 31, 2011, as compared to 9.3% and 12.1%, at December 31, 2010, and 2009, 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, 3.9%, 4.0% and 4.1% at December 31, 2011, 2010 and 2009, respectively, is restricted for various purposes.



The Authority’s liabilities totaled \$113,488,716, \$118,637,362, and \$124,030,879, at December 31, 2011, 2010 and 2009 respectively. The largest component of liabilities is outstanding water revenue bonds.

The Authority had current ratios of 2.06, 1.67, and 1.74, at December 31, 2011, 2010 and 2009, 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, 2011, 2010, and 2009 follows:

Table 2 - Comparison of current assets and current liabilities

	2011	2010	2009
Current assets	\$ 33,559,085	\$ 32,428,335	\$ 34,091,966
Current liabilities	16,305,905	19,422,202	19,575,321
Ratio of current assets to current liabilities	2.06	1.67	1.74

Table 3 shows the changes in net assets for the years ended December 31, 2011, 2010, and 2009:

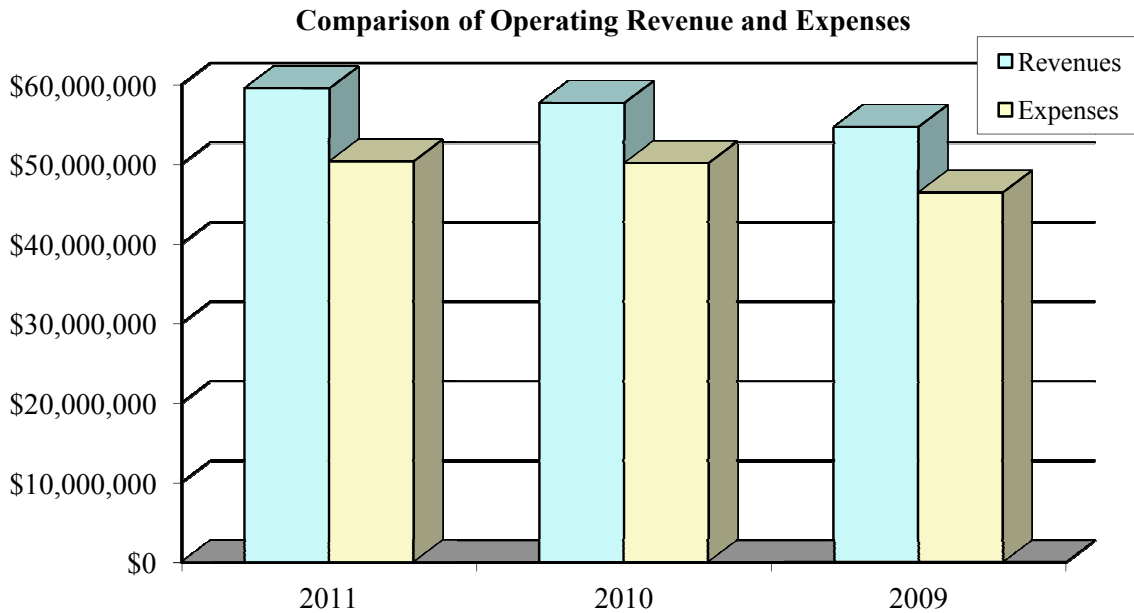
Table 3 – Erie County Water Authority’s Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 59,529,303	\$ 57,701,068
Operating expenses:		
Operation and administration	23,394,286	24,338,869
Maintenance	10,985,943	10,214,890
Depreciation and amortization	11,941,852	11,697,572
Other postemployment benefits	<u>4,021,089</u>	<u>3,881,063</u>
Total operating expenses	<u>50,343,170</u>	<u>50,132,394</u>
Operating income	<u>9,186,133</u>	<u>7,568,674</u>
Nonoperating revenues (expenses):		
Interest income	458,260	467,408
Gain on sale of investments	-	150,107
Interest capitalization during construction	174,315	45,125
Interest expense	<u>(3,865,205)</u>	<u>(4,265,531)</u>
Total nonoperating revenues (expenses)	<u>(3,232,630)</u>	<u>(3,602,891)</u>
Net income before contributions in aid of construction & special item	5,953,503	3,965,783
Contributions in aid of construction	985,232	1,088,835
Special item from change in estimated fair value of acquired assets	<u>-</u>	<u>(17,604,796)</u>
Change in net assets	6,938,735	(12,550,178)
Total net assets - beginning of year	<u>282,797,051</u>	<u>295,347,229</u>
Total net assets - end of year	<u>\$ 289,735,786</u>	<u>\$ 282,797,051</u>

Table 3 – Erie County Water Authority’s Changes in Net Assets (cont’d)

	2010	2009
Operating revenue	\$ 57,701,068	\$ 54,688,581
Operating expenses:		
Operation and administration	24,338,869	21,592,955
Maintenance	10,214,890	10,261,401
Depreciation and amortization	11,697,572	11,104,642
Other postemployment benefits	3,881,063	3,469,409
Total operating expenses	<u>50,132,394</u>	<u>46,428,407</u>
Operating income	<u>7,568,674</u>	<u>8,260,174</u>
Nonoperating revenues (expenses):		
Interest income	467,408	871,878
Gain on sale of investments	150,107	-
Interest capitalization during construction	45,125	643,393
Interest expense	<u>(4,265,531)</u>	<u>(4,606,955)</u>
Total nonoperating revenues (expenses)	<u>(3,602,891)</u>	<u>(3,091,684)</u>
Net income before contributions in aid of construction & special item	3,965,783	5,168,490
Contributions in aid of construction	1,088,835	623,387
Special item from change in estimated fair value of acquired assets	<u>(17,604,796)</u>	<u>-</u>
Change in net assets	<u>(12,550,178)</u>	<u>5,791,877</u>
Total net assets - beginning of year	<u>295,347,229</u>	<u>289,555,352</u>
Total net assets - end of year	<u>\$ 282,797,051</u>	<u>\$ 295,347,229</u>

The following chart depicts a 3.2% increase in operating revenue from \$57,701,068 in 2010 to \$59,529,303 in 2011, compared to a 5.5% operating revenue increase from \$54,688,581 in 2009 to \$57,701,068 in 2010. Operating expenses increased 0.4% from \$50,132,394 in 2010 to \$50,343,170 in 2011, compared to an 8.0% increase from \$46,428,407 in 2009 to \$50,132,394 in 2010.



A summary of operating revenue for the years ended December 31, 2011, 2010 and 2009 is presented below in Table 4:

Table 4 - Summary of Operating Revenue

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Water sales:				
Residential	\$ 35,663,644	\$ 35,224,872	\$ 438,772	1.2
Commercial	6,866,248	6,973,293	(107,045)	(1.5)
Industrial	1,549,584	1,604,491	(54,907)	(3.4)
Public authorities	2,015,272	2,170,750	(155,478)	(7.2)
Fire protection	3,903,155	3,816,992	86,163	2.3
Sales to other utilities	5,086,522	5,322,260	(235,738)	(4.4)
Infrastructure investment charge	1,901,758	-	1,901,758	100.0
Other water sales	<u>1,969,950</u>	<u>1,861,997</u>	<u>107,953</u>	5.8
Total water sales	\$ 58,956,133	\$ 56,974,655	\$ 1,981,478	3.5
Other operating income:				
Rents from water towers	487,231	490,467	(3,236)	(0.7)
Miscellaneous	<u>85,939</u>	<u>235,946</u>	<u>(150,007)</u>	(63.6)
Operating revenue	<u>\$ 59,529,303</u>	<u>\$ 57,701,068</u>	<u>\$ 1,828,235</u>	3.2

	2010	2009	Increase/(Decrease)	
			Dollars	Percent
Water sales:				
Residential	\$ 35,224,872	\$ 33,301,075	\$ 1,923,797	5.8
Commercial	6,973,293	6,859,468	113,825	1.7
Industrial	1,604,491	1,664,086	(59,595)	(3.6)
Public authorities	2,170,750	1,988,592	182,158	9.2
Fire protection	3,816,992	3,783,547	33,445	0.9
Sales to other utilities	5,322,260	4,966,093	356,167	7.2
Other water sales	<u>1,861,997</u>	<u>1,598,547</u>	<u>263,450</u>	16.5
Total water sales	\$ 56,974,655	\$ 54,161,408	\$ 2,813,247	5.2
Other operating income:				
Rents from water towers	490,467	504,254	(13,787)	(2.7)
Miscellaneous	<u>235,946</u>	<u>22,919</u>	<u>213,027</u>	929.5
Operating revenue	<u>\$ 57,701,068</u>	<u>\$ 54,688,581</u>	<u>\$ 3,012,487</u>	5.5

Water sales represent the vast majority of revenue for the Authority, 99.0% for the year ended December 31, 2011, 98.7% for the year ended December 31, 2010, and 99.0% for the year ended December 31, 2009.

Following are some of the issues and events effecting revenue in 2011:

- In January of 2011, the Authority implemented an infrastructure investment charge of \$3.00 per quarter or \$1.00 per month, based on the length of the billing cycle. Of the \$1,981,478 increase in total water sales from 2010 to 2011, \$1,901,758 was generated by the new charge.

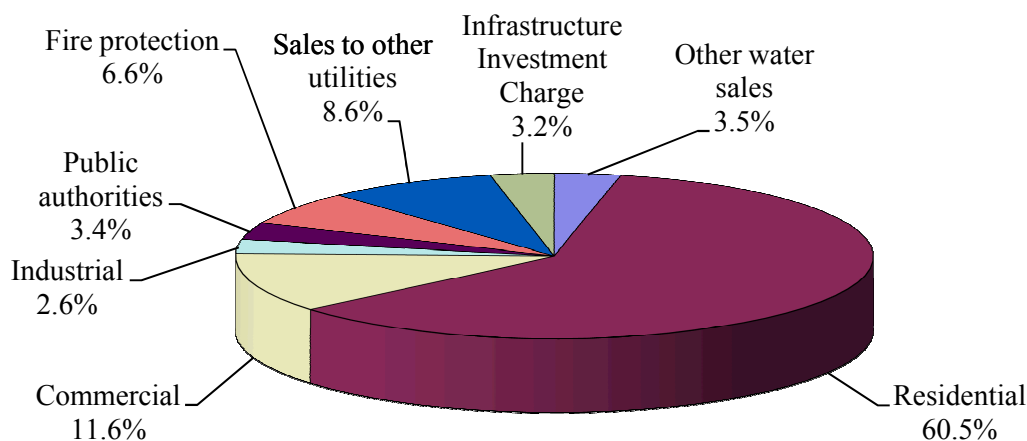
- Residential and other water sales increased 1.2% and 5.8% respectively, due mainly to a dry, hot July – resulting in increased consumption for July, and also an 8.1% increase in the summer surcharges.
- Sales to other utilities decreased 4.4% due to the conversion of the Village of Blasdell from a bulk sale customer to a direct service customer. That decrease was totally offset by an increase in residential sales, as the customers in the Village of Blasdell were added to that category.
- Miscellaneous revenues decreased due to the receipt of a \$190,000 incentive payment from New York State Energy Research and Development Authority (NYSERDA) in 2010 for power savings realized from the installation of variable frequency drives at major pump stations. Although the power savings continue, the incentive received in 2011 was significantly lower - \$25,500.

Comparatively, these issues and events impacted revenue in 2010:

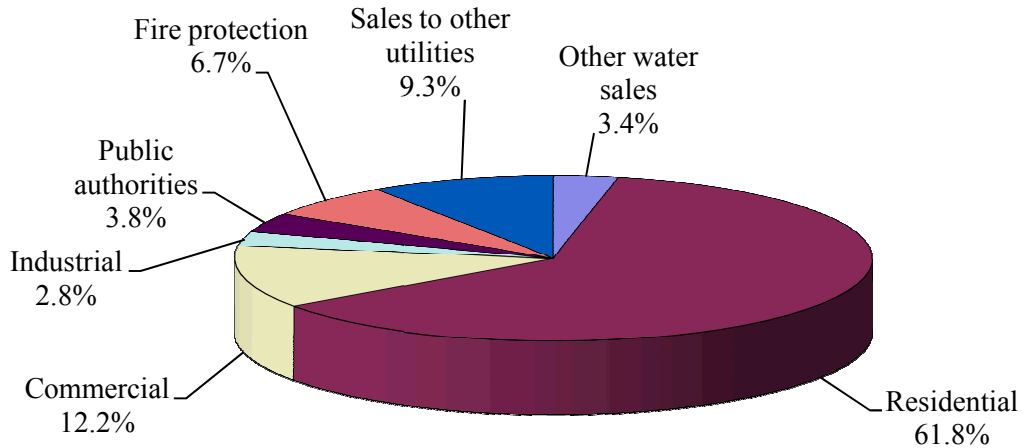
- The 5.2% increase in total water sales from \$54,161,408 in 2009 to \$56,974,655 in 2010 is attributed to a 3.5% general rate increase and a 19.7% increase in the summer surcharge rate from .61¢/1,000 gallons to .73¢/1,000 gallons. The summer surcharge is applied to summer usage in excess of 120% of winter usage.
- Other water sales increased 16.5% which reflects the summer surcharge increase of \$250,437 over 2009.
- Water tower rents decreased as a result of expiring lease agreements where wireless company consolidations resulted in duplication of leased space.

As presented in the illustration below, residential water sales represent the largest portion of water sales for the Authority, which was 60.5%, 61.8%, and 61.5% of total water sales for the years ended December 31, 2011, 2010 and 2009, respectively. The next largest water sales revenue component for the Authority is commercial water sales, which was 11.6%, 12.2%, and 12.7% of total water sales for the years ended December 31, 2011, 2010 and 2009, respectively.

