

O NONDAGA COUNTY WATER
AUTHORITY

FINANCIAL STATEMENTS
December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 8, 2010 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 21 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 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2009, 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 2009 financial report, which follows this report.

Financial Highlights

OCWA's 2009 total revenues increased by \$1,988,492 (6.8%) compared to the total for 2008, with rate increases for all customer classes representing the main source of increased revenues for 2009. The OCWA Board took steps to increase the Authority's rates with two things in mind. First and foremost was the anticipation of the issuance of bonds, to be issued in 2009, in conjunction with the construction of the covered tanks being built by OCWA to replace MWB's open reservoirs. Second was the recognition of the poor economy and the impending loss of large industrial customers. Overall, water sales (consumption) for 2009 declined as compared to 2008, in spite of an increase in total residential and commercial accounts. Average quarterly sales for 2009 remained well below the averages experienced through the 1990's and it is expected that the current averages will remain the norm for the foreseeable future with further declines in average use expected as fixtures and appliances become more efficient. Again for 2009, cool, wet weather was prevalent throughout the summer and as a result there was no discernable difference between winter and summer quarter use for residential and commercial customers. Fiscal year 2009 rates for residential, commercial and wholesale customers were increased 15%. Rates for industrial customers were increased by 9.9% and public and private fire protection rates were increased 3.25%. Water Revenues for 2009 increased by \$2,249,873 (8.1%) over 2008 revenues, however total water sold declined 2.02 (6%) million gallons per day compared to 2008. Overall, residential water use dropped 2.24%, commercial use was down 2.68%, wholesale purchases were off 2.27% and industrial sales fell 17.59% for the year. Continued efficiency and water conservation efforts by OCWA's largest customer, Anheuser Busch, single handedly accounted for 42% of the decreased industrial use. Adding to the decline for the year was the bankruptcy of the Northeast Biofuels plant in Volney (32.5 MG in lost sales), the closure of Syracuse China Plant (50.4 MG) and the bankruptcy of Crucible Steel (63.97 MG). Decreased demand from the Tri-Gen Syracuse facility accounted for another 141.08 MG in lost sales. In total these five industrial accounts represent 92.8% of the total decrease in overall industrial sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Financial Highlights – Continued

While it would be easy to continue to blame the weather 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 85,175 residential service connections continues to remain well below the average for the 1990's, but consistent with the new averages for the first decade of the 21st century. 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. Declining household size also factors into the equation. While the Authority continues to see an increase in the number of residential accounts, local population totals continue to remain relatively flat, 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. In some instances these young adults are now establishing their own homes with one or two residents. Additionally, the impact of the recession continues to be felt throughout the region. The loss of major industry is not exclusive to the Central New York region and the Onondaga County Water Authority continues to closely monitor changes and potential losses.

On the expense side of the operation, total expenses for 2009 increased by \$807,370 (2.73%) over 2008. Depreciation and amortization total increased by \$162,417 (6.5%). Labor and benefit costs were up \$392,888 over 2008, specifically related to contractual obligations with the Authority's CSEA and Teamsters Union personnel. It should be noted that OCWA implemented a hiring freeze in 2008 that has continued on into 2009 and currently the Authority has 7% fewer employees than what was originally budgeted for in fiscal year 2010. Chemical price increases added an additional expense of \$114,142 for the year, in part due to increased chemical prices and in part due to changes in the treatment process brought about by the improvement project underway at the Marcellus water treatment plant and the Otisco Lake intake. Outside contractor expenses increased by \$167,550 primarily attributed to paving restoration completed in conjunction with an increase in the number of main breaks during the winter months of 2008 and 2009. Purchased water, due to lower demand, resulted in decrease of \$79,482 compared to 2008. It should be noted that the dollar decrease in purchased water does not coincide with the actual drop in the total amount of water purchased for the year. This is due to changing the MWB Southern Branch system from an MWB / Syracuse Water Department lease to an MWB / OCWA lease. As a result of the change OCWA now buys its water off the Southern Branch directly from the City of Syracuse as opposed to through MWB. Consequently the wholesale cost of water off the Southern Branch is double the cost of water purchased from MWB. Offsetting the increased cost of water purchased off Southern Branch, is the negotiated decrease in the cost of water at all other Syracuse / OCWA connections. Prior to the change OCWA paid the outside the city rate for all connections, now the Authority pays the inside the city rate for all connections, including Southern Branch.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Financial Highlights – Continued

With respect to the Authority's indebtedness, OCWA made arrangements to fund the construction of the 20 MG Van Buren tank and the 30 MG Manlius tank with the New York State Environmental Facilities Corporation (EFC). The Authority was able to fund the total cost for the covered tanks with the issuance of the E.F.C. Drinking Water Bonds, 2009 Series A in the maximum principal amount of \$33,000,000. For more details on the bonds see the section on Long-Term Debt Administration.

