

O **NONDAGA COUNTY WATER
AUTHORITY**

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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ONONDAGA COUNTY WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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, 2007 and 2006, 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, 2007 and 2006, 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 26, 2008

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2007, 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 2007 financial report, which follows this report.

Financial Highlights

OCWA's 2007 total revenues increased by \$3,284,751 (12.96%) compared to the total for 2006. Upon seeing decreasing revenues related to declining water sales for 2006 the Authority took steps to enhance income through rate increases for all customer classes. Rates for residential, commercial and wholesale customers were increased 9.8%. Rates for industrial customers were increased by 6.75% and public and private fire protection rates were increased 4%. Revenues were also favorably enhanced via increased water sales of 1.23 (3.7%) million gallons per day for 2007. Overall, residential water use increased 6.6%, commercial use rose 7.5%, and wholesale purchases edged up 2.7%. Offsetting the favorable news, industrial sales fell 1.2% for the year.

The weather for the year did not impact sales as much as in recent years past, however average consumption for the Authority's 82,000 plus residential service connections continues to remain well below the average for the 1990's. The growing use of water saving fixtures and water efficient appliances in new and remodeled homes coupled with the replacement of older appliances and fixtures account for some of the decrease. Another factor ties to declining household size. In spite of the increasing number of residential accounts, the local population totals have remained relatively flat over the past decade. We are seeing more one and two person households where the children have grown and moved on and in some instances those children are now establishing their own homes with one or two residents.

On the expense side of the operation, total expenses for 2007 increased by \$1.45 million (5.67%) over 2006. Two items account for the lion's share of the increase of expenses. First and foremost, purchased water expense increased \$982,691 (representing 67.8% of the overall increase). Contractual wage and benefit increases, together with staff additions, added \$359,284 (24.78 % of the overall increase) for 2007. For the year, depreciation expense increased by \$95,385 (2.74% of increased expenses). Other expense items remained relatively flat for the year, totaling \$107,498 (4.68%) of the overall increase in expenses for 2007. It should be noted that the October 2007 transmission main break in Solvay added a single, unanticipated expense of \$111,224 for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Financial Highlights – Continued

With respect to the Authority's indebtedness, OCWA did not add any new debt in 2007. It should be noted, however that the Authority was winding down projects funded by the \$13,840,000 in water revenue bonds issued in November of 2005. The proceeds from the 2005 bond issue were 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.

The Van Buren 1MG elevated tank, the Canastota 1.5MG ground storage tank and the Hastings 1MG elevated tank were nearly complete in 2007. Improvements to the Oswego Distribution Maintenance Facility were completed in 2007. In addition to the aforementioned projects, the Authority installed 91,343 feet of main, including the replacement of 27,806 feet of main. 164,178 feet of main were added via water system lease agreements. Also during the course of the year OCWA also replaced 84 hydrants.

With respect to overall growth of the system, OCWA's 2007 customer base reached a peak of 87,833 billed accounts for an increase of 694 accounts. Customers were added as a result of the 61 developer main extensions completed in 2007 along with the 47 developer extensions completed in 2006. Overall, OCWA increased total water main in service by 227,515 feet (43.09 miles) in 2007, bringing the total main in service up to 1,744.74 miles. The Authority also added 381 hydrants through new installations and leased system acquisitions.

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.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Summary of Statements of Net Assets

TABLE 1

	2006	2007
ASSETS		
Cash	\$ 26,820	\$ 147,241
Accounts Receivable	4,755,276	4,920,982
Materials, Supplies and Prepaid Expenses	1,735,603	1,585,111
Restricted Assets	15,509,087	11,163,689
Unamortized Bond Issuance Costs	285,885	264,206
Plant and Water Rights, Net	<u>151,697,208</u>	<u>158,899,877</u>
TOTAL ASSETS	<u>\$ 174,009,879</u>	<u>\$ 176,981,106</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 3,433,647	\$ 2,887,414
Liabilities Payable from Restricted Assets	1,160,683	1,149,641
Water Revenue Bonds	21,406,982	20,192,672
Capital Lease Obligations	<u>1,084,725</u>	<u>946,125</u>
Total Liabilities	27,086,037	25,175,852
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	129,205,501	137,761,080
Restricted Net Assets	12,707,204	8,347,720
Unrestricted Net Assets	<u>5,011,137</u>	<u>5,696,454</u>
Total Net Assets	<u>146,923,842</u>	<u>151,805,254</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 174,009,879</u>	<u>\$ 176,981,106</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Summary of Statements of Net Assets – Continued

