

O **NONDAGA COUNTY WATER
AUTHORITY**

FINANCIAL STATEMENTS
December 31, 2008 and 2007

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ONONDAGA COUNTY WATER AUTHORITY

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Dermody, Burke & Brown, CPAs, LLC

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, 2008 and 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, 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.

As discussed in Note 8, during 2008 the Authority adopted the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 3 to 18 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.

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DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 9, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2008, 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 2008 financial report, which follows this report.

Financial Highlights

OCWA's 2008 total revenues increased by \$611,049 (2.13%) compared to the total for 2007. Upon recognizing the impact that climate change is having on traditional summer sales the Authority's board of directors took steps in 2006 and 2007 to increase rates with the intent of minimizing the impact of wet summer weather on overall revenues. While water sales rebounded slightly in 2007, due to higher summer demand than recent summers past, overall sales per customer still remained below the average use of the 1990s. For 2008, wet weather was prevalent throughout the summer and as a result there was no discernable difference between winter quarter and summer quarter use for residential and commercial customers. However, unlike 2006 when summer sales remained equally flat and total sales declined from the previous year, revenues for 2008 increased slightly over total revenues for 2007, in spite of the decreased demand. Fiscal year 2008 rates for residential, commercial and wholesale customers were increased 7.7%. Rates for industrial customers were increased by 6.7% and public and private fire protection rates were increased 3.25%. While revenues did rise slightly for 2008, total water sales declined 1.426 (4.1%) million gallons per day compared to 2007. Overall, residential water use dropped 3.5%, commercial use was down 5.9%, wholesale purchases was off 1.7% and industrial sales fell 6.2% for the year. Improved efficiency and water conservation efforts by OCWA's largest customer, Anheuser Busch, single handedly accounted for 70% of the decreased industrial use.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Financial Highlights – Continued

While the weather continues to be the central theme for the year-to-year fluctuations in revenues, it is not the only source of declining demand. In recent years average consumption for the Authority's 83,751 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 play a major role in declining demand, just as declining household size also factors into the equation. While we are still seeing an increase in the number of residential accounts, local population totals continue to remain relatively flat in keeping with the trend over the past decade. The region continues to see 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 2008 increased by \$2,594,437 (9.6%) over 2007. The depreciation and amortization total increased by \$223,715 (5.3%). The summertime increase in fuel costs added \$161,372 for the year as both gasoline and diesel prices doubled compared to 2007. Labor costs were up \$1,087,149 over 2007. Part of the increase is due to contractual obligations with the Authority's CSEA and Teamsters Union personnel and part is due to the addition of new personnel required due to the addition of the Village of Minoa and Village of East Syracuse systems to the OCWA system. Additionally, due to security concerns, the Marcellus water treatment plant is now manned 24 hours per day, resulting in the addition of two full-time operators. A decline in capital work also resulted in more time being charged to operations and maintenance. Due to the implementation of GASB 45 in 2008, OCWA also included other post employment benefits in the operating budget and as such expenses were increased by \$1,515,567 in recognition of this ongoing liability. Offsetting increased expenses was the decline in purchased water due to lower demand, in particularly summer demand. As a result, purchased water was \$374,015 (4.3%) lower compared to 2007.

With respect to the Authority's indebtedness, OCWA made arrangements to fund the expansion and improvement of the Marcellus water treatment plant and intake with the New York State Environmental Facilities Corporation (EFC). The EFC was able to fund the Authority's \$14,226,510 E.F.C Drinking Water Installment Bonds – 2008 A through the Drinking Water Revolving Loan Program with a one-third-interest subsidy.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Financial Highlights – Continued

The Van Buren 1MG elevated tank, the Canastota 1.5MG ground storage tank and the Hastings 1MG elevated tank were fully completed in 2008. In June of 2008, through passage of a local law by the Onondaga County Legislature, the Authority took over the construction of three covered storage tanks that the Metropolitan Water Board is required to build to replace its open reservoirs located in Van Buren (Western Reservoir) (20 MG) and Manlius (Eastern Reservoir) (30MG). By year-end design was completed and bids were taken for the first two tanks. With bids in hand, the total project cost for the new tanks was established to be \$33 million. Funding for the new tanks will be secured in early 2009 and construction will begin in the spring. In addition to the aforementioned projects, the Authority added 126,878 feet of main (84,004 feet due to the addition of the East Syracuse system), 215 line valves and 141 hydrants. Another 103 hydrants were replaced during 2008.