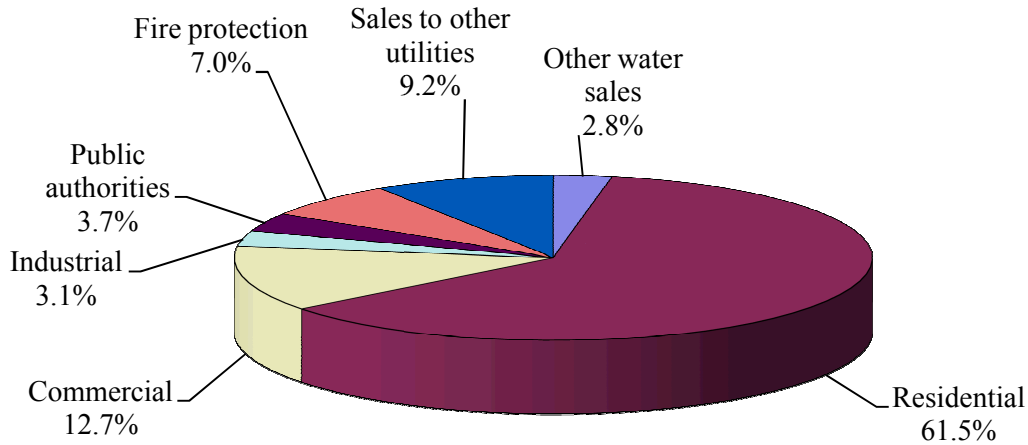
2011 Water Sales Revenue



2010 Water Sales Revenue



2009 Water Sales Revenue

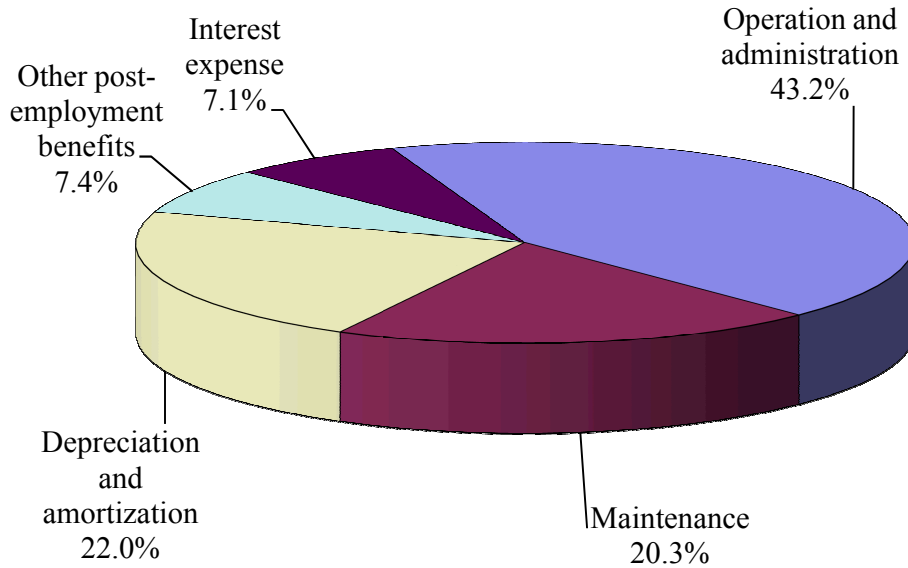


As illustrated below, operation and administration expenses are the largest expense and account for 43.2%, 44.8%, and 42.3% of the Authority's expenses for the years ended December 31, 2011, 2010 and 2009, respectively. The second largest expense for the Authority are the expenses associated with depreciation and amortization, which were 22.0%, 21.5%, and 21.8% for the years ended December 31, 2011, 2010 and 2009, respectively.

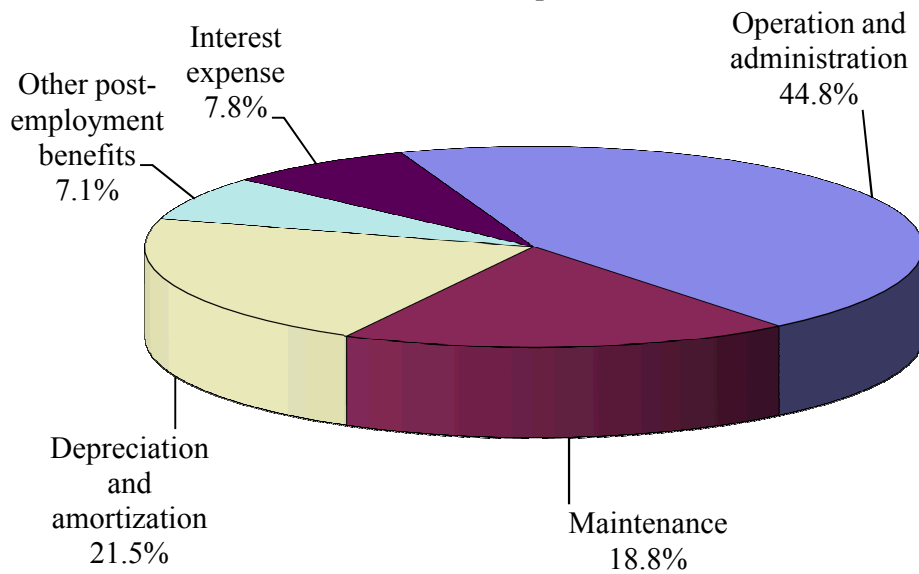
	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 23,394,286	\$ 24,338,869	\$ (944,583)	(3.9)
Maintenance	10,985,943	10,214,890	771,053	7.5
Depreciation and amortization	11,941,852	11,697,572	244,280	2.1
Interest expense	3,865,205	4,265,531	(400,326)	(9.4)
Other postemployment benefits	4,021,089	3,881,063	140,026	3.6
Total	<u>\$ 54,208,375</u>	<u>\$ 54,397,925</u>	<u>\$ (189,550)</u>	<u>(0.3)</u>

	2010	2009	Increase/(Decrease)	
			Dollars	Percent
Operation and administration	\$ 24,338,869	\$ 21,592,955	\$ 2,745,914	12.7
Maintenance	10,214,890	10,261,401	(46,511)	(0.5)
Depreciation and amortization	11,697,572	11,104,642	592,930	5.3
Interest expense	4,265,531	4,606,955	(341,424)	(7.4)
Other postemployment benefits	3,881,063	3,469,409	411,654	11.9
Total	<u>\$ 54,397,925</u>	<u>\$ 51,035,362</u>	<u>\$ 3,362,563</u>	6.6

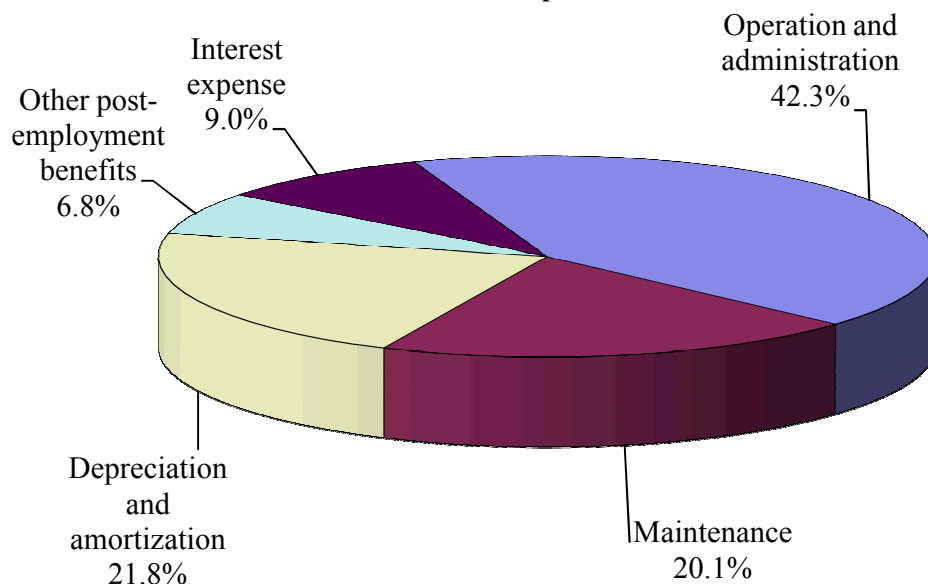
2011 Expenses



2010 Expenses



2009 Expenses



Following are some of the issues and events effecting expenses in 2011:

- Operating and administrative expenses decreased 3.9%, or \$944,583 due, in part, to a 14.7% increase in capital spending which resulted in a \$482,782 increase in applied overhead.
- A 23% decrease in chemical costs resulted from a \$291,877 decline in caustic soda prices which went from \$0.2592/lb in 2010 to \$0.1405/lb in 2011.
- Refuse and waste disposal costs were \$303,107 lower in 2011 due to a smaller amount of residuals estimated to be removed at the end of 2011 as compared to 2010. Removal costs are estimated and accrued annually.
- Maintenance costs increased 7.5% or \$771,053 due to an increase in the number of water main breaks in January and February of 2011 compared to the same period in 2010. The increase in water main breaks resulted in increases in overtime of \$86,295, payments to repair contractors of \$155,910, and stone and cold patch of \$53,954.
- Fringe benefit costs rose 20% from \$6,789,566 in 2010 to \$8,158,350 in 2011. The increase represents a \$795,607 increase in health insurance costs and a \$586,560 increase in pension expense.
- Interest expense decreased \$400,326 due to 2010 bond maturities and the redemption of the Series 1998B bonds on December 15, 2010.

Comparatively, these issues and events impacted expenses in 2010:

- Operating and administrative expenses increased \$2,745,914 or 12.7% due to a \$2,443,528 decrease in applied overhead resulting from a 53% reduction in capital spending in 2010.
- A 16.9% increase in power costs contributed \$659,083 to the overall increase.
- Increases in tariff fees for new service installations resulted in lower expenses for the Authority – a greater portion of the cost of installation was covered by fees paid by the applicant.

- Generator lease payments decreased by \$985,320 due to the installation in 2009 of new permanent stand-by power at the water treatment plants and at several large pump stations.
- Fringe benefit costs increased \$455,420 for employees in both operating and maintenance areas due to a 48%, \$481,432, increase in pension costs.
- Interest expense decreased \$341,424, or 7.4%, due to the 2009 bond maturities, the refunding of the 1998D EFC bonds in June of 2010 and the redemption of series 1998B EFC bonds in December of 2010.

Table 5 presents a summary of the Authority's cash flow activities for the years ended December 31, 2011, 2010 and 2009:

Table 5 - Summary of Cash Flow Activities

	2011	2010	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	\$ 19,830,755	\$ 23,185,455	\$ (3,354,700)
Capital and related financing activities	(28,863,172)	(29,717,426)	854,254
Investing activities	<u>3,489,920</u>	<u>(6,161,868)</u>	<u>9,651,788</u>
Net decrease in cash and cash equivalents	(5,542,497)	(12,693,839)	7,151,342
Cash and cash equivalents, beginning of year	<u>37,773,635</u>	<u>50,467,474</u>	<u>(12,693,839)</u>
Cash and cash equivalents, end of year	<u>\$ 32,231,138</u>	<u>\$ 37,773,635</u>	<u>\$ (5,542,497)</u>

	2010	2009	Increase/(Decrease) Dollars
Cash flows provided (used) by:			
Operating activities	\$ 23,185,455	\$ 22,880,734	\$ 304,721
Capital and related financing activities	(29,717,426)	(39,765,152)	10,047,726
Investing activities	<u>(6,161,868)</u>	<u>(5,222,191)</u>	<u>(939,677)</u>
Net decrease in cash and cash equivalents	(12,693,839)	(22,106,609)	9,412,770
Cash and cash equivalents, beginning of year	<u>50,467,474</u>	<u>72,574,083</u>	<u>(22,106,609)</u>
Cash and cash equivalents, end of year	<u>\$ 37,773,635</u>	<u>\$ 50,467,474</u>	<u>\$ (12,693,839)</u>

At December 31, 2011, 2010, and 2009, cash and cash equivalents were restricted for various purposes as presented below:

Table 6 - Summary of Cash and Cash Equivalents

	2011	2010	2009
Unrestricted	\$ 17,141,131	\$ 18,892,001	\$ 15,545,811
Restricted	<u>15,090,007</u>	<u>18,881,634</u>	<u>34,921,663</u>
Total	<u>\$ 32,231,138</u>	<u>\$ 37,773,635</u>	<u>\$ 50,467,474</u>

Total cash and cash equivalents decreased \$5,542,497 from \$37,773,635 in 2010 to \$32,231,138 in 2011 due, in part, to the elimination of advance minimum billing of customers. This was offset by a decrease of \$9,907,296 in purchases of investments.

In 2010, total cash and cash equivalents decreased \$12,693,839 from \$50,467,474 in 2009 to \$37,773,635 due, in part, to the redemption of series 1998B bonds in the amount of \$3,290,000. This was offset by an increase of \$6,914,096 in investments.

Capital Assets

The Authority's investment in capital assets as of December 31, 2011 amounted to \$347,171,722 (net of accumulated depreciation) as compared to \$339,622,802 as of December 31, 2010, and \$351,859,544 as of December 31, 2009. This investment includes land, buildings and structures, mains and hydrants, equipment, construction in progress and other (service installations, leasehold improvements, etc.). The Authority's greatest investment in capital assets is in mains and hydrants and buildings and structures.