Total assets increased approximately \$2.97 million in 2007 as a result of the following items:

- The increase in cash of \$120,420 is due to the higher balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$165,706 or 3.5%. There are two components that make up most of this increase. The first is accounts receivable for water billing. The total of Accounts Receivable – Water and Accrued Utility Revenue increased by \$396,533 or 8.7% over the year-end 2006 balance. The 8.7% increase corresponds roughly to the rate increases ranging from 4% for fire protection to 9.8% for residential, commercial and municipal customers. The other factor was Miscellaneous Accounts Receivable. This account decreased by \$197,913 in 2007. The Authority had placed a special emphasis on becoming up to date on the billing of job orders in 2006. That caused Misc. A/R to be very high (\$211,234) at the end of that year. With the billing of job orders caught up, Misc. A/R returned to a more normal amount (\$13,321).
- Restricted assets decreased by \$4.35 million (28%) in 2007. This decrease is related to the use of the funds from the \$13,840,000 revenue bond issue.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2007. 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 \$1.9 million in 2007 as a result of the following items:

- Accounts Payable and Accrued Liabilities decreased by \$546,233 or (15.9%) during 2007. The largest factor in this decrease was that the Authority's payment to the New York State and Local Employees' Retirement System was made in December of 2007. That payment reduced year-end 2007 accrued liabilities by \$652,632. As of December 31, 2006, the Authority had an accrued liability for the New York State Retirement System of \$676,638.
- The Water Revenue Bond balance decreased due to principal payments totaling \$1,190,000 that were made during 2007. Principal payments of \$720,000 and \$470,000 were made on the 2001 Revenue Bonds and 2005 Revenue Bonds, respectively.
- Capital lease obligations decreased by \$138,600 due to principal payments made on various leases.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Review of Revenues

TABLE 2

	2006	2007
Residential/Commercial Sales	\$ 15,454,365	\$ 18,297,774
Industrial Sales	3,691,412	3,991,304
Municipal (Water Utility) Sales	3,342,122	3,661,347
Fire Protection	953,336	967,517
Miscellaneous Revenue	1,197,022	1,108,189
Interest from Investments Held in Trust	705,698	556,859
Other Interest Income	47,872	52,752
Gain (Loss) on Disposal of Fixed Assets	<u>(50,754)</u>	<u>(9,918)</u>
TOTAL REVENUES	<u>\$ 25,341,073</u>	<u>\$ 28,625,824</u>

OCWA implemented rate increases for all customer classes effective January 1, 2007. Residential, commercial and municipal wholesale customer rates were raised 9.8%, industrial customers 6.75% and fire protection also 4%. The increases, which were determined in late 2006, were based on the projected requirements for 2007 and took into account changes that were expected to have an effect on 2007 operations.

Overall total water revenues for 2007 increased by \$3,476,707 (14.8%) from the previous year. For 2007, residential and commercial sales alone, increased by \$2,843,409 (18.4%) as compared to 2006 figures. Residential and commercial usage increased 6.6% and 7.5%, respectively, in 2007. The increase in consumption in addition to the rate increase account for the increase in revenue. Industrial revenues increased by \$299,892 (8.1%) due primarily to the 6.75% rate increase. On the municipal side, revenues increased by \$319,225 (9.6%) for fiscal year 2007 as compared to 2006. The increase in sales was due to the net effects of the rate increase and 2.7% increase in usage. Fire protection revenues increased by \$14,181 (1.5%).