With respect to overall growth of the system, OCWA's 2008 customer base reached a peak of 90,212 billed accounts for an increase of 2,379 accounts. Customers were added as a result of the 22 developer main extensions completed in 2008 along with the 61 developer extensions completed in 2007. Overall, OCWA increased total water main in service by 24.02 miles for the year, bringing the total main in service up to 1,768.77 miles.

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, 2008

Summary of Statements of Net Assets

TABLE 1

	2007	2008
ASSETS		
Cash	\$ 147,241	\$ 84,069
Accounts Receivable	4,920,982	5,418,964
Materials, Supplies and Prepaid Expenses	1,585,111	1,614,863
Restricted Assets	11,163,689	18,986,890
Unamortized Bond Issuance Costs	264,206	501,708
Plant and Water Rights, Net	<u>158,899,877</u>	<u>166,664,418</u>
TOTAL ASSETS	<u><u>\$ 176,981,106</u></u>	<u><u>\$ 193,270,912</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,887,414	\$ 2,906,283
Liabilities Payable from Restricted Assets	1,149,641	1,182,830
Bonds Payable	20,192,672	33,159,872
OPEB Liability	0	1,515,567
Capital Lease Obligations	<u>946,125</u>	<u>800,250</u>
Total Liabilities	25,175,852	39,564,802
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,761,080	132,704,296
Restricted Net Assets	8,347,720	15,925,579
Unrestricted Net Assets	<u>5,696,454</u>	<u>5,076,235</u>
Total Net Assets	<u>151,805,254</u>	<u>153,706,110</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 176,981,106</u></u>	<u><u>\$ 193,270,912</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Summary of Statements of Net Assets – Continued

Total assets increased approximately \$16.3 million in 2008 as a result of the following items:

- Ø The decrease in cash of \$63,172 is due to the lower balance in the Authority's operations and maintenance fund at year-end.
- Ø Accounts receivable have increased by \$497,982 or 10.1%. There are two components that make up most of this increase. The first is accounts receivable for water that has been billed to customers. Accounts Receivable – Water increased by \$263,228 (9.2%). The other component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. Accrued Utility Revenue increased by \$234,500 or 10.8% over the year-end 2007 balance. A portion of the increase is related to the rate increases ranging from 3.25% for fire protection to 7.7% for residential, commercial and municipal customers.
- Ø Restricted assets increased by \$7.8 million (70.1%) in 2008. This increase is, for the most part, the net of the increase in funds related to the 2008 EFC Bond Issue and the use of funds for the construction of capital assets.
- Ø The increase in Unamortized Bond Issuance Costs is also related to the 2008 EFC Bonds and the costs incurred in issuing those bonds.

Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2008. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

Total liabilities increased by approximately \$14.4 million in 2008 as a result of the following items:

- Ø The Bonds Payable balance increased due to the addition of the 2008 EFC Bond Issue in the amount of \$14,226,510. The bonds were issued to provide funds for improvements at the Authority's water treatment plant. Also contributing to the change in the Bonds Payable balance are the principal payments totaling \$1,235,000 that were made during 2008. Principal payments of \$750,000 and \$485,000 were made on the 2001 Revenue Bonds and 2005 Revenue Bonds respectively.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Summary of Statements of Net Assets – Continued

Ø GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees’ years of service. Under GASB Statement No. 45, based on an actuarial valuation, an annual required contribution (“ARC”) is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability. The financial statements at December 31, 2008 include a liability in the amount of \$1.5 million that represents the Authority’s unfunded liability.

Ø Capital lease obligations decreased by \$145,875 due to principal payments made on various leases.

Review of Revenues

TABLE 2

	2007	2008
Residential/Commercial Sales	\$ 18,297,774	\$ 18,986,236
Industrial Sales	3,991,304	4,078,266
Municipal (Water Utility) Sales	3,661,347	3,731,989
Fire Protection	967,517	1,081,080
Miscellaneous Revenue	1,108,189	1,158,288
Interest from Investments Held in Trust	609,611	171,177
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	<u>(9,918)</u>	<u>29,837</u>
TOTAL REVENUES	<u><u>\$ 28,625,824</u></u>	<u><u>\$ 29,236,873</u></u>

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Review of Revenues – Continued

OCWA implemented rate increases for all customer classes effective January 1, 2008. Residential, commercial and municipal wholesale customer rates were raised 7.7%, Industrial customers 6.7% and Fire Protection 3.25%. The increases, which were determined in late 2007, were based on the projected requirements for 2008 and took into account changes that were expected to have an effect on 2008 operations.