Significant losses in capital assets were recognized in 2010 due to the change in estimated fair value of assets acquired as municipal water systems converted from bulk sale or lease managed service to direct service. It was determined that no additional revenue was generated from the conversions and the assets were contributions to capital with no marketable fair value.

Presented 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)

	2011	2010	Increase/(Decrease)	
			Dollars	Percent
Land	\$ 2,218,274	\$ 2,218,274	\$ -	-
Construction work in progress	3,849,281	4,826,542	(977,261)	(20.2)
Total capital assets, not being depreciated	6,067,555	7,044,816	(977,261)	(13.9)
Buildings and structures	248,273,892	241,896,893	6,376,999	2.6
Mains and hydrants	203,761,489	196,353,818	7,407,671	3.8
Equipment	49,357,555	45,900,451	3,457,104	7.5
Other	51,041,459	49,429,575	1,611,884	3.3
Total capital assets, being depreciated	552,434,395	533,580,737	18,853,658	3.5
Less accumulated depreciation	211,330,228	201,002,751	10,327,477	5.1
Total capital assets, being depreciated, net	341,104,167	332,577,986	8,526,181	2.6
Total capital assets	\$ 347,171,722	\$ 339,622,802	\$ 7,548,920	2.2

Table 7 - Summary of Capital Assets (Net of Depreciation) (cont'd)

	2010	2009	Increase/(Decrease)	
			Dollars	Percent
Land	\$ 2,218,274	\$ 2,218,274	\$ -	-
Construction work in progress	4,826,542	1,950,305	2,876,237	147.5
Total capital assets, not being depreciated	<u>7,044,816</u>	<u>4,168,579</u>	<u>2,876,237</u>	69.0
Buildings and structures	241,896,893	242,896,817	(999,924)	(0.4)
Mains and hydrants	196,353,818	216,363,788	(20,009,970)	(9.2)
Equipment	45,900,451	43,377,501	2,522,950	5.8
Other	49,429,575	49,963,188	(533,613)	(1.1)
Total capital assets, being depreciated	533,580,737	552,601,294	(19,020,557)	(3.4)
Less accumulated depreciation	<u>201,002,751</u>	<u>204,910,329</u>	<u>(3,907,578)</u>	(1.9)
Total capital assets, being depreciated, net	<u>332,577,986</u>	<u>347,690,965</u>	<u>(15,112,979)</u>	(4.3)
Total capital assets	<u>\$ 339,622,802</u>	<u>\$ 351,859,544</u>	<u>\$ (12,236,742)</u>	(3.5)

Debt Administration

At December 31, 2011 the Authority had \$83,642,766 in water revenue bond principal outstanding, net of deferred amounts for bond premium and issuance costs, as compared to \$89,425,245 and \$98,638,446 at December 31, 2010 and 2009. Water revenue bonds outstanding, net of deferred amounts from bond premium and issuance costs, decreased \$5,782,479 during the year ended December 31, 2011, compared to a \$9,213,201 decrease during the year ended December 31, 2010, as a result of making scheduled principal payments, as shown below.

	2011	2010
Series 1998B	\$ -	\$ 3,695,000
Series 1998D	860,000	830,000
Series 2003F	645,000	635,000
Series 2007	685,000	660,000
Series 2008	<u>4,025,000</u>	<u>3,870,000</u>
Total water revenue bond payments	6,215,000	9,690,000
Add (subtract) deferred amounts:		
For bond premiums	302,236	302,235
For issuance costs	<u>(734,757)</u>	<u>(779,034)</u>
Total water revenue bond payments, net of deferred amounts	<u>\$ 5,782,479</u>	<u>\$ 9,213,201</u>

The Authority's issuances of Series 1998B, Series 1998D and Series 2003F were through the New York State Environmental Facilities Corporation (EFC) and are rated based on the EFC's rating. In June 2010 EFC refunded the Series 1998D bonds with bonds in the same principal denomination. Interest rates were significantly reduced and resulted in a net present value savings of \$764,897.

In December of 2010, the Authority redeemed the remaining Series 1998B bonds at par. Cash on hand of \$3,290,000 was used to pay the bondholders the principal outstanding. The present value savings for the redemption is \$171,354.

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. Standard & Poor's 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.

For additional information on long-term debt activity, see Note 5 to the basic financial statements.

Economic Factors

The local community has been experiencing the same economic difficulties that have impacted New York State and the nation. Concurrently, the Authority's customer base grew by less than one percent this past year. Additionally, after a steady decrease, water consumption has remained relatively flat in 2011 as compared to 2010. Although there was a small increase in consumption in 2010 of .63%, it follows a 2.1% decrease from 2008 to 2009. Due to individual conservation efforts and changes in Federal and State laws and regulations which require appliances to use less water, significant increases in water sales other than those caused by extreme weather conditions are not expected.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge of \$3.00 per quarter was implemented to maintain the Authority's aggressive investment program in very costly system-wide infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide a dependable, high quality water supply and fire protection services to all customers. Revenues generated from the charge will be used for infrastructure improvements only. In January of 2012, the infrastructure investment charge was increased to \$6 per quarter.

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 operating expenses of the Authority. Tariff rates are shown below:

Meters read and billed quarterly (To Nearest 1,000 Gallons)					
	2012	2011	2010	2009	
First 300,000 gallons per quarter	\$ 2.96	\$ 2.96	\$ 2.96	\$ 2.86	per 1,000 gallons
Next 1,950,000	2.63	2.63	2.63	2.54	per 1,000 gallons
Next 5,250,000	2.41	2.41	2.41	2.33	per 1,000 gallons
Over 7,500,000	2.12	2.12	2.12	2.05	per 1,000 gallons

Meters read and billed monthly (To Nearest 1,000 Gallons)					
	2012	2011	2010	2009	
First 100,000 gallons per month	\$ 2.96	\$ 2.96	\$ 2.96	\$ 2.86	per 1,000 gallons
Next 650,000	2.63	2.63	2.63	2.54	per 1,000 gallons
Next 1,750,000	2.41	2.41	2.41	2.33	per 1,000 gallons
Over 2,500,000	2.12	2.12	2.12	2.05	per 1,000 gallons

Annual hydrant charges					
	2012	2011	2010	2009	
Lease managed districts	\$160.80	\$160.80	\$160.80	\$160.80	per hydrant
Direct service areas	229.08	229.08	229.08	229.08	per hydrant

Size of Meter (inches)	Quarterly Minimum Charge (\$)				Allowance per Quarter (gallons)	Monthly Minimum Charge (\$)			
	2012	2011	2010	2009		2012	2011	2010	2009
5/8	\$ 26.64	\$ 26.64	\$ 26.64	\$ 25.74	9,000	\$ 8.88	\$ 8.88	\$ 8.88	\$ 8.58
3/4	35.52	35.52	35.52	34.32	12,000	11.84	11.84	11.84	11.44
1	62.16	62.16	62.16	60.06	21,000	20.72	20.72	20.72	20.02
1 1/4	79.92	79.92	79.92	77.22	27,000	26.64	26.64	26.64	25.74
1 1/2	115.44	115.44	115.44	111.54	39,000	38.48	38.48	38.48	37.18
2	186.48	186.48	186.48	180.18	63,000	62.16	62.16	62.16	60.06
3	355.20	355.20	355.20	343.20	120,000	118.40	118.40	118.40	114.40
4	586.08	586.08	586.08	566.28	198,000	195.36	195.36	195.36	188.76
6	1,124.70	1,124.70	1,124.70	1,086.60	390,000	374.90	374.90	374.90	362.20
8	1,755.90	1,755.90	1,755.90	1,696.20	630,000	585.30	585.30	585.30	565.40
10	2,466.00	2,466.00	2,466.00	2,382.00	900,000	822.00	822.00	822.00	794.00
12	3,333.90	3,333.90	3,333.90	3,220.20	1,230,000	1,111.30	1,111.30	1,111.30	1,073.40
20	7,390.20	7,390.20	7,390.20	7,139.10	2,820,000	2,463.40	2,463.40	2,463.40	2,379.70
24	9,848.40	9,848.40	9,848.40	9,515.70	3,840,000	3,282.80	3,282.80	3,282.80	3,171.90

Requests for Information

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

BASIC FINANCIAL STATEMENTS

ERIE COUNTY WATER AUTHORITY
Statements of Net Assets

	December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,141,131	\$ 18,892,001
Restricted cash and cash equivalents	2,741,054	1,643,100
Restricted investments	-	1,029,670
Customer accounts receivable, net of allowance for doubtful accounts	4,285,295	4,320,565
Materials and supplies	2,255,430	2,117,214
Accrued revenue	5,416,717	2,940,658
Prepaid expenses and other assets	1,719,458	1,485,127
Total current assets	33,559,085	32,428,335
Noncurrent assets:		
Investments	549,983	549,983
Restricted cash and cash equivalents	12,348,953	17,238,534
Restricted investments	9,594,759	11,594,759
Capital assets, not being depreciated	6,067,555	7,044,816
Capital assets, being depreciated, net of accumulated depreciation	341,104,167	332,577,986
Total noncurrent assets	369,665,417	369,006,078
Total assets	403,224,502	401,434,413
LIABILITIES		
Current liabilities:		
Accounts payable	4,704,738	5,399,170
Advances for construction	426,957	466,527
Construction retention	359,169	1,174,197
Accrued interest on water revenue bonds	503,884	533,549
Accrued liabilities	3,141,601	4,963,148
Compensated absences	1,117,077	1,103,132
Water revenue bonds - current portion	6,052,479	5,782,479
Total current liabilities	16,305,905	19,422,202
Noncurrent liabilities:		
Compensated absences	1,761,708	1,762,667
Other postemployment benefits	17,830,816	13,809,727
Water revenue bonds - long term	77,590,287	83,642,766
Total noncurrent liabilities	97,182,811	99,215,160
Total liabilities	113,488,716	118,637,362
NET ASSETS		
Invested in capital assets, net of related debt	259,274,082	245,207,926
Restricted		
Debt service reserve account	9,594,858	9,594,860
Debt service account	1,655,310	1,647,816
Unrestricted	19,211,536	26,346,449
Total net assets	\$ 289,735,786	\$ 282,797,051

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,	
	2011	2010
Operating revenue	\$ 59,529,303	\$ 57,701,068
Operating expenses:		
Operation and administration	23,394,286	24,338,869
Maintenance	10,985,943	10,214,890
Depreciation and amortization	11,941,852	11,697,572
Other postemployment benefits	4,021,089	3,881,063
Total operating expenses	50,343,170	50,132,394
Operating income	9,186,133	7,568,674
Nonoperating revenues (expenses):		
Interest income	458,260	467,408
Gain on sale of investments	-	150,107
Interest capitalization during construction	174,315	45,125
Interest expense	(3,865,205)	(4,265,531)
Total nonoperating revenues (expenses)	(3,232,630)	(3,602,891)
Net income before contributions in aid of construction and special item	5,953,503	3,965,783
Contributions in aid of construction	985,232	1,088,835
Special item resulting from a change in estimated fair value of acquired assets	-	(17,604,796)
Change in net assets	6,938,735	(12,550,178)
Total net assets - beginning of year	282,797,051	295,347,229
Total net assets - end of year	\$ 289,735,786	\$ 282,797,051

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

ERIE COUNTY WATER AUTHORITY

Statements of Cash Flows

	December 31,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 54,979,845	\$ 58,008,184
Payments to contractors	(12,566,274)	(13,900,228)
Payments to employees including fringe benefits	<u>(22,582,816)</u>	<u>(20,922,501)</u>
Net cash provided by operating activities	<u>19,830,755</u>	<u>23,185,455</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(19,873,281)	(16,964,225)
Principal repayments	(6,215,000)	(9,690,000)
Interest paid on revenue bonds, net of amount capitalized	(3,720,553)	(4,311,007)
Advances for construction	(39,570)	158,971
Contributions in aid of construction	<u>985,232</u>	<u>1,088,835</u>
Net cash used by capital and related financing activities	<u>(28,863,172)</u>	<u>(29,717,426)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	-	(9,907,296)
Proceeds from sale or maturity of investments	3,029,670	3,143,307
Interest received	<u>460,250</u>	<u>602,121</u>
Net cash provided (used) by investing activities	<u>3,489,920</u>	<u>(6,161,868)</u>
Net decrease in cash and cash equivalents	(5,542,497)	(12,693,839)
Cash and cash equivalents - beginning of year (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits)	37,773,635	50,467,474
Cash and cash equivalents - end of year (including amounts restricted for future construction, debt service reserve, debt service, reserve for compensated absences, and customer deposits)	<u>\$ 32,231,138</u>	<u>\$ 37,773,635</u>

(continued)

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

ERIE COUNTY WATER AUTHORITY

Statements of Cash Flows

(concluded)

	December 31,	
	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,186,133	\$ 7,568,674
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	11,509,331	11,220,773
Amortization expenses	432,521	476,799
Other postemployment benefits	4,021,089	3,881,063
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	35,270	(44,694)
(Increase) decrease in material and supplies	(138,216)	28,851
(Increase) decrease in other assets	(2,712,380)	(191,659)
Increase (decrease) in accounts payable	(694,432)	(103,516)
Increase (decrease) in accrued liabilities	(1,821,547)	459,270
Increase (decrease) in compensated absences	12,986	(110,106)
Total adjustments	<u>10,644,622</u>	<u>15,616,781</u>
Net cash provided by operating activities	<u>\$ 19,830,755</u>	<u>\$ 23,185,455</u>

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, 2011 and 2010

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. 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 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.

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 Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies all GASB pronouncements as well as applicable accounting and financial reporting guidance previously residing only in Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

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 accrued 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, union employees are entitled to payment for accrued vacation and sick time limited to amounts defined under their respective collectively bargained agreements. All non-union employees are entitled to benefits as defined by Authority policy.

