

**O** NONDAGA COUNTY WATER  
AUTHORITY

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*FINANCIAL STATEMENTS*  
December 31, 2006 and 2005

# Table of Contents

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ONONDAGA COUNTY WATER AUTHORITY

|  |    |
|--|----|
| INDEPENDENT AUDITORS' REPORT                               | 1  |
| MANAGEMENT'S DISCUSSION AND ANALYSIS                       | 2  |
| AUDITED FINANCIAL STATEMENTS                               | 19 |
| STATEMENTS OF NET ASSETS                                   | 19 |
| STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | 21 |
| STATEMENTS OF CASH FLOWS                                   | 22 |
| NOTES TO FINANCIAL STATEMENTS                              | 24 |

## **INDEPENDENT AUDITORS' REPORT**

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### **BOARD OF DIRECTORS ONONDAGA COUNTY WATER AUTHORITY**

We have audited the accompanying statements of net assets of **ONONDAGA COUNTY WATER AUTHORITY** (the Authority) as of December 31, 2006 and 2005, and the related statements of revenues, 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. 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Dermody, Burke & Brown*

**DERMODY, BURKE & BROWN, CPAs, LLC**

Syracuse, NY

March 27, 2007

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Introduction**

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2006, provides an introduction to the major activities that had an effect on the operations of the Authority and it also addresses the financial performance and status of OCWA. The information contained within the Management's Discussion and Analysis (MD&A) should be used and considered in conjunction with all of the information contained within the 2006 financial report, which follows this report.

**Financial Highlights**

OCWA worked through a particularly difficult year that saw total revenues decline \$214,401 (0.8%) compared to 2005. While the overall decrease in revenue was less than 1%, water sales revenues dropped 3.6% lower than the 2005 total. The decline in sales came in spite of the fact that rates were increased for all customers effective January 1, 2006. Rates for residential, commercial and wholesale customers were increased 6%, and industrial and fire protection rates were increased 4%. Offsetting the rate increase were declines in customer consumption that cut across all customer classes. Average daily demand decreased 3.5 million gallons per day for 2006 as compared to 2005. Overall, residential use dropped 10.5%; commercial use declined 12.5%, wholesale purchases fell 8.9% and industrial sales fell 7.1%.

While it is believed that the warmer winter weather and the abnormally rainy summer was the main driver behind the decreased demand, it is largely held that two other factors are also driving down the average consumption for the Authority's 81,000 plus residential service connections. One factor ties into the growing use of water saving fixtures and water efficient appliances in new homes, remodeled homes and for the replacement of older appliances and fixtures. The second factor ties to a change in the size of households. In spite of the increasing number of households, the local population has not increased significantly over the past decade. We are seeing more and more one and two person households where either the children have grown and moved on and in some instances those very children are now establishing their own homes with one or two residents.

Looking at the expense side of the operation, overall expenses for 2006 increased by \$1,615,922 (6.75%) over 2005. Two items account for the lion's share of the increase of expenses. The first being the increased expense associated with the 2005 issue water revenue bonds, which added \$457,066 (representing 28.3% of the overall increase), and the second being related to contractual wages increases and benefits coupled with staff additions which added \$534,108 (33.0% of the overall increase) for 2006. Increased transportation expenses accounted for another \$179,927 (11.1% of the increase), and power and chemicals added \$82,618 (5.1% of the increase). Finally, increased costs associated with outside contractors and professional service (including items such as tank inspection, engineering, and software maintenance) added \$225,255 (13.9%). In total, the five elements listed above account for \$1,478,974 (91.5%) of the overall increase in expenses for 2006.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Financial Highlights – Continued**

With respect to the Authority's indebtedness, it should be noted that OCWA issued \$13,840,000 in water revenue bonds in November of 2005, however the full impact of the bond principal and interest payments were not seen until 2006, as only two months of related expense was recognized in 2005. The proceeds from the 2005 bond issue are being used for system improvements including three replacement water tanks, water distribution main upgrades, facility improvements, security enhancements and the water treatment plant improvement design project currently underway

The Hastings tank, which is the replacement tank for Central Square, was substantially completed in 2006, as were the related pump station and water mains. Design for the replacement tank for the Geddes and Lakeland tanks was completed in 2006 and the bid for construction was awarded. The tank replacement project for Canastota saw a final site selection being made and the award of the design contract. All three tank projects should be completed in 2007. Improvements to the recently acquired Oswego Distribution Maintenance Facility were nearing completion at the end of 2006. In addition to the aforementioned projects, the Authority also installed 106,915 feet of main, including 29,670 feet of replacement water main. OCWA also acquired 127,318 feet of main via water system lease agreements. Also, during the course of the year OCWA also replaced 121 hydrants.

With respect to overall growth of the system, OCWA's 2006 customer base reached a peak of 87,139 billed accounts. One thousand eight hundred twenty one (1,821) new customers were added for the year, primarily due to the conversion of the Village of Minoa system from wholesale to retail. Additional customers were added as a result of the 47 developer main extensions completed in 2006 coupled with the 45 developer extensions completed in 2005. Overall, OCWA increased total water main in service by 215,528 feet (40.82 miles) in 2006, bringing the total main in service up to 1,700.9 miles. The Authority also added 347 hydrants, 193 through acquisition and 154 via new installations.

**Using This Annual Statement**

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. Because Onondaga County Water Authority is treated as a Proprietary Fund for auditing purposes, it has in the past and will continue to use the accrual basis of accounting. The accrual basis of accounting provides both short-term and long-term information about the Authority's overall financial status.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

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**ONONDAGA COUNTY WATER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Summary of Statements of Net Assets**

**TABLE 1**

|   | <b>2005</b>                  | <b>2006</b>                  |
|---|------------------------------|------------------------------|
| <b>ASSETS</b>                                   |                              |                              |
| Cash  | \$ 178,456                   | \$ 26,820                    |
| Accounts Receivable                             | 4,376,095                    | 4,755,276                    |
| Materials, Supplies and Prepaid Expenses        | 1,852,262                    | 1,735,603                    |
| Restricted Assets                               | 21,075,376                   | 15,509,087                   |
| Unamortized Bond Issuance Costs                 | 306,798                      | 285,885                      |
| Plant and Water Rights, Net                     | <u>143,264,953</u>           | <u>151,697,208</u>           |
| <b>TOTAL ASSETS</b>                             | <u><u>\$ 171,053,940</u></u> | <u><u>\$ 174,009,879</u></u> |
| <b>LIABILITIES</b>                              |                              |                              |
| Accounts Payable and Accrued Liabilities        | \$ 3,209,834                 | \$ 3,433,647                 |
| Liabilities Payable from Restricted Assets      | 1,801,638                    | 1,160,683                    |
| Water Revenue Bonds                             | 22,671,382                   | 21,406,982                   |
| Capital Lease Obligations                       | <u>887,325</u>               | <u>1,084,725</u>             |
| Total Liabilities                               | 28,570,179                   | 27,086,037                   |
| <b>NET ASSETS</b>                               |                              |                              |
| Invested in Capital Assets, Net of Related Debt | 119,706,246                  | 129,205,501                  |
| Restricted Net Assets                           | 18,021,605                   | 12,707,204                   |
| Unrestricted Net Assets                         | <u>4,755,910</u>             | <u>5,011,137</u>             |
| Total Net Assets                                | <u>142,483,761</u>           | <u>146,923,842</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u><u>\$ 171,053,940</u></u> | <u><u>\$ 174,009,879</u></u> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Summary of Statements of Net Assets – Continued**