Total water revenues for 2008 increased by \$959,629 (3.6%) from the previous year. For 2008, residential and commercial sales increased by \$688,462 (3.8%), industrial sales by \$86,962 (2.2%) and municipal sales by \$70,642 (1.9%) as compared to 2007 figures. The main reason that water revenues did not increase by the amount that would be expected from the rate increases noted above is that the number of gallons billed in each sales category decreased in 2008. The respective decreases were residential and commercial by 4.3%, industrial by 6.5% and municipal by 1.9%. Fire protection revenues increased by \$113,563 (11.7%) due to the rate increase and the increased number of hydrants in the system.

Interest from investments held in trust and other interest income decreased by a total of \$438,434 (71.9%). This decrease reflects the fact that fewer funds were available to invest due to the usage of proceeds from the 2005 revenue bonds as well as significantly lower yields on investments.

Review of Expenses

TABLE 3

	2007	2008
Operations	\$ 7,196,993	\$ 7,789,615
Purchased Water	8,621,715	8,247,700
General and Administrative	2,380,081	3,880,835
Less: Burden Applied	(873,152)	(816,966)
Depreciation	3,576,650	3,794,598
Bond Amortization	(2,631)	4,135
Water District Lease Amortization	615,646	614,647
Maintenance	4,493,994	4,916,625
Other Expense	<u>980,062</u>	<u>1,152,606</u>
TOTAL EXPENSES	<u><u>\$ 26,989,358</u></u>	<u><u>\$ 29,583,795</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Review of Expenses – Continued

Total expenses for 2008 were up by approximately \$2.6 million (9.6%) compared to fiscal year 2007. Much of the overall variance can be attributed to several significant items such as labor, other postemployment benefits, health insurance, gas/electric, fuel costs and depreciation. 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 \$452,066 (7.3%) during 2008. This increase was caused by the factors outlined below.

Both the Teamsters and CSEA contracts included wage increases effective January 1, 2008. The contracts with the Teamsters and CSEA each called for an increase of 3.5%. Wage increases for non-bargaining unit employees averaged 4.0%. Also, the Authority now has employees at its water treatment plant 24 hours per day which has increased costs. Another factor is the amount of labor charged to capital projects decreased by 4.5% which correspondingly necessitates an increase in the labor charged to operations and maintenance. Finally, the Authority added three new positions in 2008. These include an Underground Facilities Locator who was placed in one of the Authority's Distribution Maintenance Departments and two Water Plant Operator Trainees who were added to the Water Treatment Plant. The Operator Trainees allow the plant to have employees on site 24 hours per day, as was noted above.

Notable Operation Expense Changes (Other Than Labor)

Operating Expenses less Depreciation and Amortization increased by \$2,198,182 in 2008 over 2007 figures. Approximately \$1.5 million of the increase is due to the costs related to postemployment benefits (OPEB) required to be recorded in 2008. The OPEB expense is 68.9% of the total increase. In addition to OPEB there were other areas that impacted operating expenses. The individual effect of those expenses are examined in the following paragraphs

OCWA incurred a \$50,468 (6.1%) increase to its electric and natural gas charges for 2008 over 2007 amounts. In addition to increases in gas and electric rates the Authority added several facilities during 2008.

Group health insurance increased by \$255,282 (14.3%) as compared to 2007 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 \$18,953 (2.9%) over 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Notable Operation Expense Changes (Other Than Labor) – Continued

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 \$636,219, a decrease of \$16,413 (2.5%) over the 2007 amount. This is the third consecutive year in which there has been a decrease in contributions.

Fuel costs increased by \$129,184 (43.6%) in 2008 over the previous year. Most of the increase is due to the significantly higher fuel prices especially in the first half of the year. A portion of the increase is because of the larger service area that the Authority covers.

Chemical costs increased by \$59,797 (21.3%) in 2008 over 2007 figures. Several of the chemicals that the Authority uses in water treatment had price increases of more than 10% during the year, with one being increased by 37%. In addition the quantity purchased increased in some cases.

Purchased Water

Purchased water cost was down by \$374,015 (4.3%) for 2008. The vast majority of the water that OCWA purchases is from the Metropolitan Water Board (MWB). The main factor that accounts for the decrease is that the Authority purchased 613,004,000 fewer gallons in 2008 as compared to 2007. That is a 7.2% reduction in the amount of water purchased from MWB.

Depreciation

There was an increase of \$217,948 in depreciation expense in 2008. This occurred because capital assets in the amount \$15,040,624 were placed in service during the year and depreciation has commenced. In comparison, \$7,799,597 in capital assets was placed in service in 2007. The amount of additional depreciation for 2007 was correspondingly less.