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

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

Investments—The Authority considers investments that mature in more than three months but less than a year as investments. Investments that mature in more than one year are considered long term.

Investment securities—Investments are carried at market value based on quoted market prices. The cost of investments sold is determined using the specific identification method and then adjusted to market value changes to reflect the combined net change in these elements in the statements of revenue, expenses and changes in net assets.

Customer accounts receivable—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.

Accrued revenue—This account represents earned water revenues as of the end of the year that have not yet been billed to customers.

Prepaid expenses and other assets—These consist primarily of certain payments reflecting costs applicable to future accounting periods and interest earned from securities and investments but not yet received.

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 property or property contributed in aid of construction, 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 each of the years ended December 31, 2011 and 2010.

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 2011 and 2010, \$734,757 and \$779,034, respectively, was amortized as an expense.

Advances for construction—Advances for construction primarily represent amounts received from contractors for water system expansions. Upon completion of the expansion, the cost of the construction is transferred to contributions in aid of construction, with any remaining advance being refunded.

Accrued liabilities—These included customer billings collected for subsequent periods and therefore unearned for the year ended December 31, 2010. The practice of billing in advance was discontinued in April of 2011. Also included are provisions for estimated losses and surcharges collected from customers on behalf of various municipalities and unpaid at year end.

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 certain water plant systems conveyed to the Authority by municipalities and others. Only those water plant systems resulting in increased revenue generation are assigned any value and, therefore, recorded as a contribution in aid of construction.

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 expense for the years ended December 31, 2011 and 2010 totaled \$569,452 and \$620,977, respectively. There were no settlements that significantly exceeded insurance coverage for each of the last three years. Any unpaid claims outstanding as of December 31, 2011 and 2010 have been adequately reserved for.

Reclassifications—Certain amounts relating to the financial statements as of and for the year ended December 31, 2010 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. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* effective for the year ending December 31, 2012; and GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* effective for the year ending December 31, 2013. The Authority is therefore unable to disclose the impact that adopting these Statements will have on its financial position and results of operations when such Statements are adopted.

During the year ended December 31, 2011, the Authority implemented GASB Statements No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 59 *Financial Instruments Omnibus* effective for the year ending December 31, 2011 which had no 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.

Restricted cash, cash equivalents, and investments—Cash has been deposited into various trust accounts with a fiscal agent to satisfy certain legal covenants, or restricted internally through Board resolution. Further, the amounts are invested 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 a construction account, which has been committed for future capital expenditures.

Restricted for debt service reserve—The Authority restricts investments in the debt service reserve account as required by various bond resolutions to maintain a specified amount 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 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 and deposits taken from customers to secure payment of their water bills segregated from the Authority's operating cash.

As of December 31, 2011 and 2010, the Authority had the following restricted cash, cash equivalents, and investments:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Restricted for debt service:				
Cash	\$ 1,655,310	\$ 1,655,310	\$ 345,146	\$ 345,146
Cash equivalents - U.S. Treasury bills	-	-	272,976	273,000
Investments - U.S. Treasury bills	-	-	1,029,612	1,029,670
Total restricted for debt service	<u>1,655,310</u>	<u>1,655,310</u>	<u>1,647,734</u>	<u>1,647,816</u>
Restricted for sick pay reserve, current				
Cash	<u>92,722</u>	<u>92,722</u>	<u>92,772</u>	<u>92,772</u>
Restricted for customer deposits:				
Cash	<u>993,022</u>	<u>993,022</u>	<u>932,182</u>	<u>932,182</u>
Current restricted cash, cash equivalents, and investments	<u>\$ 2,741,054</u>	<u>\$ 2,741,054</u>	<u>\$ 2,672,688</u>	<u>\$ 2,672,770</u>
Restricted for future construction:				
Cash	\$ 10,587,147	\$ 10,587,147	\$ 15,475,766	\$ 15,475,766
Certificates of deposit	-	-	2,000,000	2,000,000
Total restricted for future construction	<u>10,587,147</u>	<u>10,587,147</u>	<u>17,475,766</u>	<u>17,475,766</u>
Restricted for debt service reserve:				
Cash	99	99	101	101
State and Local Government Series Treasury bonds	<u>9,594,759</u>	<u>9,594,759</u>	<u>9,594,759</u>	<u>9,594,759</u>
Total restricted for debt service reserve	<u>9,594,858</u>	<u>9,594,858</u>	<u>9,594,860</u>	<u>9,594,860</u>
Restricted for sick pay reserve, long term:				
Cash	<u>1,761,707</u>	<u>1,761,707</u>	<u>1,762,667</u>	<u>1,762,667</u>
Noncurrent restricted cash, cash equivalents, and investments	<u>\$ 21,943,712</u>	<u>\$ 21,943,712</u>	<u>\$ 28,833,293</u>	<u>\$ 28,833,293</u>
Total restricted cash, cash equivalents and investments	<u>\$ 24,684,766</u>	<u>\$ 24,684,766</u>	<u>\$ 31,505,981</u>	<u>\$ 31,506,063</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. For cash equivalents and 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, 2011 and 2010, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institutions’ trust departments or agents in the Authority’s name and all of the Authority’s cash equivalents and investments were 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.

3. ACCOUNTS RECEIVABLE

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

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

Following fifteen (15) days from the collection letter date, an unpaid account is sent to a collector who schedules a visit to the customer with an unpaid bill notice. At the visit, the account is “posted,” and 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 direct service area is referred to an outside collection agency. The collection agency keeps a predetermined portion of any collected monies. In agreements with lease managed water districts, unpaid water bills are referred to municipalities for payment per the terms of a lease management agreement. The outstanding balances of an unpaid final bill in a lease managed area are not referred to an outside agency, instead they are sent to the proper municipality for payment. Allowances for doubtful accounts at December 31, 2011 and 2010 total \$693,532 and \$432,784, respectively.

4. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and December 31, 2010 was as follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	4,826,542	18,204,238	(19,181,499)	3,849,281
Total capital assets, not being depreciated	<u>7,044,816</u>	<u>18,204,238</u>	<u>(19,181,499)</u>	<u>6,067,555</u>
Capital assets in service, being depreciated:				
Buildings and structures	241,896,893	6,932,999	(556,000)	248,273,892
Mains and hydrants	196,353,818	7,506,254	(98,583)	203,761,489
Equipment	45,900,451	4,031,302	(574,198)	49,357,555
Other	49,429,575	1,611,884	-	51,041,459
Total capital assets, being depreciated	<u>533,580,737</u>	<u>20,082,439</u>	<u>(1,228,781)</u>	<u>552,434,395</u>
Less accumulated depreciation:				
Buildings and structures	107,694,084	6,140,063	(612,454)	113,221,693
Mains and hydrants	40,369,501	1,961,989	(91,825)	42,239,665
Equipment	25,088,949	2,291,274	(477,575)	26,902,648
Other	27,850,217	1,116,005	-	28,966,222
Total accumulated depreciation	<u>201,002,751</u>	<u>11,509,331</u>	<u>(1,181,854)</u>	<u>211,330,228</u>
Total capital assets being depreciated, net	<u>332,577,986</u>	<u>8,573,108</u>	<u>(46,927)</u>	<u>341,104,167</u>
Total capital assets, net	<u>\$ 339,622,802</u>	<u>\$ 26,777,346</u>	<u>\$ (19,228,426)</u>	<u>\$ 347,171,722</u>
	Balance 1/1/2010	Additions	Deletions	Balance 12/31/2010
Capital assets, not being depreciated:				
Land	\$ 2,218,274	\$ -	\$ -	\$ 2,218,274
Construction work in progress	1,950,305	15,311,315	(12,435,078)	4,826,542
Total capital assets, not being depreciated	<u>4,168,579</u>	<u>15,311,315</u>	<u>(12,435,078)</u>	<u>7,044,816</u>
Capital assets in service, being depreciated:				
Buildings and structures	242,896,817	1,866,799	(2,866,723)	241,896,893
Mains and hydrants	216,363,788	6,397,866	(26,407,836)	196,353,818
Equipment	43,377,501	3,267,918	(744,968)	45,900,451
Other	49,963,188	2,092,515	(2,626,128)	49,429,575
Total capital assets, being depreciated	<u>552,601,294</u>	<u>13,625,098</u>	<u>(32,645,655)</u>	<u>533,580,737</u>
Less accumulated depreciation:				
Buildings and structures	103,287,631	6,127,597	(1,721,144)	107,694,084
Mains and hydrants	48,476,743	1,892,488	(9,999,730)	40,369,501
Equipment	23,422,707	2,159,764	(493,522)	25,088,949
Other	29,723,248	1,040,924	(2,913,955)	27,850,217
Total accumulated depreciation	<u>204,910,329</u>	<u>11,220,773</u>	<u>(15,128,351)</u>	<u>201,002,751</u>
Total capital assets being depreciated, net	<u>347,690,965</u>	<u>2,404,325</u>	<u>(17,517,304)</u>	<u>332,577,986</u>
Total capital assets, net	<u>\$ 351,859,544</u>	<u>\$ 17,715,640</u>	<u>\$ (29,952,382)</u>	<u>\$ 339,622,802</u>

During 2010, a review of assets acquired in converting municipal water plant systems from bulk or lease managed systems to direct service areas was conducted and it was determined that no additional value or revenue was realized as a result of the conversion. In fact, additional operating and maintenance expense and increased capital costs resulted from the acquisition of the systems. As a result of the review, the fair value of the assets was estimated to be zero. A special accounting item was recorded in the financial statements to recognize the change in the estimated fair value of acquired assets below.

<u>Year</u>	<u>Municipality</u>	<u>Original Estimated Acquired Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value as of January 1, 2010</u>
2000	Village of Depew	\$ 790,500	\$ 545,860	\$ 244,640
2000	Town of Clarence	16,842,960	8,011,111	8,831,849
2002	Orchard Park WD #17	2,038,734	1,043,629	995,105
2002	Village of Lancaster	8,642,237	2,713,638	5,928,599
2003	Town of Cheektowaga	1,684,427	441,647	1,242,780
2004	Town of Concord	<u>400,162</u>	<u>38,339</u>	<u>361,823</u>
		<u>\$ 30,399,020</u>	<u>\$ 12,794,224</u>	<u>\$ 17,604,796</u>

5. LONG-TERM DEBT

Summary of long-term debt—the following is a summary of the Authority’s water revenue bonds at December 31, 2011:

<u>Series</u>	<u>Final Annual Installment Payment Due</u>	<u>Year of Earliest Principal Payment</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Principal Outstanding 12/31/2011</u>
Series 1998D	10/15/2019	2000	.845-3.35% (*)	\$ 16,859,700	\$ 8,190,000
Series 2003F	7/15/2023	2004	.79-4.50% (*)	15,544,443	10,650,000
Series 2007	12/1/2037	2008	4.50-5.00%	35,000,000	32,725,000
Series 2008	12/1/2018	2009	4.00-5.00%	45,770,000	34,120,000
					85,685,000
Less portion due within one year					(6,485,000)
					<u>\$ 79,200,000</u>

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

All 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 Current Interest Series 1998D Bonds were issued to the EFC under their aggregate pool financing identified as New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bond Series 1998D in 1998. The 1998D bonds in the amount of \$16,859,700, representing the Authority’s portion of the financing, 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.

In June 2010 EFC refunded the Series 1998D Bonds. New bonds in the same principal denomination were issued on June 24, 2010. The call date for the original bonds was June 25, 2010. The Authority did not issue new bonds to EFC. The interest rates on the outstanding bonds were significantly reduced. The net present value savings as calculated by EFC is \$764,897.

After the refunding, interest on the 1998D bonds ranges from .845% to 3.355%. Prior to the refunding interest ranged from 3.9% to 5.15%. Interest is payable semi-annually on April 15 and October 15. Principal is payable on October 15. The final maturity of the bonds is October 15, 2019.

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 account	<u>1,554,440</u>
	<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 2007 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, upgrades to the coagulation basins, 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 2007 Series Bonds ranges from 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.

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 of each year through December 1, 2018. The proceeds of the issue, including a \$3,081,304 premium which is amortized over the life of the Series 2008 Bonds, were used to refund principal of the 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 1993A and Series 1993B Bonds. This

cost of the swap termination, \$5,058,208, and other costs of refunding of \$391,137 are also amortized over the life of the redeemed bonds. Additional costs of \$363,499 were a result of the issuance and are 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, were deposited into the Series 2008 Debt Service Reserve Account. 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 has a net present value cash flow savings of \$8,393,467.

On December 15, 2010 the Authority redeemed the remaining Series 1998B Bonds. Cash on hand of \$3,290,000 was used to pay the bondholders the principal outstanding. The bonds were redeemed at par. The present value savings for the redemption as calculated by our financial advisors, Public Financial Management, Inc. is \$171,354.

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 \$4,350,000 at December 31, 2011 with maturities ranging from 2012 to 2014.

