ONONDAGA COUNTY WATER AUTHORITY

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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Dermody, Burke & Brown, CPAs, LLC

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
ONONDAGA COUNTY WATER AUTHORITY

Report on the Financial Statements

We have audited the accompanying financial statements of **ONONDAGA COUNTY WATER AUTHORITY** (the Authority), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, on pages 3 to 21 and 53 to 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 21, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended December 31, 2016

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2016, 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 2016 financial report, which follows this report.

Financial Highlights

OCWA's 2016 total revenues increased by $1,092,793 (2.5%) over 2015 and water revenue increased by $1,058,478 for the year. A Base System Fee increase of $4.00 per year for each equivalent dwelling unit (EDU) generated approximately $472,000 of the overall increase in revenue, and an increase of 8.0 cents per 1,000 gallons for all use accounted for $921,984 additional revenue. For 2016, total water sales increased by 100.67 million gallons (MG) over 2015 sales, generating roughly $452,000 in additional revenues for the year. Residential and commercial sales increased by 192.8 MG primarily due to the prolonged warm and dry summer. A decline in industrial sales of 84.7 MG offset the overall increase. Bristol Labs use declined by 35.6 MG and Carr Street Cogeneration declined by 40.2 MG, accounting for 89.5% of the overall drop in industrial sales. It should also be noted that the overall increase in revenues for 2016 over 2015 appears lower than anticipated due to a 2015 change from a manual accrual for revenue calculation to a more accurate, automated method generated by the Authority's billing system. Accordingly, revenues for 2015 were approximately $750,000 higher as a result of the change.

OCWA's 2016 total customer account base increased by 704 (0.69%) over the 2015 year-end total. By year end OCWA's total customer base totaled 102,113 accounts with 100,745 metered residential, commercial, industrial and wholesale accounts. Overall 2016 was a fairly nondescript year with respect to growth, however it did outpace the growth experienced in 2014 and 2015.

On the expense side of the Authority's operation, total expenses for 2016 increased $33,882 (0.08%) over 2015. While this gives the appearance that little changed from 2015 to 2016, this is not the case.

Due to the warm, dry weather experienced throughout most of the summer, Purchased Water was up by $98,822, primarily attributed to increased residential and commercial demand. The overall increased demand was offset somewhat by lower industrial demand.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Financial Highlights – Continued

Wages for the year increased $150,098 (1.7%) and is partly attributed to wage increases for the Teamsters union personnel (2.75%), CSEA union personnel (3.0%) and Administrative personnel (2.1% - 2.75%). Offsetting 2016 wage increases was a decline in the number of water main breaks experienced due to an abnormally warm winter, resulting in half the number of breaks normally experienced during the coldest months of the year. Also offsetting the overall increase in payroll was a hiring freeze that was implemented during the MWB consolidation negotiations.

2016 Outside Contractor costs were $586,378 lower than the previous year, again due to the mild winter and the overall drop in the number of water main breaks. Transportation cost for 2016 were down $42,141 lower due in part to lower fuel cost and in part to fewer miles driven as a result of fewer breaks. Chemical expenses were down $25,414 primarily due to pricing. Electric and natural gas expenses dropped $101,025 with commodity costs continuing to decline due to fuel cost decreases.

Offsetting the aforementioned decreases in expenses, employee benefits increased by $801,991 mainly due to a $1,116,919 increase in pension expense tied to the Governmental Accounting Standards Board (GASB) Statement No. 68. Changes to the health insurance program for CSEA, Administrative staff and retirees resulted in group insurance costs dropping $387,055 from the previous year. On the other hand, Teamsters health care costs increased $129,705 over 2015. For 2016, due to changes by the State, Workers' Compensation insurance increased by $116,014. Additionally, all other insurances increased by $54,086 over 2015.

In December 2016 the Authority issued $12,320,000 in General Water System Revenue Refunding Bonds. The bonds were issued to advance refund the 2011 Series bonds in the amount of $13,495,000 maturing after September 15, 2018. The advance refunding will result in $2,604,450 in budgetary savings over the next 12 years.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Summary of Statements of Net Position