Summary of Overall 2008 Operations

In 2008, OCWA experienced a net loss before capital contributions of \$346,922, a decrease of \$1,983,388 from the net income of \$1,636,466 for the fiscal year ended December 31, 2007. This decrease was caused by the net effect of several factors. Among them are: lower consumption and therefore lower revenues, OPEB expense and higher costs for labor, gas/electric, chemicals, fuel and health insurance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

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 engineer submitting their letter acknowledging satisfactory review.

The operations and maintenance budget is generally 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, 2008

System Growth

Areas of growth included the following:

- Ø Installation of 22 developer or individual main extensions, totaling 32,417 feet of main.
- Ø The Village of East Syracuse was leased to OCWA and rolled into the Authority system in July of 2008
- Ø The Southern Onondaga main extension project was nearing completion by the end of 2008 and the Onondaga County Health Department was approving limited connections to the new system by December. The new tank and all the water mains were in service by the end of 2008; however the new pump station is not expected to be on line until late winter or early spring of 2009.
- Ø The Town of Granby system construction was fully completed in early 2008 and new customers were connecting throughout the year.

Areas of growth, 2008 and beyond:

- Ø The Limeledge system project got back on track in 2008 and by year-end the Town and the Village of Marcellus had taken bids on the main construction, construction of a new tank and rehabilitation of the Village's existing tank. In early 2009 bids for pump station construction are expected. Construction should begin in early 2009 and is expected to run through the end of the year. Once completed OCWA will be serving new customers in the Limeledge area of the Town of Marcellus and the Town of Skaneateles. Additionally it is expected that the Village water system will be leased to OCWA.
- Ø 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. With State funding secured, the design phase is in progress. Construction is not anticipated until late 2009 or early 2010
- Ø With the state of the economy being dismal nationally, development is expected to continue to decline. In 2008 developer extension agreements were one third lower than the total for 2007.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2007	2008	2007-2008
Water Plant in Service	\$ 180,092,924	\$ 195,133,548	8.35%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	11,891,690	7,793,642	-34.46%
Water District Lease	23,068,115	23,080,458	0.05%
Pre-Survey and Investigation	911,527	1,507,647	65.40%
Jobbing in Progress	542,309	469,751	-13.38%
Allowance for Depreciation	(48,787,468)	(51,839,389)	6.26%
Accumulated Amortization/Water Districts	(8,839,210)	(9,453,857)	6.95%
Residual Amortization/Water Rights	(5,200,000)	(5,250,000)	0.96%
Deferred Charge - Capital Interest on FP	<u>(30,010)</u>	<u>(27,382)</u>	<u>-8.76%</u>
Total	<u><u>\$ 158,899,877</u></u>	<u><u>\$ 166,664,418</u></u>	4.89%

Increase to Water Plant in Service Highlights

The Authority continues to remain very active with respect to capital projects. During the year, projects completed included the following:

- Ø The new Van Buren 1MG elevated tank was placed into service. It replaces the Lakeland standpipe and the Geddes Spheroid tank.
- Ø The 1MG elevated tank in Hastings was completed and replaces the Central Square tank.
- Ø The 1.5 MG Canastota tank was placed in service in 2008.
- Ø The generators for the Howlett Hill and Warners pump stations were completed in 2008.
- Ø Purchased and placed a 50KW mobile generator in service.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

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

Increase to Water Plant in Service Highlights – Continued

- Ø The installation of 32,417 feet of developer water main (per 22 contracts) and the replacement of additional 9,963 feet of main as part of 11 system betterment projects.
- Ø Replacement of 103 hydrants and the addition of 141 new hydrants.
- Ø Replaced vehicles in OCWA's fleet as part of the Authority's ongoing asset management program.

Construction / Work-In-Progress Highlights

- Ø Construction of the improvement to the Marcellus Water Treatment Plant and the Otisco Lake intake started in June 2008.
- Ø A project is in progress to improve security at various OCWA facilities.
- Ø Projects to improve the Abbey Road and Sylvan Beach tanks.
- Ø Various system betterments and main extensions still in progress at year-end.

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. Engineering for the 20MG Western and the 30MG Eastern Reservoirs was nearing completion at the end of 2008.

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. The balance in this account had decreased by \$72,558 at the end of 2008 as compared to the previous year end.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues and one E.F.C Drinking Water Installment Bond issue outstanding with a remaining principal totaling \$32,801,510 as of December 31, 2008. OCWA's most recent bonds were issued in June of 2008. That was E.F.C Drinking Water Installment Bonds, 2008 Series A and was issued in the amount of \$14,226,510. The 2008 Bonds mature serially in varying annual amounts through 2029, with an interest rate of 4.27%, one third of which is subsidized by E.F.C. (New York State Environmental Facilities Corporation). The first principal payment is due in October 2010.