The covered tank projects were undertaken in June of 2008 when, through passage of a local law by the Onondaga County Legislature, the Authority assumed control of a County project that consists of constructing three covered storage tanks that the Metropolitan Water Board has been required to build to replace its open reservoirs located in Van Buren (20 MG Western Reservoir) and Manlius (30 MG Eastern Reservoir). By the end of 2008 design was completed and bids were received for the first two tanks in December 2008 and January 2009. With bids in hand, the total project cost for the new tanks was established to be \$33 million. Funding for the new tanks was secured in early 2009 and construction began in the spring. The 20 MG Van Buren Tank is well underway and is projected to be on line by the middle of 2010, with full completion anticipated by the end of 2010. The 30 MG Manlius tank is also under construction, and is slated to be on line by the end of 2010, with full completion not expected until the middle of 2011.

In addition to the aforementioned projects the Authority, through acquisition, added 363,041 feet of main. Additions include the Town of Granby water system (130,967 feet), the Southern Onondaga water system serving parts of the Towns of Marcellus, Spafford and Otisco (67,708 feet), the Village of Marcellus system (44,535 feet), the Limeledge system in the Towns of Marcellus and Skaneateles (64,006 feet), the Lewis Point water district in the Town of Lenox (23,060 feet) and the MWB Southern Branch water system in the City of Syracuse (30,450 feet). In addition to the 68.76 miles of additional main, 562 line valves and 618 additional hydrants were also added. As a result of the acquisitions, OCWA also now operates 6 more pump stations and 7 additional water storage tanks. The Authority's system betterment projects for the year dropped to 6 in 2009 with a total of 3,504 feet of main being added and or replaced.

With respect to overall growth of the system, OCWA's 2009 year end customer base totaled 91,544 billed accounts for an increase of 1,561 accounts over 2008 the year end total. Customers were added mainly due to the aforementioned acquisitions. Developer main extensions dropped to a total of 14 totaling 9,954 feet of new main for the year, down from 22 extensions in 2008 and 61 in 2007. The decline in developer extensions is attributed to the overall decline in the economy. For the year, OCWA increased total water main in service by 70.8 miles, bringing the total main in service up to 1,844.06 miles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

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, 2009

Summary of Statements of Net Assets

TABLE 1

	2008	2009
ASSETS		
Cash	\$ 84,069	\$ 98,481
Accounts Receivable	5,418,964	5,735,167
Materials, Supplies and Prepaid Expenses	1,614,863	2,230,583
Restricted Assets	18,986,890	13,486,407
Unamortized Bond Issuance Costs	501,708	723,879
Plant and Water Rights, Net	<u>166,664,418</u>	<u>189,987,093</u>
TOTAL ASSETS	<u><u>\$ 193,270,912</u></u>	<u><u>\$ 212,261,610</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,906,283	\$ 2,951,372
Liabilities Payable from Restricted Assets	1,182,830	4,394,480
Bonds Payable	33,159,872	45,522,196
OPEB Liability	1,515,567	3,142,428
Capital Lease Obligations	<u>800,250</u>	<u>656,875</u>
Total Liabilities	39,564,802	56,667,351
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	132,704,296	143,808,022
Restricted Net Assets	15,925,579	6,525,046
Unrestricted Net Assets	<u>5,076,235</u>	<u>5,261,191</u>
Total Net Assets	<u>153,706,110</u>	<u>155,594,259</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 193,270,912</u></u>	<u><u>\$ 212,261,610</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Summary of Statements of Net Assets – Continued

Total assets increased approximately \$19 million in 2009 as a result of the following items:

- The increase in cash of \$14,412 is due to the lower balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$316,203 or 5.8%. 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 \$81,473 (2.6%). 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 \$248,400 or 10.3% over the year-end 2008 balance. A portion of the increase is related to the rate increases ranging from 3.25% for fire protection to 15% for residential, commercial and municipal customers.
- Materials, Supplies and Prepaid Expenses increased by \$615,720 (38.1%). Prepaid Expenses increased by \$401,494. \$389,459 of that increase is due to the installation of carbon filters at OCWA's Water Treatment Plant. The filters are part of new treatment processes at the plant and are expected to last five years before requiring replacement. Another factor is that OCWA's inventory increased by \$179,738 (11.0%) over 2008.
- Restricted assets decreased by \$5.5 million (29.0%) in 2009. This decrease is due to the net effect of several factors. One is the use of \$7.9 million in construction of OCWA's Water Treatment Plant improvements for which OCWA issued \$14.2 in bonds in 2008 and of that amount \$1.8 million remains at the end of 2009. Another factor is the establishment of a bond reserve fund related to the Authority's 2009 Bond Issue which increased restricted assets. The year-end balance in this new bond reserve fund is \$678,872.
- The increase in Unamortized Bond Issuance Costs is related to the 2009 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 2009. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Summary of Statements of Net Assets – Continued

Total liabilities increased by approximately \$17.1 million in 2009 as a result of the following items:

- Liabilities Payable from Restricted Assets increased by \$3.2 million (271.5%) over 2008. This is because of amounts due to contractors for work performed in 2009, for which payment was not made until 2010. There were several large amounts payable to contractors working on OCWA's Water Treatment Plant and the 20MG and 30MG covered storage tanks.
- The Bonds Payable balance increased owing to the addition of the 2009 EFC Bonds issued for construction of the 20MG and 30MG covered storage tanks. The increase related to this bond issue is \$13.7 million. Also contributing to the change in the Bonds Payable balance are the principal payments totaling \$1,285,000 that were made during 2009. Principal payments of \$780,000 and \$505,000 were made on the 2001 Revenue Bonds and 2005 Revenue Bonds, respectively.
- 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, 2009 include a liability in the amount of \$3.1 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$143,375 due to principal payments made on various leases.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Review of Revenues

TABLE 2

	2008	2009
Residential/Commercial Sales	\$ 18,986,236	\$ 21,299,194
Industrial Sales	4,078,266	3,719,060
Municipal (Water Utility) Sales	3,731,989	4,024,555
Fire Protection	1,081,080	1,084,635
Miscellaneous Revenue	1,158,288	1,131,777
Interest from Investments Held in Trust	171,177	9,094
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	<u>29,837</u>	<u>(42,950)</u>
TOTAL REVENUES	<u><u>\$ 29,236,873</u></u>	<u><u>\$ 31,225,365</u></u>

- OCWA implemented rate increases for all customer classes during 2009. Residential, commercial and municipal wholesale customer rates were raised 15%, Industrial customers 9.9% and Fire Protection 3.25%. The increases, which were determined in late 2008, were based on the projected requirements for 2009 and took into account changes that were expected to have an effect on 2009 operations.

Total water revenues for 2009 increased by \$2,249,873 (8.1%) from the previous year. 2009 revenue saw increases in residential and commercial sales \$2,312,958 (12.2%) and municipal sales \$292,566 (1.9%) as well as a decrease in industrial sales of \$359,206 (8.8%) and as compared to 2008 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 2009. The respective decreases were residential 2.2%, commercial 2.7%, municipal 2.3% and industrial 17.6%.

- Interest from investments held in trust and other interest income decreased by a total of \$162,083 (94.7%). This decrease reflects the fact that yields were extremely low in 2009.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Review of Expenses

TABLE 3

	2008	2009
Operations	\$ 7,789,615	\$ 8,185,254
Purchased Water	8,247,700	8,168,218
General and Administrative	3,880,835	4,133,581
Less: Burden Applied	(816,966)	(898,846)
Depreciation	3,794,598	3,957,015
Bond Amortization	4,135	16,991
Water District Lease Amortization	614,647	594,179
Maintenance	4,916,625	4,895,272
Other Expense	<u>1,152,606</u>	<u>1,339,501</u>
TOTAL EXPENSES	<u><u>\$ 29,583,795</u></u>	<u><u>\$ 30,391,165</u></u>

Total expenses for 2009 were up by approximately \$800,000 (2.7%) compared to fiscal year 2008. Areas of expense that saw increases in 2009 are: labor, health insurance, chemicals and bond interest expense. Areas that experienced cost decreases are: electric/natural gas, pensions, fuel, and purchased water. 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 \$223,335 (3.4%) during 2009 as compared to 2008. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2009. The rates for the CSEA employees increased by 3.5% and Teamsters rates increased by 3.25%. Wage increases for non-bargaining unit employees averaged 3.33%. It should be noted that the Authority did not refill the positions of certain employees who retired in 2008 and 2009. Also, the Authority added a Risk Manager position in April 2009.