Interest from investments held in trust and other interest income decreased by a total of \$148,839 (21.1%). This decrease reflects the fact that fewer funds were available to invest because of the usage of proceeds of the \$13,840,000 2005 Revenue Bonds as well as lower yields on investments.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Review of Expenses

TABLE 3

	2006	2007
Operations	\$ 6,875,271	\$ 7,196,993
Purchased Water	7,639,024	8,621,715
General and Administrative	2,373,671	2,380,081
Less: Burden Applied	(821,740)	(873,152)
Depreciation	3,481,265	3,576,650
Bond Amortization	(2,631)	(2,631)
Water District Lease Amortization	534,180	615,646
Maintenance	4,454,300	4,493,994
Other Expense	<u>1,006,541</u>	<u>980,062</u>
TOTAL EXPENSES	<u>\$ 25,539,881</u>	<u>\$ 26,989,358</u>

Total expenses for 2007 were up by approximately \$1.4 million (5.7%) compared to fiscal year 2006. Much of the overall variance can be attributed to several significant items such as labor, purchased water, depreciation and water district lease amortization. Most of these items, as well as others, are discussed below.

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

Labor expenses in operations, maintenance and general and administrative accounts increased by \$359,284 (6.1%) during 2007. This increase was caused by the factors outlined below.

Both the Teamsters and CSEA contracts included wage increases effective January 1, 2007. 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 3.5%.

The Authority added two positions in 2007. An additional Underground Facility Locator was placed in one of the Authority's Distribution Maintenance Departments and the Meter Repair Department had a Water Meter Repair Worker I added to its ranks. Also, the Authority's Executive Engineer, who was hired in June 2006, was in place for all of 2007. This added one half year of that position's wages to 2007 as compared to 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Notable Operation Expense Changes (Other Than Labor)

Operating Expenses less Depreciation and Amortization increased by \$1,299,101 in 2007 over 2006 figures. The total of the increases in just two areas, labor and purchased water, equals more than the overall increase mentioned above. As noted earlier, labor increased by \$359,284. Purchased Water increased by \$982,691. Those two items combine for a total increase of \$1,341,975. The net effect of all other operating expenses excluding depreciation and amortization is a decrease of \$42,874 in 2007 as compared to 2006. The individual impact of those operating expenses will be examined in the following paragraphs.

OCWA incurred a \$43,470 (5.5%) increase to its electric and natural gas charges for 2007 over 2006 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 \$176,260 (11%) as compared to 2006 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. Partially offsetting the increase to group health insurance was a decrease in commercial insurance costs by \$110,411 (14.5%) over 2006.

For pensions, OCWA's employees are covered under the New York State and Local Employees' Retirement System. OCWA's expense for contributions made to the system was \$676,638, a decrease of approximately \$24,000 (3.5%) over the 2006 amount. This is the second consecutive year in which there has been a decrease in contributions. Additionally, the New York State and Local Employees' Retirement System has advised the Authority that they have projected OCWA's retirement system contribution to be \$604,031 for 2008, a decrease of another 7.4%

There was an increase of \$76,415 in paving costs in 2007 over the previous year. Part of the increase is related to oil prices and part to the quantity of work performed. Also, expenses for supplies decreased by \$57,584 (7.7%) in 2007 as compared to 2006.

Three other areas of expense saw only small change between years. Chemical costs decreased by \$7,916 (2.7%), professional services increased by \$2,890 (1.6%) and transportation costs increased by \$6,705 (1.1%).

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Notable Operation Expense Changes (Other Than Labor) – Continued

Purchased Water

Purchased water cost was up by \$982,691 (12.9%) for 2007. One of the reasons for the increase was the Metropolitan Water Board (MWB) rate increase of 6.75% that was effective January 1, 2007. Another factor that helps account for the increase is that the Authority purchased 745,349,000 more gallons in 2007 as compared to 2006. That is a 9.6% increase.

Water District Lease Amortization

There was an increase of \$81,466 in water district lease amortization. This occurred because the Fuller Road Water District in the Town of Hastings which was completed in 2006 and cost more than \$6,000,000 had a full year of amortization in 2007, but only one-half year in 2006.