As noted above, the Authority also has two Revenue Bond issues. One is the General Water System Revenue Bonds, 2005 Series A which has a remaining principal balance of \$12,340,000 as of December 31, 2008. This amount reflects a principal payment of \$485,000 made in September 2008. The required principal payment on the bond in 2009 is \$505,000, 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 other revenue bond issue that the Authority has outstanding is its 2001 Series A, General Water System Revenue Bonds with a balance of \$6,235,000 as of December 31, 2008. This amount reflects the principal payment of \$750,000 made in September 2008. The required principal payment on the bond in 2009 is \$780,000, 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, 2008
2008 EFC Bonds	\$ 14,226,510
2005 Series A Bonds	12,340,000
2001 Series A Bonds	<u>6,235,000</u>
Total	<u>\$ 32,801,510</u>

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2008

Long-Term Debt Administration – Continued

OCWA Bond Rating

In February of 2009, Moody’s Investors Service affirmed its Aa3 rating on OCWA’s \$25.4 million General Water System Revenue Bonds, Series 2001 A and 2005 A. Moody’s originally assigned an Aa3 rating to the Authority’s \$13,840,000 2005 Water Revenue Bond issue in the fourth quarter of 2005. Also, the 2005 Water Revenue Bond issue was assigned a rating of AAA based on an insurance policy provided by Ambac Assurance Corporation.

As noted above, 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

Primarily based on increased bonding costs for improvements to the OCWA water treatment facilities and construction of covered tanks to replace MWB’s open reservoirs, and taking into account increased operating expenses, the OCWA Board opted to increase rates for 2009 by 15.0% for residential, commercial and wholesale customers. Rates for industrial customers were increased 9.9% 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 2009 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2009	15.0%	15.0%	9.9%	3.25%
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, 2008

Looking Forward – Continued

- Ø For 2009 the Metropolitan Water Board raised its water rates 3.75%. It should also be pointed out that OCWA purchases 56% of its water from MWB and that purchased water costs are roughly 34.0% of the Authority's operating expense, before depreciation and amortization.
- Ø On February 2, 2009 OCWA assumed operations of MWB's Southern Branch water system. Heretofore, the system, which includes transmission mains, two pump stations and three ground storage tanks, was leased to the City of Syracuse to serve the higher elevation to the southwestern areas of the City. With growing demand in the Town of Onondaga, OCWA worked for a new solution to better serve its customers in the area. The new lease agreement between OCWA and MWB will allow for better service and potential growth in the Town of Onondaga.
- Ø During 2008 OCWA added employees, however given the state of the economy in 2009; new hires will be restricted to replacement of key personnel only. At present three positions are vacant due to retirement and will remain vacant for the foreseeable future.
- Ø With respect to capital construction projects, the table is set for the remainder of 2009 and most of 2010. The water treatment plant project will be ongoing throughout the remainder of 2009 and could potentially last into early 2010. The construction of the Van Buren (Western Reservoir) (20MG) tank should start in March of 2009 and will run well into 2010. The construction of the Manlius (Eastern Reservoir) (30MG) tank is slated to begin in April of 2009 and could possibly wrap up in late 2010, but has the potential to run into 2011. Once the first Manlius tank is completed the open reservoir will be taken out of service and a new 20 MG tank will be built inside the footprint of the old tank. This work is projected to start in 2011.
- Ø In addition to major capital improvements, OCWA has ongoing capital needs related to the operation and maintenance of the distribution system. In keeping with its ongoing asset management efforts operating and engineering staff will continue to review and prioritize the overall needs related to replacement and or enhancement of all OCWA assets throughout the system.