Notable Expense Changes (Other Than Labor)

Group health insurance increased by \$258,654 (12.7%) as compared to 2008 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 slight decrease in commercial insurance costs by \$16,469 (2.6%) over 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Notable 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 \$540,216, a decrease of \$96,000 (15.1%) over the 2008 amount. This is the fourth consecutive year in which there has been a decrease in contributions.

Chemical costs increased by \$114,142 (33.5%) in 2009 over 2008 figures. The prices of chemicals that the Authority uses in water treatment increased causing costs to go up nearly \$4,000 per month from January – April. New treatment processes in addition to the chemical price increases caused costs to increase approximately \$15,000 per month from May – December.

Fuel costs decreased by \$164,835 (39.8%) in 2009 over the previous year. The decrease is due to the significantly lower fuel prices in 2009 as compared to 2008. OCWA also experienced a \$67,936 (7.7%) decrease to its electric and natural gas charges for 2009 over 2008 amounts.

Contractor costs increased by \$167,550 (14.5%) in 2009 over 2008 amounts. Much of the increase is due to paving work done during 2009 related to main breaks which occurred during the winter months.

Purchased water cost was down by \$79,482 (1.0%) for 2009. The vast majority of the water that OCWA purchases is from the Metropolitan Water Board (MWB). A rate increase of 3.75% together with a 9.3% decrease in the quantity of water that the Authority purchased accounts for much of the cost decrease in 2009. Another factor is that OCWA purchased 281,580,000 more gallons from the City of Syracuse in 2009 as compared to 2008.

There was an increase of \$186,895 (16.2%) in Other Expense in 2009. Part of the increase is due to there being a full year of interest on the 2008 Bond Issue in 2009 as opposed to approximately one half of a year in 2008. This increased the interest expense on the 2008 Bonds by \$197,905. Another factor was that the issuing of bonds in 2009 added to the bond interest expense. The interest expense on the 2009 Bonds for the portion of the year they were in place is \$44,815.

Summary of Overall 2009 Operations

In 2009, OCWA experienced a net income before capital contributions of \$834,199, an increase of \$1,181,121 from the net loss of \$346,922 for the fiscal year ended December 31, 2008. This increase was caused by the net effect of several factors. Among them are: increased revenue (although not as high as projected due to lower consumption), increases in group health insurance, chemicals and bond interest expense and decreases in pension, fuel, gas/electric, commercial insurance and purchased water costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

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, 2009

System Growth

Areas of growth included the following:

- Installation of 14 developer or individual main extensions, totaling 9,954 feet of main.
- The Southern Onondaga main extension was fully completed early in 2009. The new system includes a new tank and pump station, 67,708 feet of water main, 91 line valves and 116 hydrants. With this new system being placed on line OCWA is serving its first ever customers in the Towns of Otisco and Spafford.
- The Village of Marcellus water system transitioned from its own water source to being a wholesale Authority customer late in 2009. By the close of 2009 the Village system was converted from wholesale to retail and subsequently adding 620 retail accounts served by a new pump station and a renovated ground storage tank providing water via 44,535 feet of main.
- The Limeledge water system in the Towns of Marcellus and Skaneateles was also completed late in 2009 adding 64,006 feet of main, one new pump station and a new elevated spheroid tank. Through this addition the Authority is serving the Town of Skaneateles for the first time.
- While the new Town of Granby system was completed late in 2008, OCWA did not assume operations until 2009. Through this acquisition, 438 retail customers were added. These new customers are being served via a new pump station and water storage tank being supplied through 130,967 feet of new water main. Granby is also a new Town being served by OCWA.
- The Lewis Point water district, in the Town of Lenox, added 23,060 feet of main, 34 line valves and 39 hydrants.
- The lease of the Southern Branch system, from the Metropolitan Water Board, resulted in the addition of 30,450 feet of existing main, two older pump stations and three existing tanks within the City of Syracuse. As a result of the lease the Authority has been able to secure a more adequate and reliable supply of water for existing OCWA customers in the Town of Onondaga.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Areas of growth, 2010 and beyond:

- 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. It is anticipated that construction bids will be solicited early in 2010 with construction to begin later in 2010 and continuing on into 2011.
- The Town of Granby has begun engineering related to a northern water supply district.
- The Town of Hastings' engineer has begun work on the addition of another small water district.
- The local economy does not appear to be fueling the addition of any major new developments as such it is expected that developer growth throughout the system will remain flat.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2008	2009	2008-2009
Water Plant in Service	\$ 195,133,548	\$ 202,455,638	3.75%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	7,793,642	28,725,032	268.57%
Water District Lease	23,080,458	23,080,458	0.00%
Pre-Survey and Investigation	1,507,647	568,494	-62.29%
Jobbing in Progress	469,751	435,104	-7.38%
Allowance for Depreciation	(51,839,389)	(55,204,842)	6.49%
Accumulated Amortization/Water Districts	(9,453,857)	(10,048,037)	6.29%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	<u>(27,382)</u>	<u>(24,754)</u>	<u>-9.60%</u>
Total	<u>\$ 166,664,418</u>	<u>\$ 189,987,093</u>	13.99%