Summary of Overall 2007 Operations

In 2007, OCWA experienced a net income before capital contributions of \$1,636,466, an increase of \$1,835,274 from the "net loss" of \$198,808 for the fiscal year ended December 31, 2006. This increase was caused by the net effect of several factors. Among them are: higher consumption, higher water rates, higher labor costs and higher purchased water expense due to increased consumption.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

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 to 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 engineers' 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, 2007

System Growth

Areas of growth included the following:

- Installation of 61 developer main extensions, totaling 48,427 feet of main.
- The McConnellsville water system in the Town of Vienna was completed and OCWA assumed operation of the water system.
- The Volney Airport Water District was completed adding approximately 300 new connections, 53,000 feet of main, a new pump station and a new tank.
- The former external customers of the Village of East Syracuse, located in the Town of Lafayette were being added in late December of 2007 as the installation of new mains and service wrapped up.

Areas of growth, 2008 and beyond:

- The Southern Onondaga main extension will begin in the Spring of 2008. Bids have been awarded for the water main and a new tank. The new pump station is being re-bid. Once completed OCWA will have its first customers in the Towns of Otisco and Spafford, including the customers of Spafford's Mountain Glen system.
- The Limeledge system project stalled in 2007 but now appears to be making progress and once completed will serve customers in the Towns of Marcellus and Skaneateles. Skaneateles will be a new addition to the number of Towns served by the Authority.
- The Towns of West Monroe and Constantia have worked out an agreement for the extension of main and installation of a new storage tank to serve the north shore of Oneida Lake. State funding for the project has been secured and the project is now in the design phase. It is possible construction could begin in late 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

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

Increase to Water Plant in Service Highlights – Continued

- Completed improvements to the distribution maintenance facility in Oswego.
- Completed the SCADA software and hardware upgrade project.
- Replaced various vehicles in OCWA's fleet as part of the Authority's ongoing asset management program.
- Equipment purchases include: large copier and scanner for the Authority's Engineering Department, meter reading equipment, and a hydraulic hoe ram pavement breaker.
- Purchased and placed a 60 KW mobile generator in service
- Installed three small generators for enhance SCADA communications during emergencies. The generators were placed a radio repeater sites in Liverpool, Sylvan Beach and Marcellus.

Construction / Work-In-Progress Highlights

- The new Van Buren 1MG elevated tank was near completion. When completed in 2008 it will replace the Lakeland standpipe and the Geddes spheroid tank.
- The 1.5 MG Canastota Tank replacement project was near completion by the end of 2007.
- The generators for the Howlett Hill and Warners pump stations were nearing completion.
- The 1 MG elevated tank in Hastings was near completion and will replace the Central Square tank.
- The design of the improvement to the Marcellus Water Treatment Plant was nearing completion late in 2007.
- Various system betterments and main extensions still in progress at year-end.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

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

Water District Lease

- The McConnellsville water system in the Town of Vienna was completed and OCWA assumed operation of the water system including a new pump station and a new elevated tank
- The Fuller Road Water District in the Town of Hastings was fully completed in 2007.

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.

- Construction of the Town of Granby water district was nearing completion at the end of 2007.

Jobbing in Progress

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 large 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.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues outstanding with a remaining principal totaling \$19,810,000 as of December 31, 2007. 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 \$12,825,000 as of December 31, 2007. This amount reflects a principal payment of \$470,000 made in September 2007. The required principal payment on the bond in 2008 is \$485,000, 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 \$6,985,000 as of December 31, 2007. This amount reflects the principal payment of \$720,000 made in September 2007. The required principal payment on the bond in 2008 is \$750,000, 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.

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.

Series Bonds	Bonds Outstanding as of December 31, 2007
2005 Series A Bonds	\$ 12,825,000
2001 Series A Bonds	<u>6,985,000</u>
Total	<u>\$ 19,810,000</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.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Long-Term Debt Administration – Continued

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.