TABLE 1

	2015	2016
ASSETS		
Cash	$ 251,477	$ 221,613
Accounts Receivable	9,494,933	10,782,326
Materials, Supplies and Prepaid Expenses	2,590,768	3,471,095
Restricted Assets	28,637,890	27,486,584
Plant and Water Rights, Net	224,538,583	227,911,623
TOTAL ASSETS	$ 265,513,651	$ 269,873,241
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	$ 674,456	$ 851,786
Pension Related - ERS	2,099,686	6,688,841
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 2,774,142	$ 7,540,627
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 3,389,603	$ 3,342,648
Liabilities Payable from Restricted Assets	1,074,562	875,390
Bonds Payable	66,332,803	62,759,665
Postemployment Benefits Other than Pension	15,587,963	16,994,384
Due to NYS Retirement System	1,166,871	5,729,286
Capital Lease Obligations	138,250	87,325
TOTAL LIABILITIES	$ 87,690,052	$ 89,788,698
DEFERRED INFLOWS OF RESOURCES		
Pension Related - ERS	$ 0	$ 679,111
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 0	$ 679,111
NET POSITION		
Net Investment in Capital Assets	$ 158,741,986	$ 166,945,910
Restricted	29,410,458	31,982,853
Unrestricted	(7,554,703)	(11,982,704)
TOTAL NET POSITION	$ 180,597,741	$ 186,946,059

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Summary of Statements of Net Position – Continued

Total Assets increased by $4,359,590 in 2016 as a result of the following items:

- The decrease in cash of $29,864 is due to a lower balance in the Authority's operations and maintenance account at year-end.

- Accounts receivable have increased by $1,287,393 or 13.6%. There are two significant components that make up this increase. The first is accounts receivable for water that has been billed to customers which increased by $494,360 (12.0%). The second component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. The Authority's method of determining that accrued amount is a system generated process using previous meter reading date. Because the last read for customers was on average much earlier in 2016 than in 2015, the amount of accrued utility revenue through the end of 2016 was significantly higher. In fact, accrued utility revenue at the end of 2016 increased by $746,741 (13.8%) over the 2015 amount.

- Materials, supplies and prepaid expenses increased by $880,327 (34.0%) over 2015 levels. Inventory increased by $185,674 due to higher quantities required for jobs in progress or starting in the near future. Prepaid expenses went up by $694,653 due primarily to an increase in prepaid insurance ($734,598) partially offset by a $42,505 decrease in prepaid service contracts. The main reason that prepaid insurance increased so significantly is that the Authority chose to pay its annual workers' compensation premium of $712,648 prior to year-end to take advantage of savings offered by the carrier. The Authority chose not to prepay its workers' compensation premium in 2015.

- Restricted assets decreased by $1,151,306 (4.0%) in 2016. This decrease is mainly due to the net effect of three factors. First, is that the total amount in the construction funds decreased by $2.68 million due to the use of those funds to pay for capital projects. Second, there was a net increase of $2.40 million in money in the General Authority, Renewal and Replacement and General Funds. And finally, the required balances in the various bond funds decreased by $812,000, primarily due to the $660,000 reduction in the reserve requirement for OCWA's bonds.

- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2016. 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, 2016

Summary of Statements of Net Position – Continued

Deferred Outflows of Resources increased by $4,766,485 in 2016 as a result of the following:

- The Deferred Amount on Refunding increased by $177,330. In December 2016, the Authority issued bonds to complete a partial advance refunding of $13,495,000 of its 2011 Revenue Bonds. This resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $248,253. This amount and the deferred amount on the Authority's other bond refunding which took place in 2013 are being recognized as a component of interest expense over the remaining life of the old debt. The amount recognized as a component of interest expense in 2016 was $70,923.

- Deferred Contributions to Pension Plan increased by $4,589,155 based on information provided by the NYS and Local Retirement System to enable the calculation of required GASB 68 entries.

Total liabilities increased by $2,098,646 in 2016 as a result of the following items:

- Accounts Payable and Accrued Liabilities decreased by $46,955 (1.4%) in 2016 due to the net effect of several items including a decrease in Accounts Payable - $107,069 being partially offset by increases in Accrued Vacation/Sick Leave – $10,020, Accrued Payroll – $46,692 and Accrued Social Security – $3,592.

- Liabilities Payable from Restricted Assets decreased by $199,172 (18.5%) as compared to 2015 due to the combination of several factors. Customer deposits decreased by $114,517, accrued interest on bonds decreased by $172,337 and retainage held at year end decreased by $22,459. Somewhat offsetting the decreases, is an increase in accounts payable for capital work in the amount of $110,263.

- The Bonds Payable balance decreased by $3.57 million due to a number of causes. First, the Authority issued refunding bonds in the amount of $12,320,000 to partially advance refund $13,495,000 of its 2011 revenue bonds. Next, principal payments totaling $2,970,000 were made during the year. Finally, the bonds payable balance was also affected by the increase in bond premium in the amount of $571,863 during 2016.

- GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. It does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded liability. The financial statements at December 31, 2016 include a liability in the amount of $16.99 million that represents the Authority's unfunded liability. This is an increase of $1.41 million over the 2015 amount, but the increase and associated expense are over $400,000 less than in 2015 due to the Authority's switch to a lower cost health plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Summary of Statements of Net Position – Continued

- Due to NYS Retirement System increased by $4,562,415. This represents the Authority's share of the total net pension liability based on information provided by the New York State Local Retirement System. This information is provided by the System on an annual basis. One of the reasons for the increase is that the retirement system lowered the discount rate that it uses to 7.0% in 2016 from 7.5% in 2015.

- Capital Lease Obligations decreased by $50,925 due to principal payments made on various leases.

Deferred Inflows of Resources increased by $679,111 over the end of 2015 at which time the balance was $-0-.

- Deferred Inflows from Pension Plan increased to $679,111 at the end of 2016 from $-0- at the end of 2015. This again is based on information provided by NYS and Local Retirement System and enables the calculation of required GASB 68 entries. It is described on retirement system documentation as the "Differences Between Expected and Actual Experience."

Net Position is the difference between all the other elements of the statement. That is assets plus deferred outflows, less liabilities, less deferred inflows.

Review of Revenues

TABLE 2

	2015	2016
Residential/Commercial Sales	$ 32,880,738	$ 33,621,924
Industrial Sales	4,778,005	4,901,793
Municipal (Water Utility) Sales	3,768,161	3,888,628
Fire Protection	1,264,993	1,338,030
Miscellaneous Revenue	1,122,586	1,092,863
Interest from Investments Held in Trust	22,534	97,354
Loss on Disposal of Fixed Assets	(17,585)	(28,367)
TOTAL REVENUES	$ 43,819,432	$ 44,912,225

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Review of Revenues – Continued

- On January 1, 2016, OCWA implemented a Base System Fee increase of $4.00 per year for each equivalent dwelling unit (EDU) and a $0.08/1000 gallon rate increase for all customer classes except fire protection. Fire Protection had a rate increase of 5% effective September 1, 2016. The increases, which were determined in late 2015, were based on the projected requirements for 2016 and took into account changes that were expected to have an effect on 2016 operations.

- Total water revenues for 2016 increased by $1,058,478 (2.5%) over the previous year. Residential and Commercial sales increased by $741,186 (2.3%), Industrial sales increased by $123,788 (2.6%), Municipal sales increased by $120,467 (3.2%) and Fire Protection increased by $73,037 (5.8%).

- Residential and Commercial sales increased by 2.3% in 2016 over 2015. In addition to the Base System Fee and rate increases, Residential and Commercial consumption grew from 6,517 MG in 2015 to 6,710 MG in 2016. The increase of 193 MG equates to a 3.0% rise in the number of gallons billed. Normally, one would expect revenue to increase by more than 2.3% when there is a 3.0% increase in consumption in addition to a rate increase. To understand the reason Residential and Commercial revenue did not increase as much as might be predicted, it must be remembered that in 2015 the Authority changed the calculation of accrued revenue from a manual estimate based on the customer's last billing date to the more accurate system generated amount based on the customer's last reading date. The one time increase in revenue when the change was made was approximately $750,000 which is roughly 2% of Residential and Commercial revenue.

- Industrial sales increased by 2.6% over the 2015 amounts. Projected revenue growth from the EDU and rate increases were partially offset by a decrease in Industrial consumption from 2,725 MG in 2015 to 2,640 MG in 2016. The decrease of 85 MG equates to a 3.1% reduction in the number of gallons billed.

- Municipal sales increased by 3.2% over the 2015 amounts. Somewhat offsetting the anticipated revenue growth from the EDU and rate increases was a decrease in Municipal consumption from 2,182 MG in 2015 to 2,174 MG in 2016. The decrease of 8 MG equates to a 0.4% reduction in the number of gallons billed.