Increase to Water Plant in Service Highlights

The Authority continues to remain active with respect to capital projects and acquisitions. During the year, projects that were completed and placed into service included the following:

- Security improvements at various OCWA facilities.
- Improvements to both the Sylvan Beach and Abbey Road tanks.
- The acquisition of right-of-ways from Finger Lakes and CSX railroads.
- The purchase of water meters as part of OCWA's ongoing meter replacement project.
- The installation of 9,954 feet of developer water main (per 14 contracts) and the replacement of additional 3,504 feet of main as part of 6 system betterment projects.
- The installation of new and replacement hydrants and water services.
- The replacement of vehicles in its fleet as part of OCWA's asset management program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

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

Construction Work-In-Progress Highlights

The Authority has projects totaling \$28,725,032 in progress at the end of 2009. Of that amount, \$25,701,702 is related to the following three projects:

- Improvements to the Marcellus Water Treatment Plant and the Otisco Lake intake – \$11,367,710.
- Western Reservoir (20MG) covered storage tank – \$8,519,557.
- Eastern Reservoir (30MG) covered storage tank – \$5,814,435.

The Authority has other projects in progress in addition to those listed above including:

- Lafayette/Nedrow Water System Connection – a project to install approximately 2,612 ft. of 8", 10" & 12" pipe.
- OCDOT Improvements E. Taft Road – a project to install approximately 9,935 ft. of 4", 6", 8", 10" & 12" pipe.
- Various smaller 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. This account decreased due to factors including the transfer of project costs to Construction Work-in-Progress and/or Water Plant in Service. Among these was the transfer engineering costs for the 20MG Western and the 30MG Eastern Reservoirs to Construction Work-in-Progress.

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 \$34,647 at the end of 2009 as compared to the previous year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$45,188,143 as of December 31, 2009. OCWA's most recent bonds were issued in March of 2009.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of \$33,000,000. The New York State Environmental Facilities Corporation (EFC) agrees to purchase the bonds from time to time in amounts equal to "Advances" which are based upon requisitions submitted by the Authority. The balance, up to the maximum principal amount, is to be advanced upon conversion. The unpaid principal sum at December 31, 2009 was \$13,671,633. During the initial term the interest rate on the unpaid principal sum is 1%. Upon conversion the interest rate will be 4.8721%. Bonds mature serially in varying annual amounts and are expected to have a final maturity date of June 15, 2038. The first principal payment is expected to be due in June 2011.

The E.F.C. Drinking Water Installment Bonds, 2008 Series A were 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 \$11,835,000 as of December 31, 2009. This amount reflects a principal payment of \$505,000 made in September 2009. The required principal payment on the bond in 2010 is \$520,000, 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 \$5,455,000 as of December 31, 2009. This amount reflects the principal payment of \$780,000 made in September 2009. The required principal payment on the bond in 2010 is \$815,000, 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.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Long-Term Debt Administration – Continued

Series Bonds	Bonds Outstanding as of December 31, 2009
2009 E.F.C. Bonds	\$ 13,671,633
2008 E.F.C. Bonds	14,226,510
2005 Series A Bonds	11,835,000
2001 Series A Bonds	<u>5,455,000</u>
Total	<u>\$ 45,188,143</u>

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.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Looking Forward

Based on increased debt expense related to the construction of two covered tanks being built to replace MWB's open reservoirs in Manlius and Van Buren, coupled with declining water sales, and taking into account projected increased operating expenses, the OCWA Board opted to increase rates for 2010 by 12.0% for residential and commercial customers. Further, rates for industrial and wholesale customers were increased 10.0% 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 2010 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2010	12.0%	10.0%	10.0%	3.25%
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%

- For 2010 the Metropolitan Water Board did not raise its water rates. With the change in operation of the Southern Branch water system, OCWA now purchases 52.6% (down from 56% in 2009) of its water from MWB and 3.3% from the City of Syracuse (up from 1.1% in 2009). Purchased water costs are roughly 33.4% of the Authority's operating expense, before depreciation and amortization.
- OCWA saw a decrease in total staff, as some of the employees who retired in 2008 and 2009 were not replaced. Given the state of the economy, new hires in 2010 will be restricted to replacement of key personnel only. At present, several positions are vacant due to retirement and will remain vacant for the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2009