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, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash	\$ 84,069	\$ 147,241
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$60,000 in 2008 and 2007)	5,405,083	4,903,550
Accounts Receivable - Other	13,881	17,432
Materials, Supplies and Prepaid Expenses	<u>1,614,863</u>	<u>1,585,111</u>
Total Current Assets	7,117,896	6,653,334
 RESTRICTED ASSETS		
Customer Deposits	963,041	992,894
General Authority Fund	2,084,856	2,028,979
Bond Fund	951,652	797,971
General Fund	1,266,381	3,214,257
Renewal and Replacement Fund	553,190	455,905
Bond Reserve Fund	3,453,926	2,141,970
Construction Fund	<u>9,713,844</u>	<u>1,531,713</u>
Total Restricted Assets	18,986,890	11,163,689
 PLANT AND WATER RIGHTS, NET	166,664,418	158,899,877
 OTHER ASSETS		
Unamortized Bond Issuance Costs	<u>501,708</u>	<u>264,206</u>
 TOTAL ASSETS	<u><u>\$ 193,270,912</u></u>	<u><u>\$ 176,981,106</u></u>

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,906,283	\$ 2,887,414
Capital Lease Obligations - Current Portion	<u>143,375</u>	<u>145,875</u>
Total Current Liabilities	3,049,658	3,033,289
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	460,513	327,637
Customer Deposits	369,560	561,566
Bonds Payable, Portion Due Within One Year	1,285,000	1,235,000
Accrued Interest on Bonds Payable	<u>352,757</u>	<u>260,438</u>
Total Liabilities Payable from Restricted Assets	2,467,830	2,384,641
LONG-TERM DEBT		
Bonds Payable	31,874,872	18,957,672
Postemployment Benefits Other Than Pension	1,515,567	0
Capital Lease Obligations, Net of Current Portion	<u>656,875</u>	<u>800,250</u>
Total Long-Term Debt	<u>34,047,314</u>	<u>19,757,922</u>
Total Liabilities	39,564,802	25,175,852
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	132,704,296	137,761,080
Restricted Net Assets	15,925,579	8,347,720
Unrestricted Net Assets	<u>5,076,235</u>	<u>5,696,454</u>
Total Net Assets	<u>153,706,110</u>	<u>151,805,254</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 193,270,912</u>	<u>\$ 176,981,106</u>

See notes to financial statements.

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

Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUE		
Charges for Services	\$ 27,877,571	\$ 26,917,942
Penalties	377,719	358,754
Other	780,569	749,435
	<hr/>	<hr/>
Total Operating Revenue	29,035,859	28,026,131
OPERATING EXPENSE		
Source of Supply	8,247,700	8,621,715
Transmission and Distribution	11,666,712	10,720,159
Collection	1,039,528	970,828
Administration	3,063,869	1,506,929
Depreciation and Amortization	4,413,380	4,189,665
	<hr/>	<hr/>
Total Operating Expense	28,431,189	26,009,296
INCOME FROM OPERATIONS	604,670	2,016,835
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	171,177	609,611
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	29,837	(9,918)
Interest Expense	(1,152,606)	(980,062)
	<hr/>	<hr/>
Net Other Expense	(951,592)	(380,369)
Net Income (Loss) Before Capital Contributions	(346,922)	1,636,466
Capital Contributions	2,247,778	3,244,946
	<hr/>	<hr/>
CHANGE IN NET ASSETS	1,900,856	4,881,412
NET ASSETS		
Balance, Beginning of Year	151,805,254	146,923,842
	<hr/>	<hr/>
Balance, End of Year	\$ 153,706,110	\$ 151,805,254
	<hr/>	<hr/>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 28,537,876	\$ 27,843,536
Cash Payments for Goods and Services	(15,551,599)	(15,340,975)
Cash Payments to Employees	<u>(6,736,330)</u>	<u>(6,928,890)</u>
Net Cash Provided By Operating Activities	6,249,947	5,573,671
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	542,690	728,451
Refunding of Customer Deposits	<u>(734,696)</u>	<u>(668,361)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	(192,006)	60,090
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	77,244	47,128
Cash Received from Contributed Capital	2,247,778	3,244,946
Debt Issuance Costs	(265,947)	0
Payments for Capital Acquisitions	(12,221,193)	(11,452,011)
Proceeds from Issuance of Long-Term Debt	14,226,510	0
Principal Payments	(1,380,875)	(1,328,600)
Interest Paid	<u>(1,152,606)</u>	<u>(979,812)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	1,530,911	(10,468,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	<u>171,177</u>	<u>609,611</u>
Net Cash Provided By Investing Activities	<u>171,177</u>	<u>609,611</u>
Net Increase (Decrease) in Cash	7,760,029	(4,224,977)
Cash, Beginning of Year	<u>11,310,930</u>	<u>15,535,907</u>
Cash, End of Year	<u>\$ 19,070,959</u>	<u>\$ 11,310,930</u>

See notes to financial statements.