Total assets increased approximately \$2.96 million in 2006 as a result of the following items:

- The decrease in cash of \$152,000 is due to the lower balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by approximately \$379,000 or 8.7%. There are two components that make up most of this increase. The first is accounts receivable for water billing. This accounts receivable increased \$161,000 or 6% over the year-end 2005 balance. The 6% increase corresponds to the 6% rate increase for residential, commercial and municipal wholesale customers that was implemented in 2006. Miscellaneous accounts receivable was the other factor that accounted for the 2006 increase. Accounts receivable on job orders billed, which makes up the majority of miscellaneous accounts receivable increased by \$180,000 over the 2005 balance at year-end. The Authority has placed a special emphasis on the timely billing of job orders. This emphasis can also be seen not only in the increase miscellaneous accounts receivable but also in miscellaneous revenue for 2006.
- Restricted assets decreased by \$5.57 million (26%) in 2006. This decrease is related to the use of the funds from the \$13,840,000 revenue bond issue. The funds are to be expended within two years from the date of issue that was in November 2005.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2006. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

Total liabilities decreased by approximately \$1.5 million in 2006 as a result of the following items:

- Liabilities payable from restricted assets decreased by \$640,000 during 2006. The largest factor in this decrease was jobbing deposits which decreased by \$989,000 during the year. This decrease is another result of the Authority's emphasis on the timely billing of job orders. Also affecting this account was an increase in accounts payable from trustee accounts of \$290,000 and a \$58,000 increased in accrued interest on bonds.
- The Water Revenue Bond balance decreased due to principal payments totaling \$1,240,000 which were made during 2006.
- Capital lease obligations increased due to additional debt related to the Village of Minoa lease.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Review of Revenues**

**TABLE 2**

|   | <b>2005</b>                 | <b>2006</b>                 |
|---|-----------------------------|-----------------------------|
| Residential/Commercial Sales            | \$ 16,228,081               | \$ 15,454,365               |
| Industrial Sales                        | 3,815,852                   | 3,691,412                   |
| Municipal (Water Utility) Sales         | 3,330,407                   | 3,342,122                   |
| Fire Protection                         | 939,936                     | 953,336                     |
| Miscellaneous Revenue                   | 1,043,596                   | 1,197,022                   |
| Interest from Investments Held in Trust | 192,211                     | 705,698                     |
| Other Interest Income                   | 24,144                      | 47,872                      |
| Gain (Loss) on Disposal of Fixed Assets | <u>(18,753)</u>             | <u>(50,754)</u>             |
| <b>TOTAL REVENUES</b>                   | <u><u>\$ 25,555,474</u></u> | <u><u>\$ 25,341,073</u></u> |

OCWA implemented rate increases for all customer classes effective January 1, 2006. Residential, commercial and municipal wholesale customer rates were raised 6%, industrial customers 4% and fire protection also 4%. The increases, which were determined in late 2005, were based on the projected requirements for 2006 and took into account changes that were expected to have an effect on 2006 operations. One of the known changes related to the 2006 rate increase was the debt service related to the water revenue bonds issued in November 2005. Overall total water revenues for 2006 decreased by \$873,341 (3.6%) from the previous year. For 2006, residential and commercial sales, alone, decreased by \$773,716 (4.8%) as compared to 2005 figures. Residential and commercial usage decreased 10.5% and 12.5%, respectively, in 2006. This more than offset the projected impact of the rate increase. Industrial revenues decreased by \$124,440 (4.8%) due primarily to a 7.1% decrease in usage. On the municipal side, revenues increased by \$11,715 (0.4%) for fiscal year 2006 as compared to 2005. The increase in sales was due to the net effects of the rate increase and 8.9% reduction in usage. Fire protection revenues increased by \$13,400 (1.4%).

There was a \$153,426 (14.7%) increase in miscellaneous revenue. The major reason was that the net of miscellaneous sales and cost of miscellaneous sales (Job Orders) increased by \$123,907 from 2005 figures.

Interest from investments held in trust and other interest income increased by a total of \$537,246 (248.4%). This increase reflects the effect of additional funds to invest because of the \$13,840,000 Revenue Bonds issued in November 2005 as well as higher yields on investments.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Review of Expenses**

**TABLE 3**

|                                   | <b>2005</b>                 | <b>2006</b>                 |
|-----------------------------------|-----------------------------|-----------------------------|
| Operations                        | \$ 5,446,975                | \$ 6,875,271                |
| Purchased Water                   | 7,857,829                   | 7,639,024                   |
| General and Administrative        | 3,509,904                   | 2,373,671                   |
| Less: Burden Applied              | (623,862)                   | (821,740)                   |
| Depreciation                      | 3,414,795                   | 3,481,265                   |
| Bond Amortization                 | 5,451                       | (2,631)                     |
| Water District Lease Amortization | 453,521                     | 534,180                     |
| Maintenance                       | 3,310,859                   | 4,454,300                   |
| Other Expense                     | <u>548,487</u>              | <u>1,006,541</u>            |
| <b>TOTAL EXPENSES</b>             | <u><b>\$ 23,923,959</b></u> | <u><b>\$ 25,539,881</b></u> |

Total expenses for 2006 were up by approximately \$1.6 million (6.8%) compared to fiscal year 2005. The overall variance can be attributed to several significant items such as health insurance, transportation costs (fuel), chemicals, gas/electric cost and bond interest. Also significant is the adjustment of the burden-applied rate that is added to labor. These items as well as others are discussed below.