- Interest from Investments Held in Trust increased by $74,820 (332.0%) over the 2015 amount. Significant increases in both money market and Treasury bill yields over the course of the year account for the rise in interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Review of Expenses

TABLE 3

	2015	2016
Operations	$ 9,471,974	$ 9,861,995
Purchased Water	9,634,684	9,733,506
General and Administrative	5,998,880	6,810,745
Less: Burden Applied	(990,811)	(1,092,765)
Depreciation	5,608,661	5,785,297
Bond Premium Amortization	(183,625)	(190,796)
Water District Lease Amortization	493,485	481,854
Maintenance	7,566,234	6,418,551
Other Expense	2,912,117	2,737,094
TOTAL EXPENSES	$ 40,511,599	$ 40,545,481

Total expenses for 2016 increased by just $33,882 (0.08%) compared to fiscal year 2015. Areas of expense that experienced significant changes, both plus and minus, in 2016 included: labor, health insurance, pensions, OPEB, workers' compensation and general liability insurances, purchased water, electric/gas, fuel for vehicles, outside contractors and depreciation 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 $150,098 (1.7%) during 2016 as compared to 2015. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2016. The rates for CSEA employees increased by 3.0%, Teamsters increased by 2.75% and Administrative personnel increased by 2.1 - 2.75%.

As can be seen in the previous paragraph, the percent increase in labor expense in 2016 was less than the percent rate increases for employees. One of the main reasons is the very different weather experienced in the first part of 2016 as compared to 2015. In 2016, the weather was comparatively warm, whereas the Authority's service area experienced extreme cold at the beginning of 2015. At least partially due to the difference in the weather, OCWA repaired 172 (31.9%) fewer water main breaks in 2016 than it did in 2015. In addition, the frigid weather at the beginning of 2015 caused an inordinate number of frozen services that were not experienced in 2016. Those two factors allowed labor expenses in the first third of 2016 to be $235,114 (7.8%) less than in the first third of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Notable Expense Changes (Other Than Labor)

Group health insurance had an overall decrease of $244,448 (7.6%) as compared to 2015 for the Authority's employees and retirees. Health insurance premiums paid for CSEA, non-union employees and retirees decreased by $387,055 (28.1%) in 2016 going from $1,375,471 in 2015 down to $988,416 in 2016. The decrease is due to the Authority changing to a less expensive plan in January 2016. Health insurance premiums paid for the Authority's Teamsters employees increased by $129,705 (6.1%) in 2016 going from $2,127,499 in 2015 to $2,257,204 in 2016.

Pension Expense increased by $1,036,919 in 2016 as compared to 2015 based on the calculation provided by the NYS Local Retirement System. The NYSLRS calculates pension expense and other information on an annual basis and provides it to the Authority for inclusion in financials. One of the major influencers for the increase is that the retirement system lowered the discount rate that it uses from 7.5% in 2015 to 7.0% in 2016.

OPEB expense for 2016 decreased by $408,908 (22.5%) as compared to the 2015 figure. The primary reason for the decrease is that, as noted above, the Authority changed to a lower cost plan for its retirees in 2016. The amount was determined by the Authority's interim actuarial valuation.

Workers' Compensation premium increased by $116,014 and the expense related to various other insurances, including general liability, increased by $54,086. The total increase of $170,100 represents a 16.8% rise over 2015.

Purchased water cost increased by $98,822 (1.0%) for 2016. While the Metropolitan Water Board's (MWB) did not implement a rate increase in 2016, the monthly cost for the computed peak increased by $6,468 which equals $77,611 for the year. In addition, the quantity purchased from MWB increased slightly by 18 MG (0.3%) going from 7,046 MG in 2015 to 7,064 MG in 2016. The additional gallons purchased cost $18,402.

OCWA experienced a $101,025 (14.4%) decrease in its electric and natural gas charges in 2016 as compared to 2015 amounts. Charges in the first third of 2016 decreased by $89,326 (31.6%) from the higher costs of early 2015. In the final two thirds of 2016, costs were just $11,689 (2.8%) less than the comparable period of 2015.

Fuel costs for the Authority's vehicles decreased by a total of $69,071 (22.5%) in 2016. Gasoline costs decreased from $196,734 in 2015 to $164,617 in 2016 and diesel decreased from $110,675 to 73,721 over the same period.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Notable Expense Changes (Other Than Labor) – Continued

The Authority's expense for Outside Contractors decreased by $586,378 (30.1%) in 2016 as compared to 2015. The 172 additional water main repairs and the high number of frozen services in 2015 due in part to the cold weather in the early part of the year, caused contractor costs to be significantly higher than this year. The Authority normally takes care of maintenance of the water system with its own personnel, but due to the issues noted above it hired its contractor to assist in 2015. This resulted in $215,499 less paid to the contractor for maintenance work in 2016 than in 2015. Also, paving costs associated with road restoration after water main breaks decreased by $328,568 in 2016, going from $742,016 in 2015 down to $413,448 in 2016.