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

Year ending December 31,	Bond Principal	Interest on Bonded Debt
2012	\$ 6,485,000	\$ 3,825,728
2013	6,730,000	3,593,518
2014	7,035,000	3,304,198
2015	7,350,000	2,996,537
2016	7,690,000	2,670,046
2017-2021	22,955,000	8,681,738
2022-2026	9,115,000	5,489,101
2027-2031	7,240,000	3,764,971
2032-2036	9,025,000	1,882,775
2037	2,060,000	103,000
	<u>85,685,000</u>	<u>36,311,612</u>
Less portion due within one year	<u>6,485,000</u>	<u>3,825,728</u>
	<u>\$ 79,200,000</u>	<u>\$ 32,485,884</u>

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 years ended December 31, 2011 and December 31, 2010:

	Balance 1/1/2011	Additions and Appreciation	Deletions	Balance 12/31/2011	Due Within One Year
Series 1998D	\$ 9,050,000	\$ -	\$ (860,000)	\$ 8,190,000	\$ 890,000
Series 2003F	11,295,000	-	(645,000)	10,650,000	660,000
Series 2007	33,410,000	-	(685,000)	32,725,000	710,000
Series 2008	<u>38,145,000</u>	-	<u>(4,025,000)</u>	<u>34,120,000</u>	<u>4,225,000</u>
Bonds payable	\$ 91,900,000	\$ -	\$ (6,215,000)	\$ 85,685,000	\$ 6,485,000
Add (subtract) deferrals:					
For bond premiums	<u>2,514,876</u>	-	<u>(302,236)</u>	<u>2,212,640</u>	<u>302,236</u>
Total bonds payable	<u>\$ 94,414,876</u>	<u>\$ -</u>	<u>\$ (6,517,236)</u>	<u>\$ 87,897,640</u>	<u>\$ 6,787,236</u>
Issuance costs	<u>(4,989,631)</u>	-	<u>734,757</u>	<u>(4,254,874)</u>	<u>(734,757)</u>
Bonds payable, net of issuance costs	<u>\$ 89,425,245</u>	<u>\$ -</u>	<u>\$ (5,782,479)</u>	<u>\$ 83,642,766</u>	<u>\$ 6,052,479</u>
Compensated absences	<u>\$ 2,865,799</u>	<u>\$ 210,175</u>	<u>\$ (197,189)</u>	<u>\$ 2,878,785</u>	<u>\$ 1,117,077</u>

	Balance 1/1/2010	Additions and Appreciation	Deletions	Balance 12/31/2010	Due Within One Year
Series 1998B	\$ 3,695,000	\$ -	\$ (3,695,000)	\$ -	\$ -
Series 1998D	9,880,000	-	(830,000)	9,050,000	860,000
Series 2003F	11,930,000	-	(635,000)	11,295,000	645,000
Series 2007	34,070,000	-	(660,000)	33,410,000	685,000
Series 2008	42,015,000	-	(3,870,000)	38,145,000	4,025,000
Bonds payable	\$ 101,590,000	\$ -	\$ (9,690,000)	\$ 91,900,000	\$ 6,215,000
Add (subtract) deferrals:					
For bond premiums	2,817,111	-	(302,235)	2,514,876	302,236
Total bonds payable	\$ 104,407,111	\$ -	\$ (9,992,235)	\$ 94,414,876	\$ 6,517,236
Issuance costs	(5,768,665)	-	779,034	(4,989,631)	(734,757)
Bonds payable, net of issuance costs	\$ 98,638,446	\$ -	\$ (9,213,201)	\$ 89,425,245	\$ 5,782,479
Compensated absences	\$ 2,975,905	\$ 229,517	\$ (339,623)	\$ 2,865,799	\$ 1,103,132

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 State Plan. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the State Plan and for the custody and control of their funds. The State Plan issues financial reports containing financial statements and required supplementary information. These reports are available to the public and 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. For members hired after January 1, 2010, an additional tier was added which requires a 3% contribution for the duration of their membership. 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's required contributions and rates over the past three years were:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2011	\$ 2,207,764	12.7% - 21.5%
2010	\$ 1,657,556	11.3% - 15.3%
2009	\$ 961,939	7.0% - 9.3%

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the State Plan: requires minimum contributions by employers of 4.5% 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 2011 would be based on the pension value as of March 31, 2010).

The Employer Contribution Stabilization Program was signed into law on August 11, 2010 as Part TT of Chapter 57 of the Laws 2010 of the State of New York. The statute gives employers the option to amortize a portion of their annual pension cost over a ten year period at an interest rate that is set annually. The interest rate is five percent (5%) for any 2011 invoice amounts that are amortized. Decisions to participate in the program and to amortize the allowable amount are irrevocable.

The Authority has contributed 100% of the required contributions each year, and has not amortized any of the allowable 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 under this single-employer defined benefit healthcare plan (the Plan). Retiree benefits continue for the lifetime of the retiree and spousal benefits continue for their lifetime unless they remarry. There were 137 and 131 retirees receiving health care benefits, at December 31, 2011 and December 31, 2010 respectively.

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. Retired employees that met the age and years of service requirements and were enrolled in any healthcare plan prior to June 1, 2004 are required to make no contribution. 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.

On November 23, 2011 the Board of Commissioners adopted a resolution accepting a new nine-year collective bargaining agreement with employees represented by the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME). Under the terms of the agreement, represented employees hired after November 23, 2011 who meet the eligibility requirements will pay 15% of the total premium of the Core Plan for the duration of their retirement. Eligibility criteria for all employees represented by AFSCME were increased from 55 to 58 years of age and, for employees hired after January 1, 2006, from 15 to 20 years of service.

Similarly, on December 13, 2011 the Board of Commissioners adopted an amendment to the Retiree Medical Insurance policy relative to non-represented employees. Effective April 1, 2012 retirees not represented by a collective bargaining agreement shall pay 15% of the full premium of single, double or family point of service (POS) contract. Retirees who elect to enroll in the Traditional Blue PPO 812 plan will pay the difference between the Authority’s share of the POS premium and the PPO premium.

The Authority's annual postemployment 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 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$5,572,881	\$5,260,201
Interest on net OPEB obligation	690,486	496,433
Adjustment to annual required contribution	(898,343)	(645,874)
Annual OPEB costs (expense)	<u>5,365,024</u>	<u>5,110,760</u>
Contributions made	<u>(1,343,935)</u>	<u>(1,229,697)</u>
Increase in net OPEB obligation	4,021,089	3,881,063
Net OPEB obligation - beginning of year	13,809,727	9,928,664
Net OPEB obligation - end of year	<u><u>\$17,830,816</u></u>	<u><u>\$13,809,727</u></u>

Funding Status and Funding Progress—As of January 1, 2011, based upon an interim valuation, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$52,999,239.

The schedule of the Authority's annual OPEB cost, amount and percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Annual OPEB <u>Cost</u>	Contributions <u>Made</u>	Percentage <u>Contributed</u>	Net OPEB <u>Obligation</u>
January 1, 2011	\$ 5,365,024	\$ 1,343,935	25.0%	\$ 17,830,816
January 1, 2010	5,110,760	1,229,697	24.1%	13,809,727
January 1, 2009	4,723,228	1,253,819	26.5%	9,928,664

Actuarial Methods and Assumptions—Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress for the past two actuarial valuations immediately follows the notes to the financial statements and presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 employer 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, 2011 interim actuarial valuation, the following actuarial methods and assumptions were used:

Actuarial cost method – Projected Unit Credit

Investment rate of return – 5%

Change in consumer price index for medical care (inflation rate) – 3.4%

Healthcare cost trend rate – Health insurance – 9.0% initially, reduced to a rate of 5.0% in 2018 and beyond for pre-65 retirees; 7.0% initially rising to 30.0% for fiscal years 2011, 2012 and 2013 and returning to 6.0% in 2014 and declining to 5.0% by 2018 and beyond for post-65 retirees. Prescription drug coverage has an assumed increase of 10.0% initially, declining to 5.0% for 2018 and beyond.

Amortization of actuarial accrued liability – Actuarial accrued liability is being amortized over thirty years using the level dollar method, on an open basis.

Mortality – The RP-2000 Mortality Table for annuitants and non-annuitants with projected mortality improvements; specifically as outlined in IRC Regulation 1.430(h)(3)-1 for 2010 valuations.

Turnover – Rates of turnover are based on experience under the New York State Employees’ Retirement System (State Plan).

Retirement incidence – Rates of retirement are based on the experience under the State Plan.

Election percentage – It was assumed 100% of future retirees eligible for coverage will elect postretirement healthcare coverage.

Spousal coverage – 80% of future retirees are assumed to elect spousal coverage upon retirement.

Per capita costs – All retiree health plans are offered through LMHF. Actual claims experience from LMHF was used to develop retiree claim costs.

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”). The CSEA contract expired on March 31, 2008 and is currently under negotiation. A new nine-year collective bargaining agreement was ratified by the AFSCME union and adopted by the Board on November 23, 2011. The new contract is effective from April 1, 2008 through March 31, 2017.

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.

	<u>2011</u>	<u>2010</u>
Capital assets, net of accumulated depreciation	\$347,171,722	\$339,622,802
Related debt:		
Water revenue bonds issued for capital assets	(85,685,000)	(91,900,000)
Bond premium	<u>(2,212,640)</u>	<u>(2,514,876)</u>
Investment in capital assets, net of related debt	<u>\$259,274,082</u>	<u>\$245,207,926</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 ended December 31, 2011 and 2010, net assets were restricted for the following purposes:

- ***Debt Service Reserve Account*** — During 1998, the Authority established a Debt Service Reserve Account as required by the Series 1998D bond resolution. During 2003, per the 2003F bond resolution the Authority established a Debt Service Reserve Account from a portion of the 2003F bond proceeds. For the Series 1998D bonds, the Authority established the debt service reserve as the average of the annual installments of debt service per the bond resolution. 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.

In June 2010 EFC refunded the Series 1998D Bonds. The interest rates were reduced significantly. As a result, the Debt Service Reserve requirement was lowered. The original investment was sold and a new investment was purchased to ensure the account was properly funded.

During 2007, the Authority established a Debt Service Reserve Account 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 Account 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 Account 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 Account based on ten percent of the total principal of the loan.

- ***Debt Service Account*** — The 1992 Fourth Resolution, 1998D, 2003F, 2007 and 2008 Supplemental Fourth Resolution bond resolutions require that a specified amount of funds be maintained in the Debt Service Account. The requirements of the Debt Service Account 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 Authority's projected five-year capital spending, which will require future financing in excess of \$87 million.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy concerning which to apply first varies with the intended use and associated legal requirements. Management typically makes this decision on a transactional basis.

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. No financial consideration is afforded the municipalities in conjunction with these lease 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 establish 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 2011 and 2010 aggregated \$324,307 and \$322,855. 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 reduce exposure to loss on the part of the Authority. Management has made provisions for anticipated losses in the accompanying financial statements as advised by legal counsel. 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.

ERIE COUNTY WATER AUTHORITY
Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Other Postemployment Benefit Plan

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Budgeted Covered <u>Payroll</u>	Ratio of UAAL To Budgeted Covered <u>Payroll</u>
January 1, 2008	-	44,227,440	44,227,440	-	15,340,957	2.88
January 1, 2010	\$ -	\$ 49,748,261	\$ 49,748,261	-	\$ 15,102,780	3.29

See independent auditors' report.

STATISTICAL SECTION

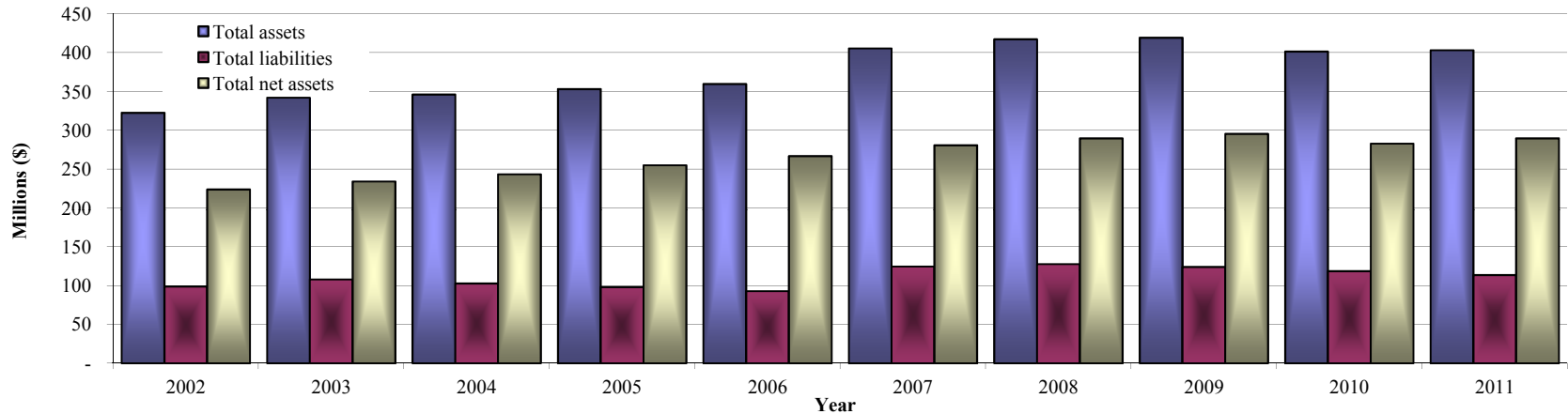
(UNAUDITED)

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.....	48
<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	53
<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 Statements of Net Assets
 Last Ten Fiscal Years