**Labor Changes Impacting Operations, Maintenance, and General and Administrative Expenses**

Both the Teamsters and CSEA contracts included wage increases effective January 1, 2006. The contract with the Teamsters called for an increase of 3% and CSEA's called for an increase of 3.5% for the year. Wage increases for most non-bargaining unit employees increased 4%. Overall wage increases and additional employees, labor expenses in operations, maintenance and general and administrative accounts increased by \$348,000 (6.3%).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Labor Changes Impacting Operations, Maintenance, and General and Administrative Expenses – Continued**

Notable Operation Expense Changes (Other Than Labor)

The cost of chemicals increased by \$61,233 (27%) as compared to 2005. Supplies of some chemicals were limited and prices increased during the year. OCWA incurred a \$21,385 (2.8%) increase to its electric and natural gas charges for 2006 over 2005 amounts. While much of the increase was used to provide heat and power to OCWA's headquarters, treatment plant and maintenance facilities, approximately half was for power to pump water throughout OCWA's system.

Group health insurance increased by \$167,344 (11.6%) as compared to 2005 for the Authority's employees and retirees. Insurance coverage is contractual and it should be noted that both employees and retirees contribute toward the cost of their coverage. Also, commercial insurance costs increased by \$67,691 (9.8%) over 2005.

For pensions, OCWA's employees are covered under the New York State and Local Employee's Retirement System. OCWA's expense for contributions made to the system was \$676,638, a decrease of approximately \$24,500 (3.5%) over the 2005 amount. This decrease stops a trend that had seen the contributions rise from \$77,547 in 2002 to \$701,191 in 2005. This was an increase of \$623,644, more than 800%, over three years. Fortunately, New York State and Local Employee's Retirement System has advised the Authority that they have projected OCWA's retirement system expense to be \$637,612 for 2007, a decrease of another 5.8%

There was an increase of \$179,927 in transportation costs in 2006 over the previous year. Part of the increase is related to fuel costs for the Authority's fleet. These costs increased by \$39,023 in 2006 as compared to 2005. It should not go without notice that OCWA performs preventive maintenance on its vehicles, with the intent of sustaining fuel economy and mitigating more costly repairs.

Purchased Water

Purchased water cost was down by \$219,000 (2.8%) for 2006. This decrease occurred despite a Metropolitan Water Board (MWB) rate increase that was effective January 1, 2006. Accounting for the decrease was the fact that the volume of water OCWA purchased from MWB in 2006 was the lowest amount recorded since 1982, the year before the Anheuser Busch Brewery in Baldwinsville opened.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Labor Changes Impacting Operations, Maintenance, and General and Administrative Expenses – Continued**

Notable Operation Expense Changes (Other Than Labor) – Continued

Water District Lease Amortization

There was an increase of \$80,659 in water district lease amortization. This occurred because the Fuller Road Water District in the Town of Hastings was completed and the Authority began amortizing its cost of more than \$6,000,000.

Other Expense

The increase of \$456,864 (83%) is due to the water revenue bonds that were issued in November 2005. In 2005, the new bond issue only required two months of interest expense. The bond issue was in place for all of 2006, requiring a full year of interest expense.

Burden Applied

Burden applied allows for the distribution of administrative costs over operation and maintenance accounts as well as capital projects. The Authority increased the rate applied in August of 2005, so the entire impact of the change was not seen until 2006. It is most clearly seen in the increase of the reduction of expenses shown on the "Less: Burden Applied" line. It reflects the amount charged to capital projects, which allows for a corresponding reduction in expenses.

**Summary of Overall 2006 Operations**

In 2006, OCWA experienced a net loss before capital contributions of \$198,808, a decrease of \$1,830,323 from the "net gain" of \$1,631,515 for the fiscal year ended December 31, 2005. The loss was due in part to the decreased water consumption in 2006 and in part to the increase in expenses as noted above.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**OCWA Budget Process**

Each year the Authority's department managers prepare comprehensive draft budgets, one for operations and maintenance and one for capital projects. The executive staff combines the budgets and prepares a recommendation for the Authority's Board review in early October of each year. The Board, in turn, conducts a budget workshop with executive management and a final recommendation is made for approval by the Board at its October meeting. Per the implementation of New York State's Public Authorities Accountability Act, OCWA's annual budget process must be completed by the end of October. Copies of the approved budget are then forwarded to elected officials at the County and State level in accordance with PAAA guidelines.

Executive management, also in accordance with OCWA's trust indenture, provides a copy of the budgets to the Authority's consulting engineer for review and approval. Executive management and the consulting engineer meet to review both budgets prior to the consulting engineer's submitting their letter acknowledging satisfactory review.

The operations and maintenance budget is not amended once it has been approved by the Board. On a monthly basis, each Authority department manager completes a budget variance, which is in turn submitted to the Executive Director. Also on a monthly basis, a summary budget variance report is provided to the Board and extraordinary variances (plus and minus) are explained.

With respect to the capital budget, specific projects for the year are approved at the preceding year's October board meeting. It should also be noted that although the October budget approval encompasses all approved projects for the coming year, each project must be submitted to the Board for approval of the project's work authorization prior to the start of the project.

Executive management also prepares 20-year capital budgets and 20-year operations and maintenance budgets for the Authority. Both budgets include a list of assumptions that are used to prepare the long-range projections. It should be noted that both long-range budgets are updated regularly and submitted to the OCWA Board for review and are ultimately added to the Authority's annual business plan.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Projects and System Growth**

The Authority again had a very busy year with respect to capital projects and system growth. During the year, projects completed included the following:

- The water mains associated with the Fuller Road Water District in the Town of Hastings were substantially complete by year-end.
- Completed yearlong pilot plant study related to future improvements to the Marcellus Water Treatment Plant.
- The addition of 64,452 feet of developer water main and the replacement of another 29,670 feet of main as part of 20 system betterment projects.
- Replacement of 121 hydrants and added 154 new hydrants.
- Added Village of East Syracuse water system as fulltime wholesale customer.
- Leased Village of Minoa water system, converting 1,150 customers from wholesale to retail.

Work in progress at year-end includes:

- The bid was awarded for the construction of a tank in the Town of Van Buren to replace the Lakeland standpipe and the Geddes spheroid tank.
- The 1 MG elevated tank in Hastings that will replace the Central Square tank was nearing completion.
- Finalized site selection for the Canastota Tank replacement project.
- Oneida River Crossing for a new 16" feed to Southern Oswego County.
- Construction of the Caughdenoy Pumping Station that will serve Hastings, Central Square and other parts of Southern Oswego County.
- Improvements to the distribution maintenance facility in Oswego.
- Initiated SCADA software and hardware upgrade project.
- Awarded bids for generators to be installed at the Howlett Hill and Warners pump stations.
- Awarded bid for 60 KW mobile generator.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Projects and System Growth – Continued**

Areas of growth included the following:

- Installation of 47 developer main extensions, totaling 64,342 feet of main.
- Completed the connection to the McConnellsville water system in the Town of Vienna and assumed operation of the water system which includes a new pump station and a new elevated tank.
- Oversaw improvements to the Pompey pump station and the construction of an elevated storage tank constructed by a developer in the Town of Pompey.
- The Volney Airport Water District is nearing completion. Once completed it will add approximately 300 new connections, 53,000 feet of main, a new pump station and a new tank.
- A developer system in the Town of Pompey, that includes improvements to an existing pump station and the construction of an elevated tank, was completed.