Depreciation increased by $176,636 (3.1%) in 2016 as compared to 2015 figures. This is a reflection of the fact that OCWA added over $7.8 million to Water Plant in Service in 2015 as well as over $9.3 million in 2016.

Summary of Overall 2016 Operations

In 2016, OCWA experienced a net income before capital contributions of $4,366,744, an increase of $1,058,911 from the net income of $3,307,833 for the fiscal year ended December 31, 2015. The most substantial components that make up the increase were, water revenue increases due to base system fee and rate increases as well as increased consumption by residential and commercial customers. And on the expense side, total expenses increased by a very small $33,882 (0.1%) caused, most significantly, by increases in labor, pension, workers' compensation, purchased water and depreciation nearly offset by decreases in health insurance, OPEB expense, outside contractor costs and electric and natural gas charges.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

OCWA Budget Process – Continued

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.

System Growth

Areas of growth included the following:

- For 2016 system growth included the installation of 23 developer / individual main extensions, totaling 27,291 feet of main.
- The Town of Volney continues to develop and add small districts throughout the town.
- OCWA expanded into Cayuga County during 2015 via an extension in to the Town of Sterling. By year-end, 47 of the potential 80 accounts had been activated.
- The Town of Granby Water Supply Area 6A was completed in 2016 and will potentially add 180 customers (to the current 569 accounts), should everyone connect to the new system.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Areas of Growth, 2017 and Beyond

- The Town of Constantia's Bernard's Bay Water System, which will extend water lines to the east close to the western border of the Village of Cleveland should be under construction in 2017 and has the potential to add over 600 new customers.

- Madison County's Agricultural and Renewable Energy (ARE) Park water system was nearing completion by the end of 2016. The ARE Park has the potential to add up to seven industrial users with a projected daily demand between 100,000 to 200,000 gallons per day. The system also has the potential to serves residents in and around the Clockville area.

- The Town of Sullivan and Madison County are working jointly on the development of a water system that would serve two small developments off Salt Springs Road in Manlius and Sullivan as well as the Clear Path for Veterans facility located on the border of the two towns.

- The Town of Granby has begun the process of developing Water Supply Area 7 that would serve the northern portions of the town, should it be approved.

- The Town of Parish is in ongoing discussions with OCWA regarding the prospect of developing a system to serve residents and a school to the north of the Town of Hastings.

- Discussions that would lead to additional customers being added in Cayuga County are in their infancy.

- For the start of 2017 four developer contracts have been paid and are ready to start, seven contracts have been sent to developers and four developer extensions are in the design phase.

- The Town of Lysander Comprehensive Land Use Plan is being updated. The revised plan could lead to two major developments south of Route 31 along the Seneca River. If approved, the two developments have the potential to add 1,000 customers to the OCWA system.

- OCWA essentially now serves all the towns and villages within its potential service territory, which covers a very large geographic footprint in the Five Counties (Onondaga, Oswego, Madison, Oneida and Cayuga). Collectively OCWA serves 33 towns and 13 villages on a retail basis. OCWA also wholesales water to two towns on a regular basis and has another seven wholesale connections that are used on an intermittent basis. Future growth, with respect to retail sales, will be tied to infill in the 33 towns served throughout the five county region and the provision of service to the towns on the fringe of the system.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2015	**2016**	**2015-2016**
Water Plant in Service	$ 293,392,809	$ 302,741,331	3.19%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	3,904,809	3,617,356	-7.36%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	165,964	242,554	46.15%
Jobbing in Progress	224,450	58,601	-73.89%
Allowance for Depreciation	(83,094,374)	(88,213,919)	6.16%
Accumulated Amortization/Water Districts	(13,215,979)	(13,697,832)	3.65%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(8,986)	(6,358)	-29.25%
Total	$ 224,538,583	$ 227,911,623	1.50%

<u>Increase to Water Plant in Service Highlights</u>

- Otisco Lake Dam Improvements – $1,205,574
- Sherwood Pump Station to East View Tank – $445,279
- 12" Ext. Pottery Rd. – $339,954
- 8" & 10" Ext. Peterboro St. – $246,569
- Zebra Mussel Line Replacement – $148,487
- Water meters in the amount of $1,123,278 as part of an ongoing meter replacement project
- The completion of various other water main projects – $3,734,203
- The installation of new and replacement water services – $886,225
- The installation of new and replacement hydrants – $748,257
- The replacement of vehicles in its fleet as part of OCWA's asset management program

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress decreased by $287,453 during 2015, from $3,904,809 at the beginning of the year to $3,617,356 at year end. Of that amount, $2,953,313 is related to the following four projects:

- Eagleview Tank Replacement **–** $1,082,277
- Dunning Dr. Pump Station **–** $986,401
- Sherwood Dr. Pump Station **–** $718,044
- 8" Ext Miller Rd. to Bartell Spur – $166,591

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 increased due to an increase in the number of studies in process.