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

Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 604,670	\$ 2,016,835
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	3,794,598	3,576,650
Amortization	618,782	613,015
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(501,533)	(396,532)
Accounts Receivable - Other	3,551	230,826
Materials, Supplies, and Prepaid Expenses	(29,752)	150,492
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	1,515,567	0
Accounts Payable and Accrued Liabilities	244,064	(617,615)
Net Cash Provided By Operating Activities	<u>\$ 6,249,947</u>	<u>\$ 5,573,671</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, the Authority follows the pronouncements of only applicable Financial Accounting Standards Board (“FASB”) Statements and Interpretations, issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

In accordance with GASB standards, the accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

Effective with this financial report for the year ending December 31, 2008, the Authority has adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for reporting the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees.

The GASB has issued the following new statement that is potentially applicable to the Authority:

- Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software.

The Authority is currently studying this statement and will adopt it in the year ending December 31, 2009, as required.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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, 2008 and 2007

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 \$28,445 and \$21,679 for the years ended December 31, 2008 and 2007, respectively.

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, 2008 and 2007.

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, 2008 and 2007

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, and the Environmental Facilities Corporation's Drinking Water Installment Bond Indenture dated June 18, 2008 are stated at cost plus accrued income, which approximates fair market value at December 31, 2008 and 2007. Assets held by Trustee consist principally of cash and cash equivalents.

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>1,225,781</u>	<u>1,400,817</u>
Total Cash and Cash Equivalents	<u>\$ 1,226,556</u>	<u>\$ 1,401,592</u>
Investments:		
Money Market Funds	\$ 7,380,055	
U.S. Treasury Bills	750,503	
Held by a Fiscal Agent	<u>9,713,844</u>	
Total Investments	<u>\$ 17,844,402</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 \$648,036 from the Federal Depository Insurance Corporation plus \$768,764 of pledged collateral at December 31, 2008. 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, 2008 and 2007

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2008 and 2007 is as follows:

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Land	\$ 503,667	\$ 0	\$ 0	\$ 503,667
Dams, Buildings and Other Structures	25,864,112	7,516,504	0	33,380,616
Pumping and Purification Equipment	2,793,733	298,836	0	3,092,569
Mains, Meter, Services and Other Distribution Facilities	126,680,480	6,282,266	324,474	132,638,272
Filtration Plant	11,495,780	730,588	0	12,226,368
Automobiles, Trucks and Other Equipment	12,755,152	955,142	418,238	13,292,056
Leased Water Districts	<u>23,068,115</u>	<u>12,342</u>	<u>0</u>	<u>23,080,457</u>
	203,161,039	15,795,678	742,712	218,214,005
Progress				
Progress	13,345,526	7,922,167	11,496,653	9,771,040
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
	221,756,565	23,717,845	12,239,365	233,235,045
Less: Accumulated Depreciation and Amortization	<u>62,856,688</u>	<u>4,411,873</u>	<u>697,934</u>	<u>66,570,627</u>
Net Plant and Water Rights	<u>\$ 158,899,877</u>	<u>\$ 19,305,972</u>	<u>\$ 11,541,431</u>	<u>\$ 166,664,418</u>

Depreciation and amortization charged to expense at December 31, 2008 and 2007 was \$4,413,380 and \$4,189,665, respectively, which includes amortization of leased water districts amounting to \$614,647 and \$615,646 for 2008 and 2007, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 6 – LONG-TERM DEBT

Water Revenue 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, 2008 and 2007 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.

Environmental Facilities Corporation Revenue Bonds (“EFC Drinking Water Installment Bonds”)

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the “Revolving Fund”) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (the “Corporation”) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. The Corporation issues bonds to providing loans from the Revolving Fund to private water companies, political subdivisions and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table below to finance safe drinking water projects.

In June 2008, the Authority received bond proceeds in the amount of \$14,226,510 from the Environmental Facilities Corporation’s 2008 Series A Drinking Water Installment Bond Offering. The bonds have a final maturity date of October 1, 2029 and bear interest at a rate of 4.27%. The interest cost of these bonds is subsidized by the State of New York drinking water revolving fund.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 6 – LONG-TERM DEBT – Continued

Debt service over the remaining term of the bonds is summarized as follows:

	Principal Payments on Bonds	Interest Payable	Total Debt Service on Bonds
2009	\$ 1,285,000	\$ 1,270,029	\$ 2,555,029
2010	1,816,510	1,220,374	3,036,884
2011	1,885,000	1,154,210	3,039,210
2012	1,955,000	1,083,319	3,038,319
2013	2,030,000	1,006,382	3,036,382
2014 - 2018	8,200,000	3,806,544	12,006,544
2019 - 2023	7,595,000	2,301,953	9,896,953
2024 - 2028	5,855,000	855,810	6,710,810
2029	<u>2,180,000</u>	<u>81,130</u>	<u>2,261,130</u>
	32,801,510	<u>\$ 12,779,751</u>	<u>\$ 45,581,261</u>
Less: Current Portion	1,285,000		
Add: Premium on Long-Term Debt	<u>358,362</u>		
Total	<u>\$ 31,874,872</u>		