Areas of growth, 2007 and beyond:

- The Town of Granby water system project was well underway by the end of 2006. The newly constructed system will serve approximately 1,000 connections. Over 100,000 feet of main (out of 148,350 feet) was in the ground at the end of 2006 and the elevated tank and pump station were nearing completion. All should be completed by June of 2007.
- The Southern Onondaga main extension received approvals and commitments for funding. Design should be completed by spring of 2007 with award of bids to follow. Construction could begin by summer.
- The Limeledge system also appears to be making progress and once completed will serve customers in the Towns of Marcellus and Skaneateles on a retail basis and the Village of Marcellus on a wholesale basis. Skaneateles will be a new addition to the number of Towns served by the Authority. The towns are awaiting approval of the project from the State Comptrollers office.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Assets at Year End (Net of Depreciation)**

**TABLE 4**

|  | <b>Governmental Activities</b> |                       | <b>Total<br/>Percent<br/>Change</b> |
|--|--------------------------------|-----------------------|-------------------------------------|
|  | <b>2005</b>                    | <b>2006</b>           | <b>2005-2006</b>                    |
| Water Plant in Service                   | \$ 167,487,028                 | \$ 172,293,327        | 2.9%                                |
| Water Rights - Source                    | 5,250,000                      | 5,250,000             | 0.0%                                |
| Construction Work-in-Progress (I&E)      | 3,458,413                      | 10,777,174            | 211.6%                              |
| Water District Lease                     | 16,520,273                     | 22,967,642            | 39.0%                               |
| Pre-Survey and Investigation             | 6,289,491                      | 847,141               | (86.5)%                             |
| Jobbing in Progress                      | 1,645,186                      | 434,115               | (73.6)%                             |
| Allowance for Depreciation               | (44,660,788)                   | (47,515,989)          | (6.4)%                              |
| Accumulated Amortization/Water Districts | (7,689,384)                    | (8,223,564)           | (6.9)%                              |
| Residual Amortization/Water Rights       | (5,000,000)                    | (5,100,000)           | (2.0)%                              |
| Deferred Charge - Capital Interest on FP | <u>35,266</u>                  | <u>32,638</u>         | <u>(7.5)%</u>                       |
| Total                                    | <u>\$ 143,264,953</u>          | <u>\$ 151,697,208</u> | <u>5.9%</u>                         |

Increase to Water Plant in Service Highlights:

- Completed 47 developer extensions, which added 64,452 feet of 8 inch and larger main.
- Completed 20 system improvements and a main relocation project totaling 29,670 feet of 8 inch and larger main.
- Replaced 121 hydrants and added 154 new hydrants.
- The replacement of various vehicles in OCWA's fleet as part of the Authority's ongoing asset management program.
- Completed the tie into the McConnellsville water system in the Town of Vienna.
- Addition of the new developers system in the Town of Pompey.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Assets at Year End (Net of Depreciation) – Continued**

Construction / Work-In-Progress Highlights

- Design of improvements for the Marcellus Water Treatment Plant is underway.
- The 1,000,000 gallon elevated tank in Hastings was nearing completion by year-end.
- The Caughdenoy pump station was nearing completion by year-end.
- Awarded construction bid for a 1 MG replacement tank to be built in the Town of Van Buren.
- Improvements to the Oswego Distribution Maintenance Facility were nearly completed.
- The Oneida River crossing which adds a 16" feed to Southern Oswego County.
- Various system betterments and main extensions still in progress at year-end.

Water District Lease

- The Fuller Road Water District in the Town of Hastings was substantially complete at year-end. The water mains from Phases A and B were placed in service in 2006 adding more than 171,000 feet of new main to the system. The cost for this project totaled \$6.1 million.
- Lease of the Village of Minoa water system.

Pre-Survey and Investigation Highlights

Pre-survey and investigation costs capture costs related to studies undertaken related to potential additions and improvements to the OCWA system. It also tracks the capital costs for town water district projects while they are in progress.

- Most of the almost \$6 million decrease in this account is related to the completion of the Fuller Road Water District. That completion removed \$6.1 million from this work-in-progress account.
- The Limeledge Water District for Marcellus and Skaneateles residents.
- The Constantia / West Monroe Water District.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Assets at Year End (Net of Depreciation) – Continued**

Jobbing in Progress Highlights

Jobbing in progress captures costs associated with activities for which an individual or developer will pay for the job in full. The installation of new hydrants and services within certain areas of OCWA's system are examples of this. A deposit for the job is taken. When the project is completed, the Authority will either bill the developer if the actual cost is more than the deposit or refund a portion of the deposit if the cost is less. "Job Orders" are also used to capture costs associated with repairing or replacing assets, generally hydrants and services, which are hit and damaged by individuals. The Authority then bills the individual or the individual's insurance for the repair cost. The account is also used to track the cost of contract operations and of maintenance agreements with various water systems.

The \$1.2 million decrease in this account is again the result of the Authority's stressing the importance of timely billing job orders.

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues outstanding with a remaining principal totaling \$21,000,000 as of December 31, 2006. OCWA's most recent bonds were issued in November of 2005. That issue, General Water System Revenue Bonds, 2005 Series A has a remaining principal balance of \$13,295,000 as of December 31, 2006. This amount reflects a principal payment of \$545,000 made in September 2006. The required principal payment on the bond in 2007 is \$470,000, one twelfth of which is set aside monthly. The 2005 bonds mature serially in varying annual amounts through 2025, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

The only other bond issue that the Authority has outstanding is its 2001 Series A, General Water System Revenue Bonds with a balance of \$7,705,000 as of December 31, 2006. This amount reflects the principal payment of \$695,000 made in September 2006. The required principal payment on the bond in 2007 is \$720,000, one twelfth of which is set aside monthly. The 2001 bonds mature serially in varying annual amounts through 2015, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Capital Assets at Year End (Net of Depreciation) – Continued**

Long-Term Debt Administration – Continued

Pursuant to a Trust Indenture, all revenues collected by the Authority are pledged to the payment of principal and interest on the bonds. All such revenues are deposited in the name of a trustee for allocation to funds set up in accordance with the Trust Indenture.

| <b>Series Bonds</b> | <b>Bonds Outstanding<br/>as of<br/>December 31, 2006</b> |
|---------------------|--|
| 2005 Series A Bonds | \$ 13,295,000  |
| 2001 Series A Bonds | <u>7,705,000</u>   |
| Total               | <u>\$ 21,000,000</u>                                     |

**OCWA Bond Rating**

OCWA’s most recent bond rating review was conducted during the fourth quarter of 2005 in preparation for its \$13,840,000 bond issue. At that time, Moody’s Investors Service assigned OCWA its Aa3 rating. Also, the 2005 Water Revenue Bond issue was assigned a rating of AAA based on an insurance policy provided by Ambac Assurance Corporation.