Looking Forward – Continued

- With respect to capital construction projects, the table is set for the remainder of 2010. The water treatment plant project should be wrapped up by early summer 2010. The Van Buren (20MG Western Reservoir) tank should be on line by the middle of 2010 with full completion of the project anticipated by year end. The construction of the Manlius (30MG Eastern Reservoir) tank is underway and the new tank should be on line by the end of 2010, however full completion, including clean up, will run until June of 2011. With the completion of the 30MG Manlius tank, the existing Eastern 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.

- 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, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash	\$ 98,481	\$ 84,069
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$80,000 and \$60,000 in 2009 and 2008, Respectively)	5,716,866	5,405,083
Accounts Receivable - Other	18,301	13,881
Materials, Supplies and Prepaid Expenses	<u>2,230,583</u>	<u>1,614,863</u>
Total Current Assets	8,064,231	7,117,896
RESTRICTED ASSETS		
Customer Deposits	1,031,328	963,041
General Authority Fund	2,120,455	2,084,856
Bond Fund	1,122,099	951,652
General Fund	1,690,652	1,266,381
Renewal and Replacement Fund	1,575,774	553,190
Bond Reserve Fund	4,132,766	3,453,926
Construction Fund	<u>1,813,333</u>	<u>9,713,844</u>
Total Restricted Assets	13,486,407	18,986,890
PLANT AND WATER RIGHTS, NET	189,987,093	166,664,418
OTHER ASSETS		
Unamortized Bond Issuance Costs	<u>723,879</u>	<u>501,708</u>
TOTAL ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 193,270,912</u></u>

LIABILITIES AND NET ASSETS

	2009	2008
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,951,372	\$ 2,906,283
Capital Lease Obligations - Current Portion	<u>105,875</u>	<u>143,375</u>
Total Current Liabilities	3,057,247	3,049,658
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	3,754,655	460,513
Customer Deposits	280,957	369,560
Bonds Payable, Portion Due Within One Year	1,816,510	1,285,000
Accrued Interest on Bonds Payable	<u>358,868</u>	<u>352,757</u>
Total Liabilities Payable from Restricted Assets	6,210,990	2,467,830
LONG-TERM DEBT		
Bonds Payable	43,705,686	31,874,872
Postemployment Benefits Other Than Pension	3,142,428	1,515,567
Capital Lease Obligations, Net of Current Portion	<u>551,000</u>	<u>656,875</u>
Total Long-Term Debt	<u>47,399,114</u>	<u>34,047,314</u>
Total Liabilities	56,667,351	39,564,802
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	143,808,022	132,704,296
Restricted Net Assets	6,525,046	15,925,579
Unrestricted Net Assets	<u>5,261,191</u>	<u>5,076,235</u>
Total Net Assets	<u>155,594,259</u>	<u>153,706,110</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 193,270,912</u></u>

See notes to financial statements.