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.

Long-Term Debt Administration

The Authority has five General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling $60,115,000 as of December 31, 2016. OCWA's most recent bonds were issued in December 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Long-Term Debt Administration – Continued

On December 1, 2016, the Authority issued $12,320,000 in General Water System Revenue Refunding Bonds Series 2016A. The bonds bear interest at rates ranging from 2.0% to 5.0% and have a final maturity date of September 15, 2028. The bonds were issued to advance refund the Authority's Series 2011 bonds maturing after September 15, 2018. The 2011 bonds were originally issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects. As of December 31, 2016, the 2016 bonds have a remaining balance of $12,320,000.

On April 22, 2015, the Authority issued $5,200,000 in General Water System Revenue Bonds Series 2015A. The bonds bear interest at rates ranging from 1.0% to 3.375% and have a final maturity date of September 15, 2035. The bonds were issued for capital improvements to the water system including a water tank replacement, two pump stations, water tank improvements, Otisco Lake Dam improvements and water main improvements. As of December 31, 2016, the 2015 bonds have a remaining principal of $4,745,000. This amount reflects a principal payment of $190,000 made in September 2016.

On March 5, 2013, the Authority issued $8,390,000 in General Water System Revenue Bonds Series 2013. The bonds bear interest at rates ranging from 2.0% to 4.5% and have a final maturity date of September 15, 2025. The bonds were issued to advance refund the Authority's 2005 Series A bonds maturing after 2015. The 2005 Series A Bonds were originally issued to pay capital costs of certain improvements of the Water System. As of December 31, 2016, the 2013 bonds have a remaining principal of $7,450,000. This amount reflects a principal payment of $705,000 made in September 2016.

The General Water System Revenue Bonds Series 2011 have a remaining principal balance of $1,950,000 as of December 31, 2016. This amount reflects a principal payment of $900,000 made in September 2016. In addition, in December 2016, the 2011 Series bonds maturing after September 15, 2018 ($13,495,000) were advance refunded. The advance refunding will result in $2,604,450 in budgetary savings over the next 12 years. The bonds bear interest at rates ranging from 2.5% to 5.0% and have a final maturity date of September 15, 2028. The bonds were issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects.

The General Water System Revenue Bonds, Series 2010A have a remaining principal balance of $1,355,000 as of December 31, 2016. This amount reflects a principal payment of $120,000 made in September 2016. The required principal payment on the bond in 2017 is $125,000. The bonds bear interest at rates ranging from 3.0% to 5.0% and have a final maturity date of September 15, 2025. The bonds were issued to provide funds to redeem all outstanding 2001 Series A Bonds maturing after 2010 as well as provide funds for capital improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Long-Term Debt Administration – Continued

The E.F.C. Drinking Water Bonds, 2009 Series A have a remaining principal balance of $21,750,000 as of December 31, 2016. The remaining balance reflects a principal payment of $480,000 made in June 2016. The required principal payment on the bond in 2017 is $515,000. The interest rate is 4.8721%. Bonds mature serially in varying annual amounts and have a final maturity date of June 15, 2038.

The E.F.C. Drinking Water Installment Bonds, 2008 Series A were issued in the amount of $14,226,510 has a remaining principal balance of $10,545,000 as of December 31, 2016. This amount reflects a principal payment of $575,000 made in October 2016. The required principal payment on the bond in 2017 is $590,000. 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).

Pursuant to its 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, 2016**
2016 Series A Bonds	$ 12,320,000
2015 Series Bonds	4,745,000
2013 Series Bonds	7,450,000
2011 Series Bonds	1,950,000
2010 Series A Bonds	1,355,000
2009 E.F.C. Bonds	21,750,000
2008 E.F.C. Bonds	10,545,000
Total	$ 60,115,000

OCWA Bond Rating

In October 2016, Moody's Investors Service assigned an Aa3 rating and a positive outlook to OCWA's 2016 Bonds. Concurrently, Moody's affirmed the Aa3 rating and assigned a positive outlook to OCWA's previously issued parity revenue bonds outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Looking Ahead