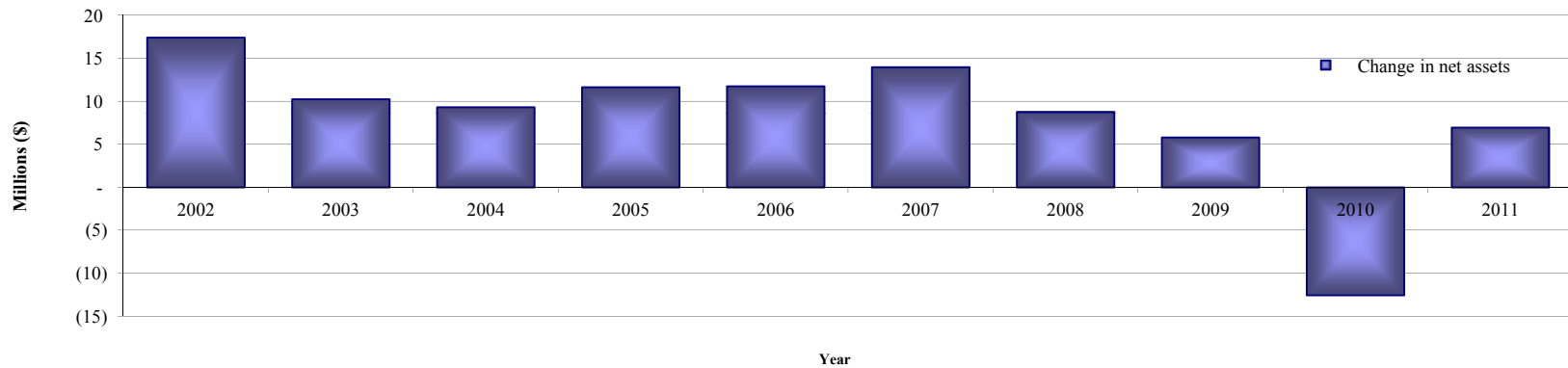
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Current assets	\$ 37,770,731	\$ 33,704,255	\$ 37,231,424	\$ 39,318,337	\$ 41,073,115	\$ 29,800,725	\$ 34,305,092	\$ 34,091,966	\$ 32,428,335	\$ 33,559,085
Noncurrent assets	284,872,862	308,317,224	308,849,860	313,858,623	318,546,124	375,686,541	382,934,469	385,286,142	369,006,078	369,665,417
Total assets	<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>	<u>419,378,108</u>	<u>401,434,413</u>	<u>403,224,502</u>
Current liabilities	15,007,426	14,940,648	17,638,491	18,809,409	20,013,673	16,547,767	20,760,295	19,575,321	19,422,202	16,305,905
Noncurrent liabilities	83,817,621	93,016,537	85,048,501	79,331,568	72,803,311	108,146,116	106,923,914	104,455,558	99,215,160	97,182,811
Total liabilities	<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>	<u>124,030,879</u>	<u>118,637,362</u>	<u>113,488,716</u>
Invested in capital assets, net of related debt	176,744,270	177,687,304	191,922,943	208,606,705	224,456,645	227,552,045	224,964,824	247,452,433	245,207,926	259,274,082
Restricted	14,551,908	24,758,568	19,892,507	16,644,478	15,516,546	22,874,616	12,137,312	12,132,185	11,242,676	11,250,168
Unrestricted	32,522,368	31,618,422	31,578,842	29,784,800	26,829,064	30,366,722	52,453,216	35,762,611	26,346,449	19,211,536
Total net assets	<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>	<u>\$ 295,347,229</u>	<u>\$ 282,797,051</u>	<u>\$ 289,735,786</u>



(Source: Annual Audited Financial Statements)

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

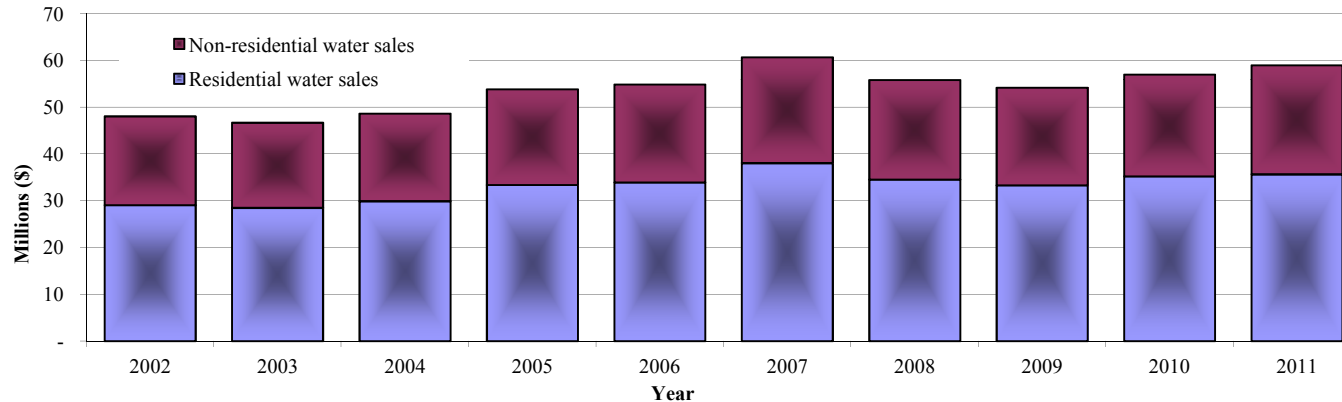
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating revenue	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666	\$ 55,744,905	\$ 61,227,617	\$ 56,284,871	\$ 54,688,581	\$ 57,701,068	\$ 59,529,303
Operating expenses	<u>37,318,985</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>	<u>46,428,407</u>	<u>50,132,394</u>	<u>50,343,170</u>
Operating income	11,043,402	9,869,081	9,328,418	12,407,030	11,815,171	13,736,327	10,454,504	8,260,174	7,568,674	9,186,133
Nonoperating revenue (expenses)	(2,791,602)	(3,047,463)	(3,169,326)	(2,254,436)	(1,224,085)	(737,286)	(2,448,077)	(3,091,684)	(3,602,891)	(3,232,630)
Net income before contributions in aid of construction and special item	8,251,800	6,821,618	6,159,092	10,152,594	10,591,086	12,999,041	8,006,427	5,168,490	3,965,783	5,953,503
Contributions in aid of construction	9,175,209	3,424,130	3,170,906	1,489,097	1,175,186	992,087	755,542	623,387	1,088,835	985,232
Special item Change in estimated fair value of acquired assets	-	-	-	-	-	-	-	-	(17,604,796)	-
Change in net assets	17,427,009	10,245,748	9,329,998	11,641,691	11,766,272	13,991,128	8,761,969	5,791,877	(12,550,178)	6,938,735
Total net assets - beginning of year	<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>	<u>295,347,229</u>	<u>282,797,051</u>
Total net assets - end of year	<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>	<u>\$ 295,347,229</u>	<u>\$ 282,797,051</u>	<u>\$ 289,735,786</u>



(Source: Annual Audited Financial Statements)

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Water sales										
Residential	\$ 29,052,911	\$ 28,482,355	\$ 29,894,743	\$ 33,370,134	\$ 33,915,574	\$ 38,059,827	\$ 34,520,149	\$ 33,301,075	\$ 35,224,872	\$ 35,663,644
Commercial	5,918,519	5,757,113	6,096,444	6,589,277	6,845,706	7,402,558	7,003,921	6,859,468	6,973,293	6,866,248
Industrial	1,577,883	1,490,969	1,639,787	1,847,582	1,825,446	1,917,907	1,901,354	1,664,086	1,604,491	1,549,584
Public authorities	1,829,221	1,673,422	1,708,476	1,980,744	2,033,007	2,170,407	2,052,689	1,988,592	2,170,750	2,015,272
Fire protection	3,038,519	3,172,430	3,348,559	3,560,805	3,718,934	3,774,006	3,799,498	3,783,547	3,816,992	3,903,155
Sales to other utilities	5,072,600	4,681,735	4,674,682	4,550,195	4,690,210	4,992,582	4,920,668	4,966,093	5,322,260	5,086,522
Infrastructure investment charge	-	-	-	-	-	-	-	-	-	1,901,758
Other water revenue	1,542,886	1,419,298	1,251,430	1,906,305	1,801,691	2,353,620	1,584,878	1,598,547	1,861,997	1,969,950
Total water sales	48,032,539	46,677,322	48,614,121	53,805,042	54,830,568	60,670,907	55,783,157	54,161,408	56,974,655	58,956,133
Rents from water towers	299,550	326,573	353,887	419,872	446,806	547,075	492,929	504,254	490,467	487,231
Other operating revenue	30,298	69,647	14,514	13,752	467,531	9,635	8,785	22,919	235,946	85,939
Total operating revenue	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666	\$ 55,744,905	\$ 61,227,617	\$ 56,284,871	\$ 54,688,581	\$ 57,701,068	\$ 59,529,303
Water sales as a percent of total operating revenue	99.3%	99.2%	99.2%	99.2%	98.4%	99.1%	99.1%	99.0%	98.7%	99.0%
Non-residential water sales	18,979,628	18,194,967	18,719,378	20,434,908	20,914,994	22,611,080	21,263,008	20,860,333	21,749,783	23,292,489



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY

Operating Expenses
Last Ten Fiscal Years

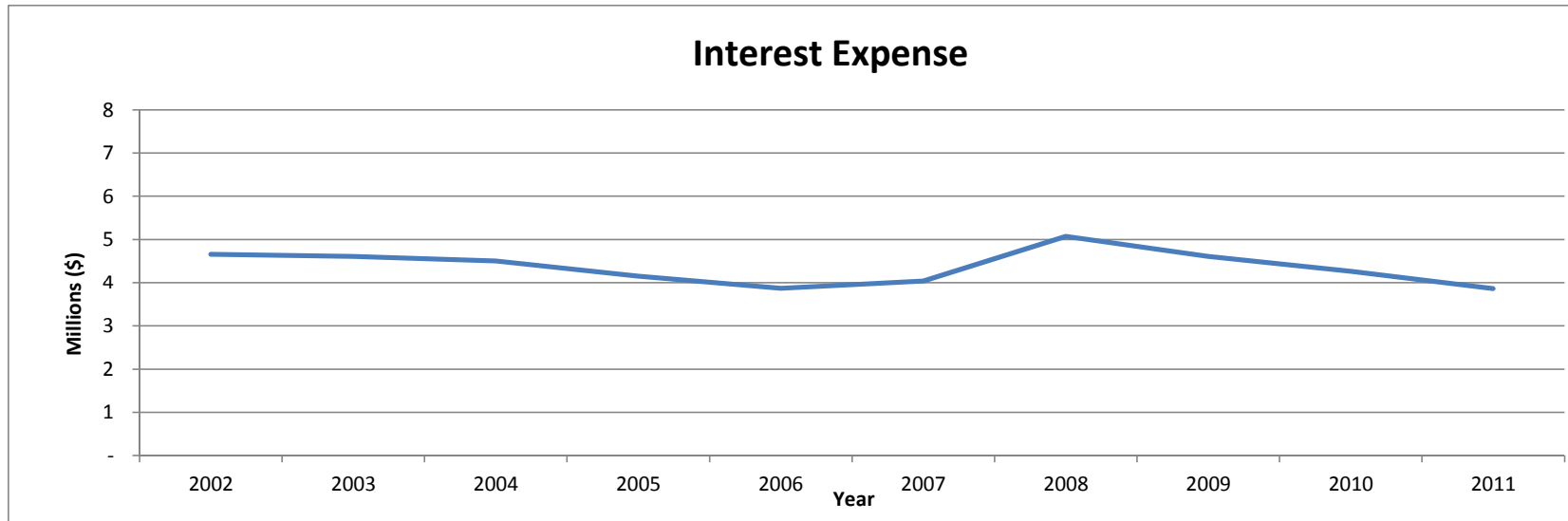
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Production	\$ 10,088,719	\$ 10,732,803	\$ 10,619,126	\$ 12,393,279	\$ 12,721,482	\$ 13,215,672	\$ 14,020,769	\$ 13,069,199	\$ 12,953,657	\$ 12,608,144
Distribution	6,999,349	7,825,476	8,462,789	8,629,594	9,822,375	10,418,967	9,471,675	9,866,044	9,999,395	10,969,000
Administrative	11,118,955	9,478,095	11,240,637	11,260,014	11,676,905	10,727,002	8,549,306	8,919,113	11,600,707	10,803,085
Depreciation & amortization	9,111,962	9,168,087	9,331,552	9,548,749	9,708,972	10,075,578	10,383,433	11,104,642	11,697,572	11,941,852
Other postemployment benefits	-	-	-	-	-	3,054,071	3,405,184	3,469,409	3,881,063	4,021,089
Total operating expenses	\$ 37,318,985	\$ 37,204,461	\$ 39,654,104	\$ 41,831,636	\$ 43,929,734	\$ 47,491,290	\$ 45,830,367	\$ 46,428,407	\$ 50,132,394	\$ 50,343,170



(Source: Annual Audited Financial Statements)

ERIE COUNTY WATER AUTHORITY
 Nonoperating Revenue and Expenses
 Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Nonoperating revenues and expenses										
Interest expense	\$ 4,657,045	\$ 4,605,235	\$ 4,501,527	\$ 4,149,699	\$ 3,868,064	\$ 4,035,419	\$ 5,074,771	\$ 4,606,955	\$ 4,265,531	\$ 3,865,205
Gain on sale of investments	-	-	-	-	-	-	-	-	150,107	-
Interest income	1,803,904	1,191,949	1,188,823	1,796,187	2,498,889	3,138,936	2,353,043	871,878	467,408	458,260
Interest capitalized during construction	61,539	365,823	143,378	99,076	145,090	159,196	273,651	643,393	45,125	174,315
Net nonoperating expenses	<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>	<u>\$ 3,091,684</u>	<u>\$ 3,602,891</u>	<u>\$ 3,232,630</u>



(Source: Annual Audited Financial Statements)