At the same time as it assigned the Aa3 rating for the Authority’s 2005 bonds, Moody’s also affirmed the Aa3 rating that it assigned to the Authority’s 2001 bonds back in the first quarter of 2001. With respect to that 2001 Water Revenue Bond issue, the issue was assigned a rating of AAA based on an insurance policy provided by Financial Security Assurance, Inc.

In accordance with the Trust Indenture, the Authority has established a bond reserve fund for its bond issues, and has maintained the required minimum balance for each. Income earned by the bond reserve funds is transferred routinely into the bond payment funds that are used to make the semi-annual bond payments. OCWA’s Trustee, M&T Bank holds the bond reserve funds and the bond payment funds. Interest on the bond reserves is specifically for the payment of bond principal and interest.

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**ONONDAGA COUNTY WATER AUTHORITY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Looking Forward**

Based on projected increased costs for purchased water, energy costs, vehicle fuel costs, projected additions to staff and the required debt service related to the 2005 bond issue, the OCWA Board opted to raise their rates for 2007 by 9.8% for residential, commercial and wholesale customers. Rates for industrial customers were increased 6.75% and fire protection accounts were raised by 4%.

The ongoing annual rate increases are in accordance with the Authority’s 2001 Bond Indenture, whereby OCWA’s Board is required to review rates on an annual basis and adjust them accordingly. Rate increases since 2001 and up to and including 2007 are listed below:

| <b>Year</b> | <b>Residential/<br/>Commercial</b> | <b>Wholesale</b> | <b>Industrial</b> | <b>Fire<br/>Protection</b> |
|-------------|------------------------------------|------------------|-------------------|----------------------------|
| 2007        | 9.8%                               | 9.8%             | 6.75%             | 4%                         |
| 2006        | 6%                                 | 6%               | 4%                | 4%                         |
| 2005        | 8%                                 | 8%               | 5%                | 5%                         |
| 2004        | 15%                                | 15%              | 3%                | 3%                         |
| 2003        | 2%                                 | 2%               | 2%                | 2%                         |
| 2002        | 2%                                 | 2%               | 2%                | 2%                         |

- A Metropolitan Water Board rate increase of 6.75% will be effective January 1, 2007. It should be noted that OCWA purchases 55% of its water from MWB and that MWB costs are roughly 37.2% of the Authority’s operating expense, before depreciation.
- OCWA’s employer contribution to the New York State Employees Retirement Fund for 2006 appears to be stabilizing, even decreasing after 3 years of very large increases. This is based upon projections the Authority has been provided by New York State.
- OCWA has budgeted its electric and natural gas prices to increase 7.5% in 2007, based on projected rates and the addition of new facilities.
- Proceeds from the 2005 Water Revenue Bond issue should be used by the end of 2007 as the related projects are completed.
- Coinciding with overall system growth, the Authority has budgeted for the addition of 3 employees over the course of 2007.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2006

**Looking Forward – Continued**

With respect to capital needs, the table is fairly well set for the coming year as the projects funded by the 2005 water revenue bonds are completed. However, the completion of the design of the water treatment plant enhancements will set the stage for the next round of ongoing improvements. Additionally, operations and engineering personnel will begin their process related to identifying components of the distribution system in need of replacement and or enhancements.

**Request for Information**

This report is presented as a broad overview of the financial condition of the Onondaga County Water Authority. Questions related to the report or the Authority in general should be sent to the Executive Director, Onondaga County Water Authority, PO Box 9, Syracuse, New York 13211-0009. Questions can also be directed to the Executive Director via the Authority's web site at [www.ocwa.org](http://www.ocwa.org).

**AUDITED FINANCIAL STATEMENTS**

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**STATEMENTS OF NET ASSETS**

December 31, 2006 and 2005

**ASSETS**

|  | <b>2006</b>           | <b>2005</b>           |
|--|-----------------------|-----------------------|
| <b>CURRENT ASSETS</b>  |                       |                       |
| Cash   | \$ 26,820             | \$ 178,456            |
| Accounts Receivable - Customers (Less Allowance<br>for Doubtful Accounts of \$60,000 in 2006 and 2005) | 4,507,018             | 4,344,529             |
| Accounts Receivable - Other  | 248,258               | 31,566                |
| Materials, Supplies and Prepaid Expenses   | <u>1,735,603</u>      | <u>1,852,262</u>      |
| Total Current Assets   | 6,517,699             | 6,406,813             |
| <br><b>RESTRICTED ASSETS</b>   |                       |                       |
| Customer Deposits  | 952,426               | 1,504,764             |
| General Authority Fund   | 1,739,732             | 1,647,522             |
| Bond Fund  | 798,068               | 711,047               |
| General Fund   | 1,333,381             | 2,405,171             |
| Renewal and Replacement Fund   | 1,004,297             | 424,586               |
| Bond Reserve Fund  | 2,143,573             | 2,141,364             |
| Construction Fund  | <u>7,537,610</u>      | <u>12,240,922</u>     |
| Total Restricted Assets  | 15,509,087            | 21,075,376            |
| <br><b>PLANT AND WATER RIGHTS, NET</b>   | 151,697,208           | 143,264,953           |
| <br><b>OTHER ASSETS</b>  |                       |                       |
| Unamortized Bond Issuance Costs  | <u>285,885</u>        | <u>306,798</u>        |
| <br><b>TOTAL ASSETS</b>  | <u>\$ 174,009,879</u> | <u>\$ 171,053,940</u> |