For 2017 OCWA implemented a $1 per quarter ($4 per year) increase of its Base System fee for each Equivalent Dwelling Unit (EDU). A 5/8-inch meter equals one EDU and is representative of a typical residential meter. By way of example a 2-inch commercial meter equals 8 EDUs and an 8-inch industrial meter equals 85 EDUs. Based on OCWA's current metered customer base of 100,782 metered accounts (as of February 23, 2017) and a total EDU count of 119,164, the estimated annual revenue increase for 2017 is projected to be $476,656, representing a 1.09% increase in total water sales revenue. It should also be pointed out that the EDU portion of the increase is fixed and not subject to the water use fluctuations as is the commodity rate per 1,000 gallons. The overall impact on an average OCWA customer, using 12,500 gallons per quarter, is a monthly increase of $0.33 or 1.56% per year. The ongoing annual rate increases are in accordance with the Authority's 2005 Bond Trust Indenture, whereby OCWA's Board is required to review rates on an annual basis and adjust them accordingly.

Rate increases since 2002 and up to and including 2017 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2017	$4.00 / EDU	$4.00 / EDU	$4.00 / EDU	0.00%
2016	$4.00 / EDU + $0.08/1,000 gal	$4.00 / EDU + $0.08/1,000 gal	$4.00 / EDU + $0.08/1,000 gal	5.00%
2015	$12.00 / EDU + $0.025 / 1,000 gal	$12.00 / EDU + $0.025 / 1,000 gal	$12.00 / EDU + $0.025 / 1,000 gal	0.00%
2014	$8.00 / EDU	$8.00 / EDU	$8.00 / EDU	0.00%
2013	2.00%	2.00%	2.00%	0.00%
2012	2.47%	2.31%	2.38%	0.00%
2011	9.00%	9.00%	9.00%	0.00%
2010	12.00%	10.00%	10.00%	3.25%
2009	15.00%	15.00%	9.90%	3.25%
2008	7.70%	7.70%	6.70%	3.25%
2007	9.80%	9.80%	6.75%	4.00%
2006	6.00%	6.00%	4.00%	4.00%
2005	8.00%	8.00%	5.00%	5.00%
2004	15.00%	15.00%	3.00%	3.00%
2003	2.00%	2.00%	2.00%	2.00%
2002	2.00%	2.00%	2.00%	2.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Looking Ahead – Continued

- The Syracuse Water Department, which is on a July 1 – June 30 budget cycle, did not raise rates for the 2016-2017 cycle and OCWA's 2017 O&M Budget takes this into account.

- On a more significant note, after several months of negotiation with Onondaga County, the operation of the County's Metropolitan Water Board (MWB) was merged into the OCWA system effective January 1, 2017. From its inception through December 31, 2016, MWB treated and wholesaled Lake Ontario water to OCWA, the City of Syracuse and the Town of Hannibal (Oswego County). While Syracuse and Hannibal are small or intermittent users, OCWA bought roughly 50% of its daily demand from MWB. Post-merger, OCWA will assume all MWB operations and continue to sell water on a wholesale basis to the City of Syracuse and the Town of Hannibal, but OCWA no longer has to purchase water from MWB. Instead, OCWA's cost to use Lake Ontario water will be directly related to the cost to operate and maintain the system coupled with the cost of funding a major upgrade of the 50-year-old Lake Ontario water treatment plant, which is currently estimated to be a $40 million project.

- Prior to the consolidation of OCWA and the Metropolitan Water Board the 2017 combined authorized staffing levels of the two organizations was budgeted for 182 employees. Both OCWA and MWB had vacant positions on their rosters at the end of 2016 and once merged the combined staffing of the two organizations on January 1, 2017 totaled 168 employees. The Authority's 2017 budget includes the addition of a night distribution maintenance crew that will consist of four employees working primarily on valve and hydrant operations and maintenance. OCWA is also adding three more distribution maintenance workers to address increasing demands of a water system that has doubled in size in the last 20 years. It is projected over the course of the next two years, by attrition, total staffing of the combined organizations will be 172 employees, which should result in a combined wages and benefits savings of nearly $1 million per year.

- Chemical costs for 2017 are projected to remain stable. On a related water quality note, starting in 2017, OCWA will begin a program that will see the carbon in one filter in each of the water plant replaced each year.

