

March 26, 2019

Drescher & Malecki LLP
3083 William St. Suite 5
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This representation letter is provided in connection with your audits of the business-type activities of the Erie County Water Authority (the “Authority”) as of December 31, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in accordance with accounting principles generally accepted for governments in the United States of America (“U.S. GAAP”).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 26, 2019:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated December 3, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.

- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There are no identified material uncorrected misstatements.
- The effects of all known or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All components of net position are properly classified, and if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position is properly recognized under the policy.
- All revenues and expenses have been properly classified in or allocated to functions and programs in the Statements of Revenue, Expenses and Changes in Net Position.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Authority is contingently liable.

- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (“GASB 62”), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on the financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB 62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62.
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have not completed the process of evaluating the effect that will result from adopting the guidance in GASB Statements No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and No. 90, *Majority Equity Interests—an amendment of GSAB Statements No. 14 and No. 61*, effective for the year ending December 31, 2019, and No. 87, *Leases*; and No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the year ending December 31, 2020. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements No. 83, 84, 87, 88, 89 and 90 will have on its financial position and results of operations when such statements are adopted.

Required Supplementary Information

- With respect to the required supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP.
 - We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP.
 - Except for the implementation of GASB Statement No. 75, the methods of measurement or presentation have not changed from those used in the prior period and the basis for our assumptions and interpretations, underlying those measurements or presentations, are reasonable and appropriate in the circumstances.

Other Specific Representations

- We agree with the findings of the specialist in evaluating the other postemployment benefits obligation and net pension liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that may have had an impact on the independence or objectivity of the specialist.
- Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

- We have no intention of terminating our pension plan, or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We do not plan to make frequent amendments to our pension or other postemployment benefit plans.
- The Authority is not required to legally adopt a budget.
- Materials and supplies that are recorded in the financial statements are stated at the lower of cost or market. Provisions have been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventory are the property of the Authority and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded. Quantities at the balance sheet date were determined from the Authority’s perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees during the year.
- As described in Note 1 to the financial statements, during the year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of GASB Statement No. 75 requires the Authority’s net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position. As a result, OPEB liability was restated from \$38,864,242 to \$99,640,307 at December 31, 2017. Net position at December 31, 2017 has been restated as follows:

Net position—December 31, 2017, as previously stated	\$ 358,668,071
GASB Statement No. 75 implementation	<u>(60,776,065)</u>
Net position—December 31, 2017, as restated	<u>\$ 297,892,006</u>

During the year ended December 31, 2018, the Authority also implemented GASB Statements No. 85, *Omnibus 2017* and No. 86, *Certain Debt Extinguishment Issues* effective for the year ending December 31, 2018. GASB statement No. 85 enhances consistency in the application of accounting and financial reporting requirements. GASB statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statements No. 85 and 86 did not have a material impact on the Authority’s financial position or results from operations.

- The Authority labor agreements provide for sick leave, vacations, and miscellaneous other paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. Estimated sick leave, vacation and compensatory time accumulated by employees has been recorded. Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. The value recorded in the statements at December 31, 2018 is \$4,477,137. Management estimates that \$1,629,869 of the liability is due within one year. A non-current liability totaling \$2,847,268 has also been recorded. Management believes that sufficient resources will be made available for the payments of sick leave, vacation and compensatory time when such payments become due.
- In connection with your audit of the financial statements of the Authority as of December 31, 2017 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in financial positions, and cash flows of the Authority in conformity with U.S. GAAP you were previously provided with a representation letter under date of March 22, 2018. No information has come to our attention that would cause us to believe that any of those previous representations should be modified. To the best of our knowledge and belief, no events have occurred subsequent to December 31, 2017 and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Robert J. Lichtenthal, Jr., Deputy Director

Karen A. Prendergast, Comptroller