Changes in long-term liabilities are as follows:

	Balance at December 31, 2007	Additions	Reductions	Balance at December 31, 2008
Bonds Payable:				
Water Revenue Bonds	\$ 19,810,000	\$ 0	\$ 1,235,000	\$ 18,575,000
EFC Drinking Water Installment Bonds	<u>0</u>	<u>14,226,510</u>	<u>0</u>	<u>14,226,510</u>
Total Bonds Payable	<u>\$ 19,810,000</u>	<u>\$ 14,226,510</u>	<u>\$ 1,235,000</u>	<u>\$ 32,801,510</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 6 – LONG-TERM DEBT – Continued

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2008, amounts remaining to be paid under long-term lease obligations are as follows:

2009	\$ 182,396
2010	138,185
2011	135,768
2012	107,913
2013	58,279
Thereafter	<u>265,975</u>
	888,516
Less: Current Portion	143,375
Less: Imputed Interest	<u>88,266</u>
Total	<u>\$ 656,875</u>

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

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, 2008 and 2007

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM – 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
2006	\$ <u>682,924</u>
2007	\$ <u>652,632</u>
2008	\$ <u>636,219</u>

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

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended December 31, 2008, the Authority recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – Continued

Plan Description

The Authority provides continuation of health insurance coverage under a single-employer defined benefit healthcare plan to its employees that retire under the New York Employee Retirement Systems at the same time they end their service to the Authority. Based on the provisions of the employment contract negotiated between the Authority and its employee groups, the retiree and his or her beneficiaries, receive this coverage for the life of the retiree. Healthcare benefits for non-bargaining employees are similar to those of union employees. The retiree does not contribute to the cost of premiums for individual coverage. For family coverage the retirees share amounts to 50% of the difference between the family and individual coverage. Spousal benefits continue until the death of the retiree. Surviving spouses are permitted to continue coverage after the death of the retiree, but are responsible for 100% of the premium.

The Authority, per its contracts with employee units, will pay the full premium costs for the health insurance coverage (currently provided by Blue Cross/Blue Shield of the Syracuse Area) for an employee of the Authority at retirement, provided the employee is at least 55 years of age and has been employed with the Authority for at least five consecutive years prior to the date of retirement. These contracts will be renegotiated at various times in the future.

The number of participants as of January 1, 2007, the effective date of the annual OPEB valuation, follows:

Active Employees	127
Retired Employees	<u>59</u>
Total	<u><u>186</u></u>

Funding Policy

The Authority currently pays for postemployment health care benefits on a pay-as-you-go basis.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2008, the Authority's annual OPEB cost (expense) of \$1,917,277 is equal to the Annual Required Contribution. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$401,710 for retirees and their beneficiaries, the result was an increase in the Net OPEB Obligation of \$1,515,567 for the year ended December 31, 2008.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – Continued

The following table shows the components of the Authority’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority’s net OPEB obligation:

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 were as follows:

Active Employees	127
Retired Employees	<u>59</u>
Total	<u><u>186</u></u>
Annual Required Contribution	\$ 1,917,277
Interest on Net OPEB Obligation	0
Adjustment to Annual Required Contributions	<u>0</u>
Annual OPEB Cost (Expense)	1,917,277
Contributions Made	<u>(401,710)</u>
Increase in Net OPEB Obligation	1,515,567
Net OPEB Obligation - Beginning of Year	<u>0</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,515,567</u></u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Included coverages are “fully-insured community rated” and annual premiums for fully-insured community rated coverages were used as a proxy for claims costs without age adjustment. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis.

In the December 31, 2008 actuarial valuation, the liabilities were computed using the projected unit credit method and level dollar amortization. The actuarial assumptions utilized a 4% discount rate.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – 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.



Dermody, Burke & Brown, CPAs, LLC

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**BOARD OF DIRECTORS
ONONDAGA COUNTY WATER AUTHORITY**

We have audited the financial statements of the Onondaga County Water Authority (the Authority), as of and for the year ended December 31, 2008, and have issued our report thereon dated March 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

§ .. ©a

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 9, 2009



Dermody, Burke & Brown, CPAs, LLC

**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, 2008. 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 a 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, 2008.

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 9, 2009