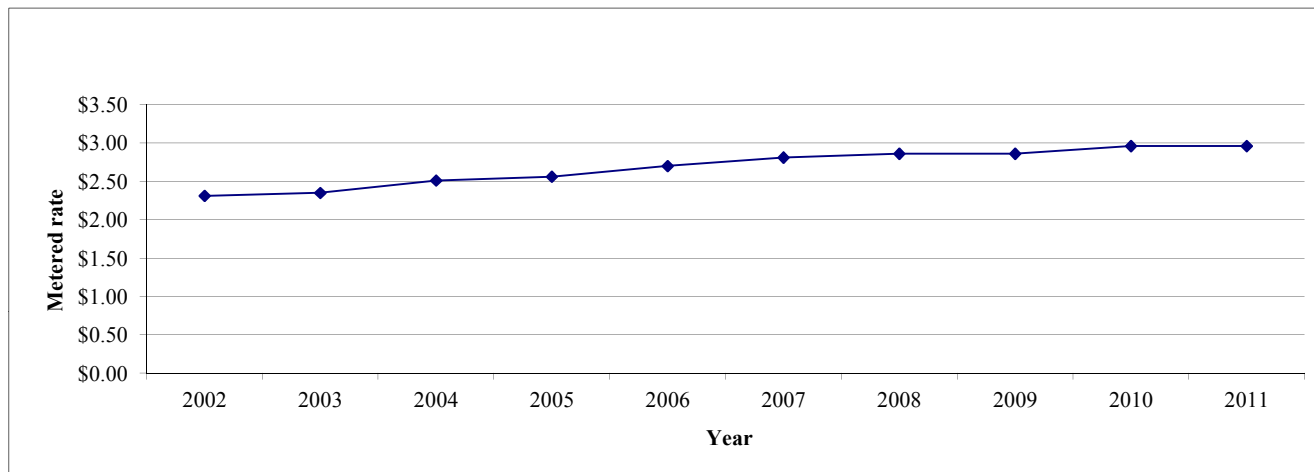
ERIE COUNTY WATER AUTHORITY

Metered Water Rate History

Last Ten Fiscal Years

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Metered water rates ¹	(Base Year) \$2.22	\$2.31	\$2.35	\$2.51	\$2.56	\$2.70	\$2.81	\$2.86	\$2.86	\$2.96	\$2.96
Percentage increase (%)		4.05%	1.73%	6.81%	1.99%	5.47%	4.07%	1.78%	0.00%	3.50%	0.00%

¹Metered water rates represent the cost per 1,000 gallons for the first 300,000 gallons per quarter



(Source: Erie County Water Authority Tariff)

ERIE COUNTY WATER AUTHORITY

Largest Customers

Current Year and Nine Years Ago

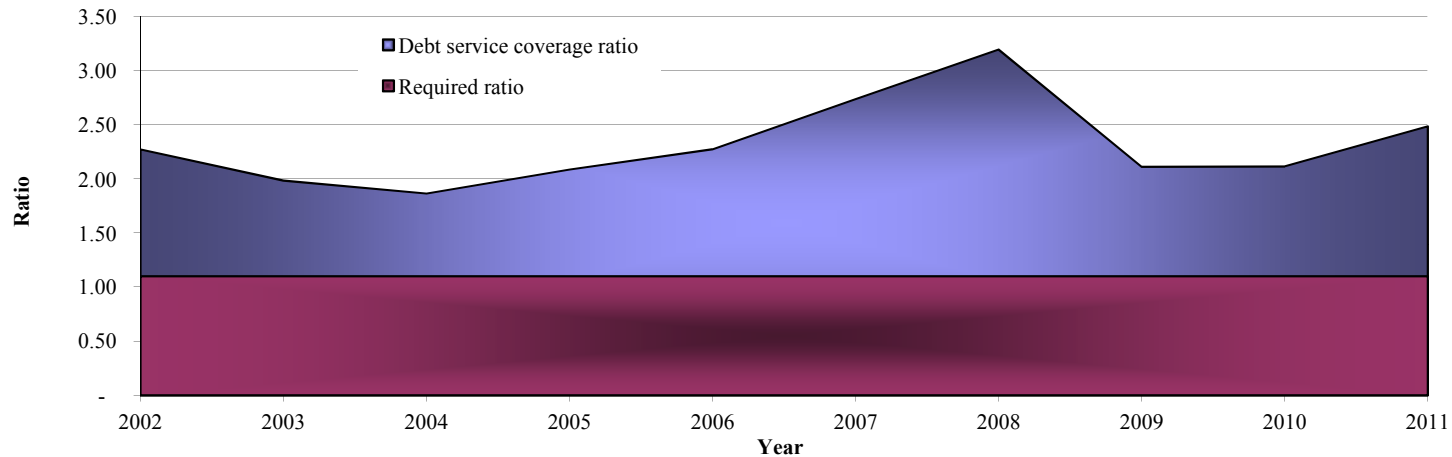
Year End December 31, 2011		Year End December 31, 2002	
<u>Non-Municipal Customers</u>			
State University of NY at Buffalo	\$ 434,700	Bethlehem Steel Corporation	\$ 633,164
Seneca Nation of Indians	319,519	State University of NY at Buffalo	488,982
Benderson Development Co.	274,289	Benderson Development Co.	292,994
Upstate Farms Cooperative	267,090	Seneca Nation of Indians	174,075
Republic Engineered Products	173,694	Delta Sonic	117,652
Rosina Food Products, Inc.	164,533	West Seneca Developmental Center	106,442
Mayer Brothers Apple Products, Inc.	145,449	Niagara Frontier Transportation Authority	99,934
Delta Sonic	132,657	Ford Motor Co.	90,799
DDR Corp.	127,443	Uniland Development	88,129
Uniland Development Co	115,003	Buffalo State University	85,638
Total of Largest Non-Municipal Customers	<u>\$ 2,154,377</u>	Total of Largest Non-Municipal Customers	<u>\$ 2,177,809</u>
Percent of total billings	3.7%	Percent of total billings	4.5%
<u>Municipal Customers</u>			
Town of Elma	\$ 1,345,110	Town of Elma	\$ 983,633
Town of Evans	1,128,807	Town of Evans	829,020
Village of East Aurora	535,812	Village of Lancaster*	740,770
Village of Williamsville	479,805	Village of East Aurora	531,443
Village of Angola	381,513	Village of Williamsville	426,181
Monroe County Water Authority	291,102	Village of Orchard Park	350,422
Village of Orchard Park	237,595	Village of Angola	259,968
Village of Silver Creek	214,271	Village of Blasdell*	233,794
Village of Blasdell	139,320	Village of Silvercreek	216,313
Town of Hanover	135,031	Town of Orchard Park*	207,656
Total of Largest Municipal Customers	<u>\$ 4,888,366</u>	Total of Largest Municipal Customers	<u>\$ 4,779,200</u>
Percent of total billings	8.3%	Percent of total billings	10.0%

* These municipalities converted from bulk sale to direct service customers. The Village of Blasdell converted in 2011.

(Source: Authority Business Office Records)

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating revenue	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666	\$ 55,744,905	\$ 61,227,617	\$ 56,284,871	\$ 54,688,581	\$ 57,701,068	\$ 59,529,303
Interest income	1,810,853	1,191,949	1,188,823	1,796,186	2,498,889	3,138,936	2,353,043	871,878	467,408	458,260
Operating expense less non-cash expenses	<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>	<u>(31,854,356)</u>	<u>(34,553,759)</u>	<u>(34,380,229)</u>
Net revenue	\$ 21,966,217	\$ 20,229,117	\$ 19,848,793	\$ 23,751,965	\$ 24,023,032	\$ 30,004,912	\$ 26,596,164	\$ 23,706,103	\$ 23,614,717	\$ 25,607,334
Debt service	<u>\$ 9,661,533</u>	<u>\$ 10,190,804</u>	<u>\$ 10,642,769</u>	<u>\$ 11,379,335</u>	<u>\$ 10,563,883</u>	<u>\$ 10,958,058</u>	<u>\$ 8,320,776</u>	<u>\$ 11,223,798</u>	<u>\$ 11,159,540</u>	<u>\$ 10,299,764</u>
Debt service coverage ratio	2.27	1.99	1.87	2.09	2.27	2.74	3.20	2.11	2.12	2.49
Required ratio	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1



(Source: Authority Financial Records)

ERIE COUNTY WATER AUTHORITY
Debt Service 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	
2012	710,000	1,532,464	4,225,000	1,663,750	1,550,000	629,514	10,310,728
2013	740,000	1,500,513	4,395,000	1,494,750	1,595,000	598,255	10,323,518
2014	770,000	1,467,214	4,615,000	1,275,000	1,650,000	561,984	10,339,198
2015	800,000	1,432,564	4,845,000	1,044,250	1,705,000	519,723	10,346,537
2016	835,000	1,396,564	5,090,000	802,000	1,765,000	471,482	10,360,046
2017	865,000	1,358,989	5,340,000	547,500	1,820,000	416,438	10,347,927
2018	905,000	1,320,064	5,610,000	280,500	1,885,000	355,872	10,356,436
2019	940,000	1,279,339	-	-	1,950,000	290,586	4,459,925
2020	980,000	1,237,039	-	-	805,000	218,604	3,240,643
2021	1,025,000	1,192,939	-	-	830,000	183,868	3,231,807
2022	1,065,000	1,146,814	-	-	855,000	147,431	3,214,245
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	1,445,000	756,500	-	-	-	-	2,201,500
2030	1,510,000	687,863	-	-	-	-	2,197,863
2031	1,575,000	616,137	-	-	-	-	2,191,137
2032-2036	9,025,000	1,882,775	-	-	-	-	10,907,775
2037	2,060,000	103,000	-	-	-	-	2,163,000
Total	\$ 32,725,000	\$ 24,700,755	\$ 34,120,000	\$ 7,107,750	\$ 18,840,000	\$ 4,503,107	\$ 121,996,612

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

ERIE COUNTY WATER AUTHORITY
Principal Debt Outstanding by Issue

	Series 1998B	Series 2003F	Series 2007	Series 2008	Total
2012	890,000	660,000	710,000	4,225,000	6,485,000
2013	925,000	670,000	740,000	4,395,000	6,730,000
2014	960,000	690,000	770,000	4,615,000	7,035,000
2015	1,000,000	705,000	800,000	4,845,000	7,350,000
2016	1,040,000	725,000	835,000	5,090,000	7,690,000
2017	1,080,000	740,000	865,000	5,340,000	8,025,000
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	<u>\$ 8,190,000</u>	<u>\$ 10,650,000</u>	<u>\$ 32,725,000</u>	<u>\$ 34,120,000</u>	<u>\$ 85,685,000</u>

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total principal debt outstanding	\$ 83,607,830	\$ 93,347,273	\$ 86,847,273	\$ 79,507,273	\$ 75,664,253	\$ 106,759,756	\$ 107,805,000	\$ 101,590,000	\$ 91,900,000	\$ 85,685,000
Outstanding debt per customer	\$ 603	\$ 646	\$ 566	\$ 515	\$ 483	\$ 679	\$ 684	\$ 643	\$ 579	\$ 535

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

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	
	2002	940,645	29,052	19,348,895,930	5.6%	
2003	936,931	30,298	20,807,948,091	5.8%	6.0%	581,781
2004	932,002	31,826	20,743,073,400	5.5%	5.2%	586,080
2005	923,820	32,631	21,396,921,200	5.1%	4.8%	584,680
2006	916,292	34,631	21,730,920,800	4.7%	4.1%	580,673
2007	911,784	36,981	23,742,483,500	5.5%	4.7%	582,160
2008	909,858	38,427	24,056,490,100	6.9%	6.6%	585,694
2009	909,247	38,546	24,210,326,900	8.6%	8.7%	575,260
2010	919,040	n/a	23,321,852,100	8.1%	8.2%	574,064
2011	918,028	n/a	n/a	7.9%	8.0%	565,776

(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
Current Year and Nine Years Ago

Employer	2011			2002		
	Employees	Percentage of Total Labor Force	Rank	Employees	Percentage of Total Labor Force	Rank
State of New York	27,995	4.9%	1	15,608	2.7%	1
University at Buffalo	10,898	1.9%	2	6,010	1.0%	5
Kaleida Health	10,000	1.8%	3	5,243	0.9%	7
United States of America	10,000	1.8%	4	11,482	2.0%	2
Catholic Health System	6,230	1.1%	5	4,314	0.7%	10
Employer Services Corp.	6,089	1.1%	6	-	0.0%	
Buffalo City School District	5,200	0.9%	7	7,000	1.2%	4
Tops Markets	5,103	0.9%	8	-	0.0%	
HSBC Bank USA	5,000	0.9%	9	5,500	0.9%	6
M&T Bank	4,611	0.8%	10	-	0.0%	
Erie County	-	0.0%		7,857	1.4%	3
Delphi Harrison Thermal Systems	-	0.0%		5,000	0.9%	8
US Postal Service	-	0.0%		4,475	0.8%	9
Total of Largest Employers	<u>91,126</u>	16.1%		<u>72,489</u>	12.5%	

(Source: Business First of Buffalo 2011 Book of Lists; Business First of Buffalo 2002 Book of Lists)