**LIABILITIES AND NET ASSETS**

|   | <b>2006</b>                  | <b>2005</b>                  |
|---|------------------------------|------------------------------|
| <b>CURRENT LIABILITIES</b>                        |                              |                              |
| Accounts Payable and Accrued Liabilities          | \$ 3,433,647                 | \$ 3,209,834                 |
| Capital Lease Obligations - Current Portion       | <u>138,600</u>               | <u>103,600</u>               |
| Total Current Liabilities                         | 3,572,247                    | 3,313,434                    |
| <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b> |                              |                              |
| Accounts Payable                                  | 385,823                      | 94,609                       |
| Customer Deposits                                 | 501,226                      | 1,491,631                    |
| Water Revenue Bonds, Portion Due Within One Year  | 1,190,000                    | 1,240,000                    |
| Accrued Interest on Water Revenue Bonds           | <u>273,634</u>               | <u>215,398</u>               |
| Total Liabilities Payable from Restricted Assets  | 2,350,683                    | 3,041,638                    |
| <b>LONG-TERM DEBT</b>                             |                              |                              |
| Water Revenue Bonds                               | 20,216,982                   | 21,431,382                   |
| Capital Lease Obligations, Net of Current Portion | <u>946,125</u>               | <u>783,725</u>               |
| Total Long-Term Debt                              | <u>21,163,107</u>            | <u>22,215,107</u>            |
| Total Liabilities                                 | 27,086,037                   | 28,570,179                   |
| <b>NET ASSETS</b>                                 |                              |                              |
| Invested in Capital Assets, Net of Related Debt   | 129,205,501                  | 119,706,246                  |
| Restricted Net Assets                             | 12,707,204                   | 18,021,605                   |
| Unrestricted Net Assets                           | <u>5,011,137</u>             | <u>4,755,910</u>             |
| Total Net Assets                                  | <u>146,923,842</u>           | <u>142,483,761</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>           | <u><u>\$ 174,009,879</u></u> | <u><u>\$ 171,053,940</u></u> |

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See notes to financial statements.

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**ONONDAGA COUNTY WATER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Years Ended December 31, 2006 and 2005

|  | <b>2006</b>           | <b>2005</b>           |
|--|-----------------------|-----------------------|
| <b>OPERATING REVENUE</b>                       |                       |                       |
| Charges for Services                           | \$ 23,441,235         | \$ 24,314,276         |
| Penalties                                      | 297,725               | 291,906               |
| Other  | <u>899,297</u>        | <u>751,690</u>        |
| Total Operating Revenue                        | 24,638,257            | 25,357,872            |
| <b>OPERATING EXPENSE</b>                       |                       |                       |
| Source of Supply                               | 7,639,024             | 7,857,829             |
| Transmission and Distribution                  | 10,425,504            | 8,013,938             |
| Collection                                     | 904,067               | 743,896               |
| Administration                                 | 1,551,931             | 2,886,042             |
| Depreciation and Amortization                  | <u>4,012,814</u>      | <u>3,873,767</u>      |
| Total Operating Expense                        | <u>24,533,340</u>     | <u>23,375,472</u>     |
| INCOME (LOSS) FROM OPERATIONS                  | 104,917               | 1,982,400             |
| <b>OTHER INCOME (EXPENSE)</b>                  |                       |                       |
| Interest from Investments Held by Trustee      | 705,698               | 192,211               |
| Other Interest Income                          | 47,872                | 24,144                |
| Gain (Loss) on Disposal of Fixed Assets        | (50,754)              | (18,753)              |
| Interest Expense                               | <u>(1,006,541)</u>    | <u>(548,487)</u>      |
| Net Other Expense                              | <u>(303,725)</u>      | <u>(350,885)</u>      |
| Net Income (Loss) Before Capital Contributions | (198,808)             | 1,631,515             |
| Capital Contributions                          | <u>4,638,889</u>      | <u>6,955,801</u>      |
| CHANGE IN NET ASSETS                           | 4,440,081             | 8,587,316             |
| <b>NET ASSETS</b>                              |                       |                       |
| Balance, Beginning of Year                     | <u>142,483,761</u>    | <u>133,896,445</u>    |
| Balance, End of Year                           | <u>\$ 146,923,842</u> | <u>\$ 142,483,761</u> |

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See notes to financial statements.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2006 and 2005

|   | <b>2006</b>          | <b>2005</b>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |                      |                      |
| Cash Received from Customers  | \$ 24,258,627        | \$ 24,864,296        |
| Cash Payments for Goods and Services                                    | (13,045,765)         | (15,452,597)         |
| Cash Payments to Employees  | <u>(6,733,636)</u>   | <u>(6,336,603)</u>   |
| Net Cash Provided By Operating Activities                               | 4,479,226            | 3,075,096            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                  |                      |                      |
| Customer Deposits Received  | 400,476              | 54,631               |
| Refunding of Customer Deposits  | <u>(151,035)</u>     | <u>(60,489)</u>      |
| Net Cash Provided By (Used In) Noncapital Financing Activities          | 249,441              | (5,858)              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>         |                      |                      |
| Proceeds from Sale of Capital Assets                                    | 62,733               | 43,354               |
| Cash Received from Contributed Capital                                  | 4,638,889            | 6,955,801            |
| Payments for Capital Acquisitions                                       | (13,551,643)         | (11,889,359)         |
| Proceeds from Bond Issue  | 0                    | 13,840,000           |
| Principal Payments  | (1,343,600)          | (766,600)            |
| Interest Paid   | <u>(1,006,541)</u>   | <u>(548,487)</u>     |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | (11,200,162)         | 7,634,709            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |                      |                      |
| Receipts of Interest  | <u>753,570</u>       | <u>216,355</u>       |
| Net Cash Provided By Investing Activities                               | <u>753,570</u>       | <u>216,355</u>       |
| Net Increase (Decrease) in Cash   | (5,717,925)          | 10,920,302           |
| Cash, Beginning of Year   | <u>21,253,832</u>    | <u>10,333,530</u>    |
| Cash, End of Year   | <u>\$ 15,535,907</u> | <u>\$ 21,253,832</u> |

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See notes to financial statements.

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**ONONDAGA COUNTY WATER AUTHORITY****STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2006 and 2005

|  | <b>2006</b>         | <b>2005</b>         |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                     |
| Income from Operations   | \$ 104,917          | \$ 1,982,400        |
| Adjustments to Reconcile Income from Operations<br>to Net Cash Provided By Operating Activities: |                     |                     |
| Depreciation   | 3,481,265           | 3,414,795           |
| Amortization   | 531,549             | 458,972             |
| Loss on Disposal of Fixed Assets   | 50,754              | 18,753              |
| (Increase) Decrease in Operating Assets:   |                     |                     |
| Accounts Receivable - Customer   | (162,489)           | (607,080)           |
| Accounts Receivable - Other  | (216,692)           | 113,746             |
| Materials, Supplies, and Prepaid Expenses  | 116,659             | (185,292)           |
| Increase (Decrease) in Operating Liabilities:  |                     |                     |
| Accounts Payable and Accrued Liabilities   | <u>573,263</u>      | <u>(2,121,198)</u>  |
| Net Cash Provided By Operating Activities  | <u>\$ 4,479,226</u> | <u>\$ 3,075,096</u> |

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See notes to financial statements.

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## ONONDAGA COUNTY WATER AUTHORITY

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

#### NOTE 1 – NATURE OF OPERATIONS

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Onondaga County Water Authority (the “Authority”) is a public benefit corporation created by New York State and engaged in construction, maintenance and operation of a water supply and distribution system for the benefit of the people of Onondaga County and surrounding municipalities.

#### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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##### **Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles 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. In accordance with the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected not to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989. The Authority has also adopted GASB Statement No. 29, The Use of Not-for-Profit Accounting and Financial Accounting Principles by Governmental Entities, and GASB Statement No. 34 Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments.

The Authority’s activities 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.

The more significant accounting policies of the Authority are described below.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Method of Accounting**

The Authority classifies net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ◇ Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
  
- ◇ Restricted Net Assets – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
  
- ◇ Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Cash, Cash Equivalents and Investments**

The deposit and investment of Authority monies is governed by provisions in its enabling legislation and by an Investment Policy adopted by the Authority on August 16, 2006.

Statutes authorize the Authority to invest in defeasance obligations, obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated F-1 by Fitch, A-1+ by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record, among other things. At the present time the investments are primarily in money market funds, commercial paper and obligations of the U.S. Treasury.

For purposes of the statements of cash flows, the Authority has adopted the direct method of reporting net cash flows from operating activities and considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Materials and Supplies**

Materials and supplies, consisting mainly of valves, pipe and hydrants are stated at the lower of cost or market, principally using the weighted average cost method.

**Plant and Water Rights**

The Authority leases and operates certain water districts which are capitalized and included in total plant and water rights and are being amortized over periods of 20 and 40 years, depending on the terms of the lease agreement. Lease transactions entered into prior to December 31, 1976 are recorded at the total of the future amount payable under the terms of the respective leases. Commencing January 1, 1977, the Authority adopted the policy of capitalizing long-term lease obligations at the present value of the future lease payments using the interest rates specified in the agreements. Interest expense is recognized on these leases in proportion to the outstanding balance of the principal accounts payable.

Depreciation has been recorded using the straight-line method of depreciation, with one-half year's depreciation taken in the year of acquisition and disposal. The Authority does not capitalize interest. The estimated useful lives for the major classes of depreciable fixed assets include the following:

| <b>Class</b>  | <b>Life in Years</b> |
|---|----------------------|
| Dams, Buildings and Other Structures                      | 37 - 100             |
| Pumping and Purification Equipment                        | 50                   |
| Mains, Meters, Services and Other Distribution Facilities | 10 - 100             |
| Filtration Plant  | 50                   |
| Automobiles, Trucks and Other Equipment                   | 5                    |
| Leased Equipment  | 5                    |
| Leased Water Districts                                    | 20 - 40              |
| Water Rights  | 52                   |

**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 analyzes accounts receivable on a monthly basis and adjusts the allowance for doubtful accounts as is necessary. Accounts receivable are written off against the allowance for doubtful accounts as they are deemed uncollectible.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Revenue Recognition**

Revenues are recorded as water service is supplied. Water supplied, but not billed, as of the calendar year end is estimated based upon historical usage and has been accounted for as earned but unbilled revenue.

**Bond Issuance Costs**

Certain costs incurred in issuing long-term borrowings have been deferred and are being amortized over the life of the bonds on a straight-line basis. Amortization amounted to \$21,679 and \$13,711 for the years ended December 31, 2006 and 2005, respectively.

**Bond Premium**

Amortization of bond premium is on the straight-line basis over the life of the bonds, and amounted to \$24,310 and \$8,260 for the years ended December 31, 2006 and 2005, respectively.

**Taxes**

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales taxes.

**Contributed Capital**

Contributed capital represents amounts, which have been received from customers for betterments or additions to water plants. The Authority accounts for such contributions as such in its statements of revenues, expenses and changes in net assets.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires 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. Accordingly, actual results could differ from those estimates.

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**ONONDAGA COUNTY WATER AUTHORITY**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 3 – ASSETS HELD BY TRUSTEE**

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Assets held in trust in accordance with the General Water System Revenue Bonds Trust Indentures dated March 14, 2001 and November 1, 2005, are stated at cost plus accrued income, which approximates fair market value at December 31, 2006 and 2005. Assets held by Trustee consist principally of cash and cash equivalents. At December 31, 2006 and 2005, the construction fund assets include \$604,038 and \$376,637, respectively, of funds not associated with the bonds. These are funds held on behalf of a local municipality for a capital project in progress that will ultimately be treated as capital contributions.

**NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

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The Authority's investments are categorized in accordance with criteria established by the GASB to give an indication of the level of risk assumed. Cash, cash equivalents and investments of the Authority at December 31 consist of the following:

|                                 | <b>Carrying<br/>Value</b> | <b>Bank<br/>Balance</b> |
|---------------------------------|---------------------------|-------------------------|
| Cash and Cash Equivalents:      |                           |                         |
| Cash on Hand                    | \$ 775                    | \$ 775                  |
| Bank Accounts                   | <u>1,101,315</u>          | <u>1,331,211</u>        |
| Total Cash and Cash Equivalents | <u>\$ 1,102,090</u>       | <u>\$ 1,331,986</u>     |
| Investments:                    |                           |                         |
| Money Market Funds              | \$ 6,976,562              |                         |
| U.S. Treasury Bills             | 771,643                   |                         |
| U.S. Government Agencies        | 1,383,785                 |                         |
| FNMA, due 1/25/07               | 896,524                   |                         |
| Commercial Paper                | <u>4,405,303</u>          |                         |
| Total Investments               | <u>\$ 14,433,817</u>      |                         |

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority's deposits are secured by \$225,555 from the Federal Depository Insurance Corporation plus \$1,166,508 of pledged collateral at December 31, 2006. For the Authority, all pledged collateral and all investments are classified in the highest category by being held in bank trust departments in the Authority's name.

**ONONDAGA COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 5 – PLANT AND WATER RIGHTS**

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2006 and 2005 is as follows:

|  | <b>Balance,<br/>December 31,<br/>2005</b> | <b>Additions</b>    | <b>Deductions</b> | <b>Balance,<br/>December 31,<br/>2006</b> |
|--|---|---------------------|-------------------|---|
| Land   | \$ 503,667                                | \$ 0                | \$ 0              | \$ 503,667                                |
| Dams, Buildings and Other Structures                     | 24,862,008                                | 81,994              |                   | 24,944,002                                |
| Pumping and Purification Equipment                       | 2,793,488                                 | 245                 | 0                 | 2,793,733                                 |
| Mains, Meter, Services and Other Distribution Facilities | 114,192,883                               | 4,831,023           | 362,140           | 118,661,766                               |
| Filtration Plan  | 11,495,780                                | 0                   | 0                 | 11,495,780                                |
| Automobiles, Trucks and Other Equipment                  | 13,639,201                                | 502,833             | 247,655           | 13,894,379                                |
| Leased Water Districts                                   | <u>16,520,273</u>                         | <u>6,447,369</u>    | <u>0</u>          | <u>22,967,642</u>                         |
|  | 184,007,300                               | 11,863,464          | 609,795           | 195,260,969                               |
| Construction-in-Progress                                 | 11,393,091                                | 665,339             | 0                 | 12,058,430                                |
| Water Rights   | <u>5,250,000</u>                          | <u>0</u>            | <u>0</u>          | <u>5,250,000</u>                          |
|  | 200,650,391                               | 12,528,803          | 609,795           | 212,569,399                               |
| Less: Accumulated Depreciation and Amortization          | <u>57,385,438</u>                         | <u>4,012,814</u>    | <u>526,061</u>    | <u>60,872,191</u>                         |
| Net Plant and Water Rights                               | <u>\$ 143,264,953</u>                     | <u>\$ 8,515,989</u> | <u>\$ 83,734</u>  | <u>\$ 151,697,208</u>                     |