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

Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUE		
Charges for Services	\$ 30,127,444	\$ 27,877,571
Penalties	427,547	377,719
Other	704,230	780,569
	<hr/>	<hr/>
Total Operating Revenue	31,259,221	29,035,859
OPERATING EXPENSE		
Source of Supply	8,168,218	8,247,700
Transmission and Distribution	11,856,125	11,666,712
Collection	1,224,401	1,039,528
Administration	3,234,735	3,063,869
Depreciation and Amortization	4,568,185	4,413,380
	<hr/>	<hr/>
Total Operating Expense	29,051,664	28,431,189
INCOME FROM OPERATIONS	2,207,557	604,670
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	9,094	171,177
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	(42,950)	29,837
Interest Expense	(1,339,501)	(1,152,606)
	<hr/>	<hr/>
Net Other Expense	(1,373,357)	(951,592)
Net Income (Loss) Before Capital Contributions	834,200	(346,922)
Capital Contributions	1,053,949	2,247,778
	<hr/>	<hr/>
CHANGE IN NET ASSETS	1,888,149	1,900,856
NET ASSETS		
Balance, Beginning of Year	153,706,110	151,805,254
	<hr/>	<hr/>
Balance, End of Year	\$ 155,594,259	\$ 153,706,110
	<hr/>	<hr/>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 30,923,021	\$ 28,537,876
Cash Payments for Goods and Services	(13,255,799)	(15,551,599)
Cash Payments to Employees	<u>(6,851,200)</u>	<u>(6,736,330)</u>
Net Cash Provided By Operating Activities	10,816,022	6,249,947
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	274,776	542,690
Refunding of Customer Deposits	<u>(363,378)</u>	<u>(734,696)</u>
Net Cash Used In Noncapital Financing Activities	(88,602)	(192,006)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	55,003	77,244
Cash Received from Contributed Capital	1,053,949	2,247,778
Debt Issuance Costs	(263,471)	(265,947)
Payments for Capital Acquisitions	(27,971,823)	(12,221,193)
Proceeds from Issuance of Long-Term Debt	13,671,633	14,226,510
Principal Payments	(1,428,375)	(1,380,875)
Interest Paid	<u>(1,339,501)</u>	<u>(1,152,606)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	(16,222,585)	1,530,911
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	<u>9,094</u>	<u>171,177</u>
Net Cash Provided By Investing Activities	<u>9,094</u>	<u>171,177</u>
Net Increase (Decrease) in Cash	(5,486,071)	7,760,029
Cash, Beginning of Year	<u>19,070,959</u>	<u>11,310,930</u>
Cash, End of Year	<u><u>\$ 13,584,888</u></u>	<u><u>\$ 19,070,959</u></u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 2,207,557	\$ 604,670
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	3,957,015	3,794,598
Amortization	611,170	618,782
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(311,783)	(501,533)
Accounts Receivable - Other	(4,420)	3,551
Materials, Supplies, and Prepaid Expenses	(615,720)	(29,752)
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	1,626,861	1,515,567
Accounts Payable and Accrued Liabilities	<u>3,345,342</u>	<u>244,064</u>
Net Cash Provided By Operating Activities	<u>\$ 10,816,022</u>	<u>\$ 6,249,947</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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”). 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.

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.”

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 \$41,301 and \$28,445 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 and March 12, 2009 are stated at cost plus accrued income, which approximates fair market value at December 31, 2009 and 2008. Assets held by Trustee consist principally of cash and cash equivalents.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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>1,221,656</u>	<u>1,400,817</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,222,431</u></u>	<u><u>\$ 1,401,592</u></u>
Investments:		
Money Market Funds	\$ 9,463,208	
U.S. Treasury Bills	1,085,914	
Held by a Fiscal Agent	<u>1,813,333</u>	
Total Investments	<u><u>\$ 12,362,455</u></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 \$855,662 from the Federal Depository Insurance Corporation plus \$830,763 of pledged collateral at December 31, 2009. 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, 2009 and 2008

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Land	\$ 503,667	\$ 316,097	\$ 0	\$ 819,764
Dams, Buildings and Other Structures	33,380,616	670,973	0	34,051,589
Pumping and Purification Equipment	3,092,569	0	0	3,092,569
Mains, Meter, Services and Other Distribution Facilities	132,638,272	5,617,894	367,890	137,888,276
Filtration Plant	12,226,368	0	0	12,226,368
Automobiles, Trucks and Other Equipment	13,292,056	1,409,268	324,253	14,377,071
Leased Water Districts	<u>23,080,457</u>	<u>0</u>	<u>0</u>	<u>23,080,457</u>
	218,214,005	8,014,232	692,143	225,536,094
Construction-in- Progress	9,771,040	28,568,613	8,611,023	29,728,630
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
	233,235,045	36,582,845	9,303,166	260,514,724
Less: Accumulated Depreciation and Amortization	<u>66,570,627</u>	<u>4,551,194</u>	<u>594,190</u>	<u>70,527,631</u>
Net Plant and Water Rights	<u><u>\$ 166,664,418</u></u>	<u><u>\$ 32,031,651</u></u>	<u><u>\$ 8,708,976</u></u>	<u><u>\$ 189,987,093</u></u>

Depreciation and amortization charged to expense at December 31, 2009 and 2008 was \$4,568,185 and \$4,413,380, respectively, which includes amortization of leased water districts amounting to \$594,179 and \$614,647 for 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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, 2009 and 2008 amounted to \$17,290,000 and \$18,575,000, 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.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of \$33,000,000. The New York State Environmental Facilities Corporation (EFC) agrees to purchase the bonds from time to time in amounts equal to “Advances” which are based upon requisitions submitted by the Authority. The balance, up to the maximum principal amount, is to be advanced upon conversion. Principal outstanding at December 31, 2009 was \$13,671,633.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 – LONG-TERM DEBT – Continued

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

During the initial term the interest rate on the unpaid principal sum is 1%. Upon conversion the interest rate will be 4.8721%. Bonds mature serially in varying annual amounts and are expected to have a final maturity date of June 15, 2038.