Looking Forward

Based on projected increased costs for purchased water, energy costs, vehicle fuel costs, projected additions to staff and taking into account the continued decrease in average water sales, the OCWA Board opted to raise their rates for 2008 by 7.7% for residential, commercial and wholesale customers. Rates for industrial customers were increased 6.7% and fire protection accounts were raised by 3.25%.

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 2008 are listed below:

Year	Residential/ Commercial	Wholesale	Industrial	Fire Protection
2008	7.7%	7.7%	6.7%	3.25%
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%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

Looking Forward – Continued

- For 2008 the Metropolitan Water Board did not increase rates. It should be pointed out, however, MWB is required to replace its open reservoirs with covered storage tanks and it is estimated the project will cost \$60 million. It should also be pointed out that OCWA purchases 58% of its water from MWB and that MWB costs are roughly 35.4% of the Authority's operating expense, before depreciation and amortization.
- OCWA's employer contribution to the New York State Employees Retirement Fund for 2007 decreased slightly from 2006. Also, costs are expected to drop again for 2008. This is based upon projections the Authority has been provided by New York State.
- OCWA's 2008 budget includes a 9% increase for electric and a 6% increase for natural gas. The 2008 budget is based on projected rate hikes coupled with the addition of new pump stations and storage tanks.
- Proceeds from the 2005 Water Revenue Bond should be exhausted by the middle of 2008, once all projects have been completed

Coinciding with overall system growth, the Authority has budgeted for the addition of 5 employees over the course of 2008, bringing the Authority total to 130.

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.

AUDITED FINANCIAL STATEMENTS**STATEMENTS OF NET ASSETS**

December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 147,241	\$ 26,820
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$60,000 in 2007 and 2006)	4,903,550	4,507,018
Accounts Receivable - Other	17,432	248,258
Materials, Supplies and Prepaid Expenses	<u>1,585,111</u>	<u>1,735,603</u>
Total Current Assets	6,653,334	6,517,699
 RESTRICTED ASSETS		
Customer Deposits	992,894	952,426
General Authority Fund	2,028,979	1,739,732
Bond Fund	797,971	798,068
General Fund	3,214,257	1,333,381
Renewal and Replacement Fund	455,905	1,004,297
Bond Reserve Fund	2,141,970	2,143,573
Construction Fund	<u>1,531,713</u>	<u>7,537,610</u>
Total Restricted Assets	11,163,689	15,509,087
 PLANT AND WATER RIGHTS, NET	158,899,877	151,697,208
 OTHER ASSETS		
Unamortized Bond Issuance Costs	<u>264,206</u>	<u>285,885</u>
 TOTAL ASSETS	<u><u>\$ 176,981,106</u></u>	<u><u>\$ 174,009,879</u></u>