Depreciation and amortization charged to expense at December 31, 2006 and 2005 was \$4,012,814 and \$3,873,767, respectively, which includes amortization of leased water districts amounting to \$534,180 and \$453,521 for 2006 and 2005, respectively.

**ONONDAGA COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 6 – LONG-TERM DEBT**

**Bonds Payable**

In March 2001 and November 2005, the Authority issued \$11,525,000 and \$13,840,000, respectively, in General Water System Revenue Bonds, 2001 and 2005 Series A pursuant to a Trust Indenture which pledges all revenues collected by the Authority to the payment of the principal and interest on the bonds. All such revenues are deposited in the name of the trustee for allocation to funds in accordance with the provisions of the Trust Indenture.

Bonds outstanding at December 31, 2006 and 2005 amounted to \$21,000,000 and \$22,240,000, respectively. The bonds mature serially in varying annual amounts through 2025, with interest ranging from 3.50% and 5.00% payable semi-annually. The 2001 bonds maturing on or after September 15, 2011 are redeemable, at the option of the Authority, prior to maturity in the inverse order of their maturity at a redemption price ranging from 100% and 101% of face value. The 2005 bonds maturing on or after September 15, 2016 are redeemable, at the option of the Authority, prior to maturity in the inverse order of their maturity at par, plus accrued interest thereon to the redemption date. Debt service over the remaining term of the bonds is summarized as follows:

|                                | <b>Principal<br/>Payments<br/>on Bonds</b> | <b>Interest<br/>Payable</b> | <b>Total Debt<br/>Service on<br/>Bonds</b> |
|--------------------------------|--|-----------------------------|--|
| 2007                           | \$ 1,190,000                               | \$ 938,173                  | \$ 2,128,173                               |
| 2008                           | 1,235,000                                  | 892,923                     | 2,127,923                                  |
| 2009                           | 1,285,000                                  | 845,948                     | 2,130,948                                  |
| 2010                           | 1,335,000                                  | 796,293                     | 2,131,293                                  |
| 2011                           | 1,390,000                                  | 743,863                     | 2,133,863                                  |
| 2012 – 2016                    | 6,845,000                                  | 2,747,663                   | 9,592,663                                  |
| 2017 – 2021                    | 3,870,000                                  | 1,456,844                   | 5,326,844                                  |
| 2022 – 2025                    | <u>3,850,000</u>                           | <u>414,106</u>              | <u>4,264,106</u>                           |
|                                | 21,000,000                                 | <u>\$ 8,835,813</u>         | <u>\$ 29,835,813</u>                       |
| Less: Current Portion          | 1,190,000                                  |                             |  |
| Add: Premium on Long-Term Debt | <u>406,982</u>                             |                             |  |
| Total                          | <u>\$ 20,216,982</u>                       |                             |  |

Changes in long-term liabilities are as follows:

|               | <b>Balance at<br/>December 31,<br/>2005</b> | <b>Additions</b> | <b>Reductions</b>   | <b>Balance at<br/>December 31,<br/>2006</b> |
|---------------|---|------------------|---------------------|---|
| Revenue Bonds | <u>\$ 22,240,000</u>                        | <u>\$ 0</u>      | <u>\$ 1,240,000</u> | <u>\$ 21,000,000</u>                        |

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**ONONDAGA COUNTY WATER AUTHORITY**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 6 – LONG-TERM DEBT – Continued**

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**Capital Leases**

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2006, amounts remaining to be paid under long-term lease obligations are as follows:

|                        |                   |
|------------------------|-------------------|
| 2007                   | \$ 193,564        |
| 2008                   | 192,964           |
| 2009                   | 182,396           |
| 2010                   | 138,185           |
| 2011                   | 135,768           |
| Thereafter             | <u>432,167</u>    |
|                        | 1,275,044         |
| Less: Current Portion  | 138,600           |
| Less: Imputed Interest | <u>190,319</u>    |
| Total                  | <u>\$ 946,125</u> |

**NOTE 7 – BENEFIT PLANS**

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**Pension**

Plan Description

The Authority participates in the New York State and Local Employees' Retirement System (ERS) "Plan". This is a cost sharing multiple employer defined benefit retirement plan overseen by the Comptroller of the State of New York. The Plan offers a wide range of benefits that are related to years of service and final average salary, vesting of retirement benefits, death, and disability. 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 sole trustee and administrative head of the Systems. The Comptroller shall adopt and amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Alfred E. Smith State Office Building, Albany, New York 12244.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 7 – BENEFIT PLANS – Continued**

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**Pension – Continued**

Funding Policies

The ERS is noncontributory except for employees who joined the System after July 27, 1976, and have less than 10 years of eligible service and contribute 3% of their salary. Under the authority of the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of members' payroll, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Effective October 1, 2000, all employees who joined the ERS after July 27, 1976 who have either ten or more years of membership, or who have ten years credited service are no longer required to contribute 3% of their salary.

The Authority is required to contribute at an actuarially determined rate. The required and actual contributions for the current year and two preceding years are as follows:

|      | <b>Annual<br/>Contributions</b> |
|------|---------------------------------|
| 2004 | \$ <u>464,706</u>               |
| 2005 | \$ <u>701,191</u>               |
| 2006 | \$ <u>682,924</u>               |

The Authority's contributions made to the System were equal to 100% of the contributions required for each year.

**Post-Employment Benefits**

In addition to the retirement benefits described above, the Authority provides post-employment health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contract negotiated between the Authority and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. Currently, approximately 52 (52 in 2005) retirees meet those eligibility requirements. The cost of retiree health care benefits is recognized as an expense as costs are incurred and amounted to \$334,064 and \$321,012 in 2006 and 2005, respectively.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE 7 – BENEFIT PLANS – Continued**

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**Deferred Compensation Plan**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The Authority has no fiduciary relationship with the trust. In accordance with the provisions of the Statement of Governmental Accounting Standards No. 32, “Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,” the plan assets are not reported in the Authority’s financial statements.