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

	Principal Payments on Bonds	Interest Payable	Total Debt Service on Bonds
2010	\$ 1,816,510	\$ 1,858,716	\$ 3,675,226
2011	2,105,000	1,814,946	3,919,946
2012	2,191,633	1,732,932	3,924,565
2013	2,275,000	1,644,262	3,919,262
2014	2,375,000	1,549,290	3,924,290
2015 - 2019	8,965,000	6,383,723	15,348,723
2020 - 2024	9,795,000	4,508,780	14,303,780
2025 - 2029	8,740,000	2,659,053	11,399,053
2030 - 2034	3,085,000	1,326,307	4,411,307
2035 - 2038	3,840,000	439,463	4,279,463
	<u>45,188,143</u>	<u>\$ 23,917,472</u>	<u>\$ 69,105,615</u>
Less: Current Portion	1,816,510		
Add: Premium on Long-Term Debt	<u>334,053</u>		
Total	<u>\$ 43,705,686</u>		

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 – LONG-TERM DEBT – Continued

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

Changes in long-term liabilities are as follows:

	Balance at December 31, 2008	Additions	Reductions	Balance at December 31, 2009
Bonds Payable:				
Water Revenue Bonds	\$ 18,575,000	\$ 0	\$ 1,285,000	\$ 17,290,000
EFC Drinking Water Installment Bonds	<u>14,226,510</u>	<u>13,671,633</u>	<u>0</u>	<u>27,898,143</u>
Total Bonds Payable	<u>\$ 32,801,510</u>	<u>\$ 13,671,633</u>	<u>\$ 1,285,000</u>	<u>\$ 45,188,143</u>

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2009, amounts remaining to be paid under long-term lease obligations are as follows:

2010	\$ 138,185
2011	135,768
2012	107,913
2013	58,279
2014	55,990
Thereafter	<u>209,985</u>
	706,120
Less: Current Portion	105,875
Less: Imputed Interest	<u>49,245</u>
Total	<u>\$ 551,000</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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.

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
2007	\$ <u>652,632</u>
2008	\$ <u>636,219</u>
2009	\$ <u>540,216</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 State 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. 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 does not issue a publicly available financial report for the plan.

Funding Policy

The obligations of the plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements which will be renegotiated at various times in the future. 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. 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 currently pays for postemployment health care benefits on a pay-as-you-go basis.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

Annual Other Postemployment Benefit Cost

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the years ended December 31, 2009 and 2008:

	2009	2008
Annual Required Contribution	\$ 2,140,565	\$ 1,917,277
Interest on Net OPEB Obligation	59,928	0
Adjustment to Annual Required Contributions	<u>(84,821)</u>	<u>0</u>
Annual OPEB Cost (Expense)	2,115,672	1,917,277
Contributions Made	<u>(471,448)</u>	<u>(419,073)</u>
Increase in Net OPEB Obligation	1,644,224	1,498,204
Net OPEB Obligation - Beginning of Year	<u>1,498,204</u>	<u>0</u>
Net OPEB Obligation - End of Year	<u><u>\$ 3,142,428</u></u>	<u><u>\$ 1,498,204</u></u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

Annual Other Postemployment Benefit Cost – Continued

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

Fiscal Year Ended:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	<u>\$ 2,115,672</u>	<u>22.3%</u>	<u>\$ 3,142,428</u>
December 31, 2008	<u>\$ 1,917,277</u>	<u>21.9%</u>	<u>\$ 1,498,204</u>

Funded Status and Funding Progress

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The plan is currently not funded.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

Funded Status and Funding Progress – Continued

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the AAL.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-c)/a
January 1, 2007	\$ 0	\$ 18,941,883	\$ 18,941,883	0%	N/A	N/A

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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, 2009 and 2008

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.

NOTE 9 – CONTINGENCY

In 2009, the Authority exercised its right to condemn under the NYS Eminent Domain Procedure Law to acquire a subterranean easement from the Finger Lakes Railway. Appraisals estimating the value of the easement taken and any resulting damages have been exchanged by the parties and indicate a range of damages from \$103,000 to \$610,000.

The Authority is vigorously contesting the appraisal submitted by Finger Lakes Railway. The matter is scheduled for trial in 2010. In the interim, both parties have entered into settlement discussions that will continue until the trial date.



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, 2009, and have issued our report thereon dated March 8, 2010. 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.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 8, 2010



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, 2009. 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, 2009.

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 8, 2010

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