LIABILITIES AND NET ASSETS

	2007	2006
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,887,414	\$ 3,433,647
Capital Lease Obligations - Current Portion	<u>145,875</u>	<u>138,600</u>
Total Current Liabilities	3,033,289	3,572,247
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	327,637	385,823
Customer Deposits	561,566	501,226
Water Revenue Bonds, Portion Due Within One Year	1,235,000	1,190,000
Accrued Interest on Water Revenue Bonds	<u>260,438</u>	<u>273,634</u>
Total Liabilities Payable from Restricted Assets	2,384,641	2,350,683
LONG-TERM DEBT		
Water Revenue Bonds	18,957,672	20,216,982
Capital Lease Obligations, Net of Current Portion	<u>800,250</u>	<u>946,125</u>
Total Long-Term Debt	<u>19,757,922</u>	<u>21,163,107</u>
Total Liabilities	25,175,852	27,086,037
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,761,080	129,205,501
Restricted Net Assets	8,347,720	12,707,204
Unrestricted Net Assets	<u>5,696,454</u>	<u>5,011,137</u>
Total Net Assets	<u>151,805,254</u>	<u>146,923,842</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 176,981,106</u>	<u>\$ 174,009,879</u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUE		
Charges for Services	\$ 26,917,942	\$ 23,441,235
Penalties	358,754	297,725
Other	<u>749,435</u>	<u>899,297</u>
Total Operating Revenue	28,026,131	24,638,257
OPERATING EXPENSE		
Source of Supply	8,621,715	7,639,024
Transmission and Distribution	10,720,159	10,425,504
Collection	970,828	904,067
Administration	1,506,929	1,551,931
Depreciation and Amortization	<u>4,189,665</u>	<u>4,012,814</u>
Total Operating Expense	26,009,296	24,533,340
INCOME (LOSS) FROM OPERATIONS	2,016,835	104,917
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	556,859	705,698
Other Interest Income	52,752	47,872
Gain (Loss) on Disposal of Fixed Assets	(9,918)	(50,754)
Interest Expense	<u>(980,062)</u>	<u>(1,006,541)</u>
Net Other Expense	<u>(380,369)</u>	<u>(303,725)</u>
Net Income (Loss) Before Capital Contributions	1,636,466	(198,808)
Capital Contributions	<u>3,244,946</u>	<u>4,638,889</u>
CHANGE IN NET ASSETS	4,881,412	4,440,081
NET ASSETS		
Balance, Beginning of Year	<u>146,923,842</u>	<u>142,483,761</u>
Balance, End of Year	<u>\$ 151,805,254</u>	<u>\$ 146,923,842</u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 27,843,536	\$ 24,258,627
Cash Payments for Goods and Services	(15,331,057)	(13,045,765)
Cash Payments to Employees	<u>(6,928,890)</u>	<u>(6,733,636)</u>
Net Cash Provided By Operating Activities	5,583,589	4,479,226
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	728,451	400,476
Refunding of Customer Deposits	<u>(668,361)</u>	<u>(151,035)</u>
Net Cash Provided By Noncapital Financing Activities	60,090	249,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	47,128	62,733
Cash Received from Contributed Capital	3,244,946	4,638,889
Payments for Capital Acquisitions	(11,452,011)	(13,551,643)
Principal Payments	(1,328,600)	(1,343,600)
Interest Paid	<u>(989,730)</u>	<u>(1,006,541)</u>
Net Cash Used In Capital and Related Financing Activities	(10,478,267)	(11,200,162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	<u>609,611</u>	<u>753,570</u>
Net Cash Provided By Investing Activities	<u>609,611</u>	<u>753,570</u>
Net Decrease in Cash	(4,224,977)	(5,717,925)
Cash, Beginning of Year	<u>15,535,907</u>	<u>21,253,832</u>
Cash, End of Year	<u>\$ 11,310,930</u>	<u>\$ 15,535,907</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 2,016,835	\$ 104,917
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	3,576,650	3,481,265
Amortization	613,015	531,549
Loss on Disposal of Fixed Assets	9,918	50,754
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(396,532)	(162,489)
Accounts Receivable - Other	230,826	(216,692)
Materials, Supplies, and Prepaid Expenses	150,492	116,659
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	<u>(617,615)</u>	<u>573,263</u>
Net Cash Provided By Operating Activities	<u>\$ 5,583,589</u>	<u>\$ 4,479,226</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 – NATURE OF OPERATIONS

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

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, 2007 and 2006

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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:

Class	Life in Years
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, 2007 and 2006

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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 for both years ended December 31, 2007 and 2006.

Bond Premium

Amortization of bond premium is on the straight-line basis over the life of the bonds, and amounted to \$24,310 for both years ended December 31, 2007 and 2006.

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.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 3 – ASSETS HELD BY TRUSTEE

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, 2007 and 2006. Assets held by Trustee consist principally of cash and cash equivalents. At December 31, 2007 and 2006, the construction fund assets include \$-0- and \$604,038, 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

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:

	Carrying Value	Bank Balance
Cash and Cash Equivalents:		
Cash on Hand	\$ 775	\$ 775
Bank Accounts	<u>1,294,027</u>	<u>1,452,834</u>
Total Cash and Cash Equivalents	<u>\$ 1,294,802</u>	<u>\$ 1,453,609</u>
Investments:		
Money Market Funds	\$ 9,122,084	
U.S. Treasury Bills	<u>834,901</u>	
Total Investments	<u>\$ 9,956,985</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 \$1,246,235 of pledged collateral at December 31, 2007. 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, 2007 and 2006