ERIE COUNTY WATER AUTHORITY

Operating Statistics
Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total number of customers	138,752	144,464	153,418	154,505	156,579	157,163	157,571	158,069	158,650	160,088
Number of employees	276.0	272.0	270.8	269.4	261.8	262.8	267.0	264.8	258.9	250.9
Customers per employee	502.7	531.1	566.5	573.5	598.1	598.0	590.2	596.9	612.8	638.1
<hr/>										
Total water output (MG)	25,855.7	25,489.3	24,189.9	26,401.9	25,096.4	27,291.5	25,174.7	24,676.8	24,503.2	24,630.0
Output per customer (gallons)	186,344.7	176,440.5	157,673.2	170,880.6	160,279.5	173,650.9	159,767.3	156,114.1	154,448.2	153,852.9
Total water sales (MG)	19,438.9	18,440.2	17,849.3	19,203.3	18,491.3	19,474.0	17,637.5	17,269.6	17,378.1	17,345.4
Sales per customer (gallons)	140,098.2	127,645.6	116,344.2	124,289.2	118,095.7	123,909.6	111,933.7	109,253.6	109,537.3	108,349.2
Percentage of water sold	75.2%	72.3%	73.8%	72.7%	73.7%	71.4%	70.1%	70.0%	70.9%	70.4%
<hr/>										
Total operating expenses	\$ 37,318,985	\$ 37,204,461	\$ 39,654,104	\$ 41,831,636	\$ 43,929,734	\$ 47,491,290	\$ 45,830,367	\$ 46,428,407	\$ 50,132,394	\$ 50,343,170
Operating expense per customer	\$ 269	\$ 258	\$ 258	\$ 271	\$ 281	\$ 302	\$ 291	\$ 294	\$ 316	\$ 314
Total operating revenue	\$ 48,362,387	\$ 47,073,542	\$ 48,982,522	\$ 54,238,666	\$ 55,744,905	\$ 61,227,617	\$ 56,284,871	\$ 54,688,581	\$ 57,701,068	\$ 59,529,303
Operating revenue per customer	\$ 349	\$ 326	\$ 319	\$ 351	\$ 356	\$ 390	\$ 357	\$ 346	\$ 364	\$ 372

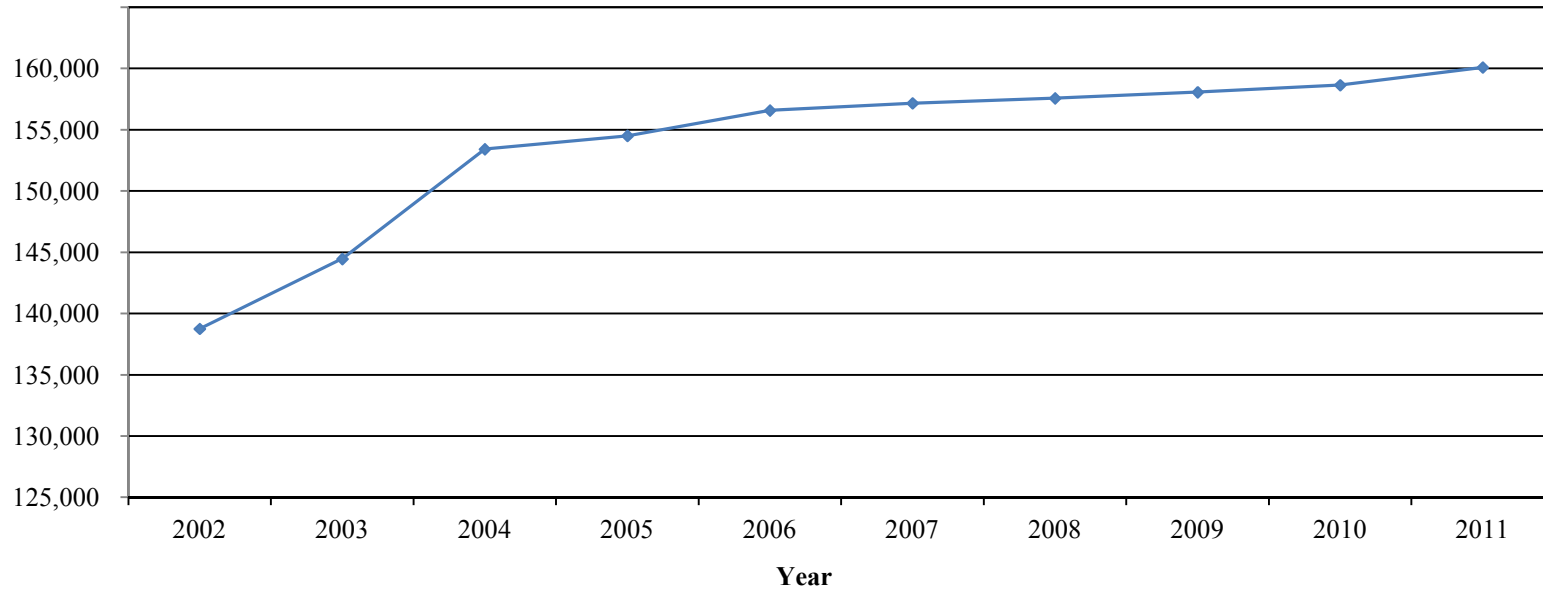
(Source: Authority Financial, Production and Business Office Records)

ERIE COUNTY WATER AUTHORITY

Number of Customers by Classification

Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Number of customers:										
Residential	130,743	136,122	144,252	145,312	147,326	147,850	148,218	148,697	149,255	150,592
Commercial	6,289	6,547	7,210	7,188	7,197	7,224	7,244	7,240	7,249	7,315
Industrial	247	268	327	328	333	327	333	322	322	321
Public authorities	539	563	601	596	605	609	595	593	595	599
Fire protection	916	946	1,010	1,062	1,098	1,133	1,161	1,197	1,209	1,241
Bulk sales	18	18	18	19	20	20	20	20	20	20
Total number of customers	<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>	<u>158,069</u>	<u>158,650</u>	<u>160,088</u>



(Source: Authority Financial, and Business Office Records)

ERIE COUNTY WATER AUTHORITY

Number of Employees¹ by Function
Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water system operations	168.0	163.0	164.3	165.3	161.3	163.3	169.2	167.3	164.3	162.3
Construction	24.0	24.0	22.0	22.0	22.0	22.0	22.0	22.0	21.0	19.0
Administration	74.6	75.8	73.7	71.7	69.7	68.7	66.4	65.4	64.4	60.4
Seasonal employees	9.4	9.2	10.8	10.4	8.8	8.8	9.4	10.1	9.2	9.2
Total Number of employees	<u><u>276.0</u></u>	<u><u>272.0</u></u>	<u><u>270.8</u></u>	<u><u>269.4</u></u>	<u><u>261.8</u></u>	<u><u>262.8</u></u>	<u><u>267.0</u></u>	<u><u>264.8</u></u>	<u><u>258.9</u></u>	<u><u>250.9</u></u>

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



(Source: Authority Internal Financial Records)

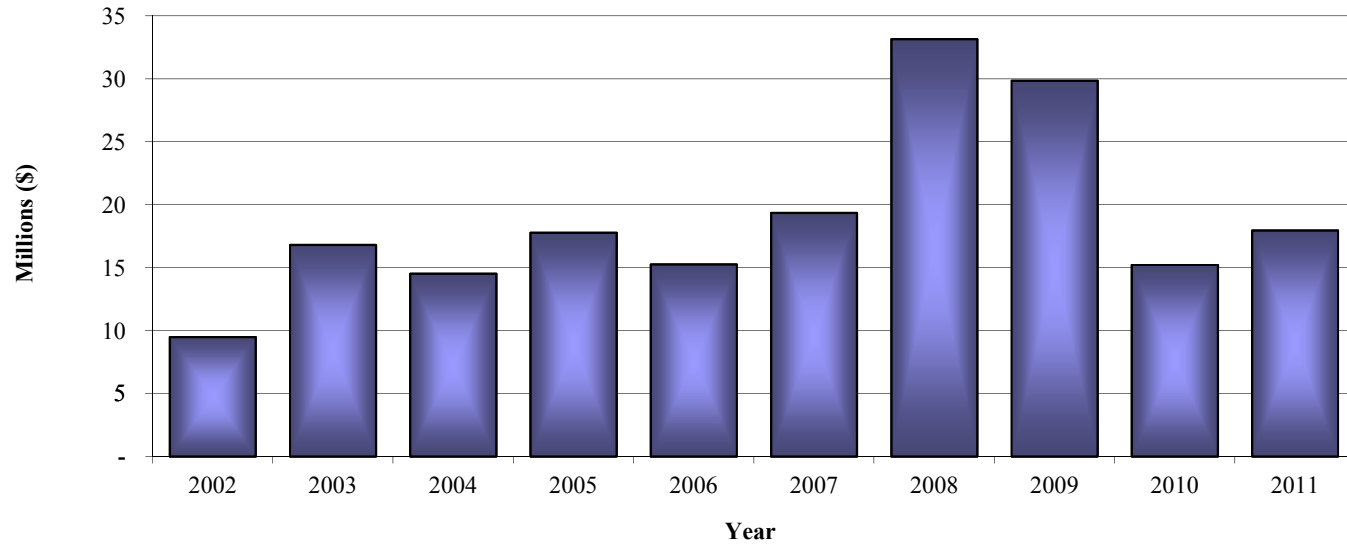
ERIE COUNTY WATER AUTHORITY
 Operating and Capital Indicators
 Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total miles of distribution piping	3,017	3,057	3,190	3,267	3,329	3,372	3,380	3,383	3,386	3,493
Number of hydrants	14,480	15,080	15,742	16,000	16,792	17,126	17,134	17,177	17,252	17,444
Number of water tanks	32	33	37	37	40	40	40	40	40	40
Storage capacity of water tanks (million gallons)	66.3	67.0	72.7	72.7	74.9	74.9	74.9	74.9	74.9	74.9
Number of pump stations	26	29	32	33	37	38	38	38	38	38
Number of new service taps	1,290	1,210	949	800	673	730	551	541	491	395

(Source: Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
 Annual Capital Project Expenditures
 Last Ten Years

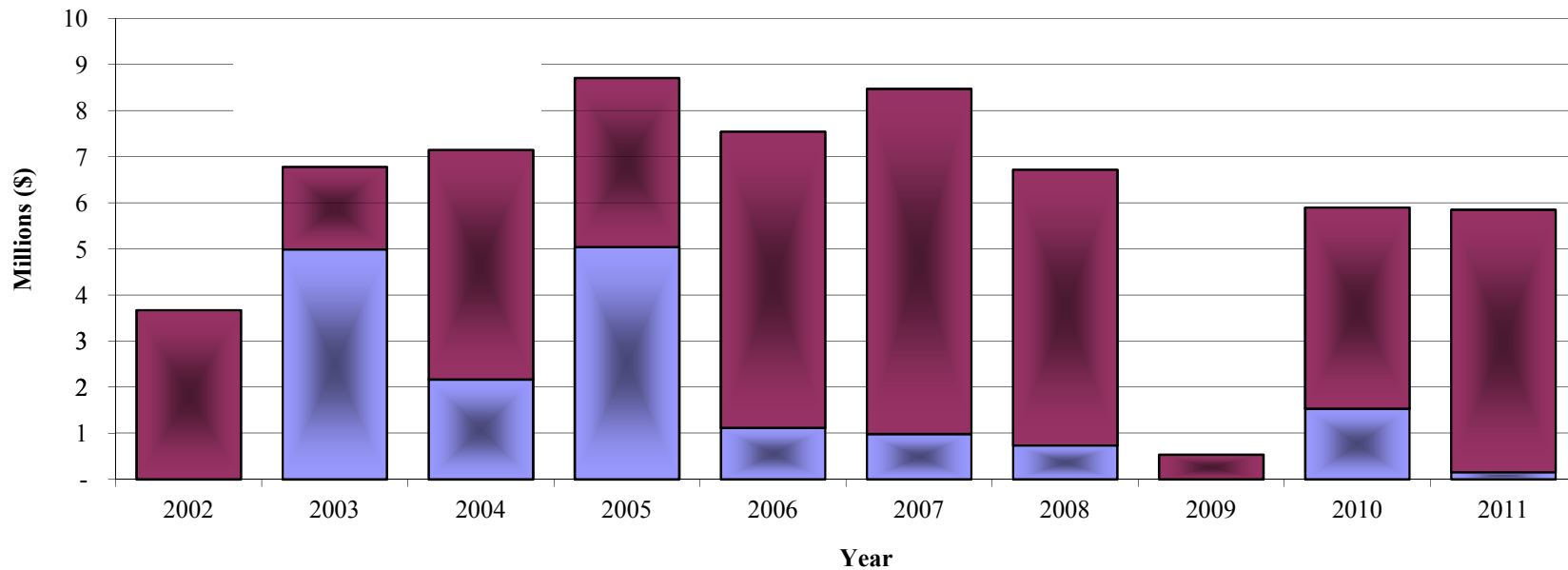
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital project expenditures	\$ 9,478,977	\$ 16,802,468	\$ 14,518,527	\$17,778,175	\$15,242,944	\$ 19,348,363	\$ 33,160,174	\$ 29,858,780	\$ 15,212,311	\$ 17,954,625
Capital project expenditures per customer	\$ 68	\$ 116	\$ 95	\$ 115	\$ 97	\$ 123	\$ 210	\$ 189	\$ 96	\$ 112



(Source: Authority Internal Financial Records)

ERIE COUNTY WATER AUTHORITY
 Waterline Replacements and Improvements
 Last Ten Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Waterline replacements	\$ 3,672,000	\$ 1,793,000	\$ 4,979,000	\$ 3,671,787	\$ 6,424,712	\$ 7,485,895	\$ 5,980,572	\$ 534,380	\$ 4,364,872	\$ 5,693,030
Waterline improvements	\$ -	\$ 4,986,000	\$ 2,168,000	\$ 5,038,033	\$ 1,117,537	\$ 984,638	\$ 737,481	\$ -	\$ 1,531,771	\$ 156,357



(Source: Authority Geographic Information System and Construction Records)