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2007 and 2006 is as follows:

	Balance, December 31, 2006	Additions	Deductions	Balance, December 31, 2007
Land	\$ 503,667	\$ 0	\$ 0	\$ 503,667
Dams, Buildings and Other Structures	24,944,002	920,110	0	25,864,112
Pumping and Purification Equipment	2,793,733	0	0	2,793,733
Mains, Meter, Services and Other Distribution Facilities	118,661,766	8,398,617	379,903	126,680,480
Filtration Plan	11,495,780	0	0	11,495,780
Automobiles, Trucks and Other Equipment	13,894,379	745,715	1,884,942	12,755,152
Leased Water Districts	<u>22,967,642</u>	<u>100,473</u>	<u>0</u>	<u>23,068,115</u>
	195,260,969	10,164,915	2,264,845	203,161,039
Construction-in-Progress	12,058,430	1,287,096	0	13,345,526
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
	212,569,399	11,452,011	2,264,845	221,756,565
Less: Accumulated Depreciation and Amortization	<u>60,872,191</u>	<u>4,192,296</u>	<u>2,207,799</u>	<u>62,856,688</u>
Net Plant and Water Rights	<u>\$ 151,697,208</u>	<u>\$ 7,259,715</u>	<u>\$ 57,046</u>	<u>\$ 158,899,877</u>

Depreciation and amortization charged to expense at December 31, 2007 and 2006 was \$4,189,665 and \$4,012,814, respectively, which includes amortization of leased water districts amounting to \$615,646 and \$534,180 for 2007 and 2006, respectively.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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, 2007 and 2006 amounted to \$19,810,000 and \$21,000,000, 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:

	Principal Payments on Bonds	Interest Payable	Total Debt Service on Bonds
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	1,445,000	687,063	2,132,063
2013 – 2017	6,100,000	2,425,619	8,525,619
2018 – 2022	4,065,000	1,263,644	5,328,644
2023 – 2025	<u>2,955,000</u>	<u>242,588</u>	<u>3,197,588</u>
	19,810,000	<u>\$ 7,897,941</u>	<u>\$ 27,707,941</u>
Less: Current Portion	1,235,000		
Add: Premium on Long-Term Debt	<u>382,672</u>		
Total	<u>\$ 18,957,672</u>		

Changes in long-term liabilities are as follows:

	Balance at December 31, 2006	Additions	Reductions	Balance at December 31, 2007
Revenue Bonds	<u>\$ 21,000,000</u>	<u>\$ 0</u>	<u>\$ 1,190,000</u>	<u>\$ 19,810,000</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 6 – LONG-TERM DEBT – Continued

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2007, amounts remaining to be paid under long-term lease obligations are as follows:

2008	\$ 192,964
2009	182,396
2010	138,185
2011	135,768
2012	107,913
Thereafter	<u>324,254</u>
	1,081,480
Less: Current Portion	145,875
Less: Imputed Interest	<u>135,355</u>
Total	<u>\$ 800,250</u>

NOTE 7 – BENEFIT PLANS

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, 2007 and 2006

NOTE 7 – BENEFIT PLANS – Continued

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:

	Annual Contributions
2005	<u>\$ 701,191</u>
2006	<u>\$ 682,924</u>
2007	<u>\$ 652,632</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 55 (52 in 2006) retirees meet those eligibility requirements. The cost of retiree health care benefits is recognized as an expense as costs are incurred and amounted to \$376,829 and \$334,064 in 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 7 – BENEFIT PLANS – Continued

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.

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH SECTION
2925(3)(F) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW**

**BOARD OF DIRECTORS
ONONDAGA COUNTY WATER AUTHORITY**

We have examined Onondaga County water Authority's (the Authority) compliance with Section 2925(3)(f) of the New York State Public Authorities Law during the year ended December 31, 2007. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2007.

This report is intended solely for the information and use of management, the Board of Directors, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these parties.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 26, 2008