- OCWA's cost of electric and natural gas costs in 2017 are projected to remain stable with improved energy efficiencies softening the impact of potential rate increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2016

Looking Ahead – Continued

- OCWA's ongoing annual capital budget for 2017 is approved for $9,581,226, keeping the level of capital projects in line with past years. In addition to reoccurring capital expenditures the list of major projects underway or about to start include the tank repairs and tank painting ($2,350,000) and tank replacement evaluations ($125,000). The construction of a new meter test facilities ($750,000) start and be completed in 2017. The Solvay/Geddes Streetscape improvement project ($750,000) should be completed by the summer of 2017. Also on tap is a major transmission main stabilization projects ($400,000) in Marcellus along the Nine Mile Creek bed.

- OCWA's 2017 capital improvement program is funded in part by net income from 2016 and in part by capital construction funds. In addition to the projects mentioned above, the 2017 capital budget addresses increasing demand for meter replacements and upgrades, replacement of water mains, hydrants and valves. The budget also covers ongoing replacement of vehicles and heavy equipment. Additionally, the capital budget addresses building and facilities improvements ranging from control pit repairs and storage tank rehabilitation projects. All approved projects are in keeping with OCWA's ongoing asset management efforts, whereby operating and engineering staff continually review and prioritize the overall needs related to replacement and or enhancement of all 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 4949, Syracuse, New York 13221-4949. Questions can also be directed to the Executive Director via the Authority's web site at www.ocwa.org

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

ASSETS

CURRENT ASSETS	2016	2015
Cash	$ 221,613	$ 251,477
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of $60,000 for Both 2016 and 2015)	10,727,658	9,486,557
Accounts Receivable - Other	54,668	8,376
Materials, Supplies and Prepaid Expenses	3,471,095	2,590,768
Total Current Assets	14,475,034	12,337,178
RESTRICTED ASSETS		
Customer Deposits	598,817	678,200
General Authority Fund	2,511,942	2,480,854
Bond Fund	2,074,862	2,051,951
General Fund	15,283,615	13,172,876
Renewal and Replacement Fund	948,071	849,329
Bond Reserve Fund	4,951,919	5,609,936
Construction Fund	1,117,358	3,794,744
Total Restricted Assets	27,486,584	28,637,890
PLANT AND WATER RIGHTS, NET	227,911,623	224,538,583
TOTAL ASSETS	269,873,241	265,513,651
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	851,786	674,456
Pension Related - ERS	6,688,841	2,099,686
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,540,627	2,774,142

LIABILITIES AND NET POSITION

	2016	2015
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	3,342,648	3,389,603
Capital Lease Obligations - Current Portion	50,925	50,925
Total Current Liabilities	3,393,573	3,440,528
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	237,503	149,699
Customer Deposits	311,126	425,644
Bonds Payable, Portion Due Within One Year	3,125,000	2,970,000
Accrued Interest on Bonds Payable	326,761	499,219
Total Liabilities Payable from Restricted Assets	4,000,390	4,044,562
LONG-TERM DEBT		
Bonds Payable	59,634,665	63,362,803
Post-Employment Benefits Other Than Pension	16,994,384	15,587,963
Net Pension Liability - ERS	5,729,286	1,166,871
Capital Lease Obligations, Net of Current Portion	36,400	87,325
Total Long-Term Debt	82,394,735	80,204,962
TOTAL LIABILITIES	89,788,698	87,690,052
DEFERRED INFLOWS OF RESOURCES		
Pension Related - ERS	679,111	0
TOTAL DEFERRED INFLOWS OF RESOURCES	679,111	0
NET POSITION		
Net Investment in Capital Assets	166,945,910	158,741,986
Restricted	31,982,853	29,410,458
Unrestricted	(11,982,704)	(7,554,703)
TOTAL NET POSITION	$ 186,946,059	$ 180,597,741

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUE		
Charges for Services	$ 43,750,375	$ 42,691,897
Penalties	594,669	592,758
Other	498,194	529,828
Total Operating Revenue	44,843,238	43,814,483
OPERATING EXPENSE		
Source of Supply	9,733,506	9,634,684
Transmission and Distribution	14,916,272	15,771,293
Collection	1,364,274	1,266,915
Administration	5,717,980	5,008,069
Depreciation and Amortization	6,076,355	5,918,521
Total Operating Expense	37,808,387	37,599,482
INCOME FROM OPERATIONS	7,034,851	6,215,001
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	97,354	22,534
Loss on Disposal of Fixed Assets	(28,367)	(17,585)
Debt Issuance Costs	(154,710)	(109,641)
Interest Expense	(2,582,384)	(2,802,476)
Net Other Expense	(2,668,107)	(2,907,168)
Net Income Before Capital Contributions	4,366,744	3,307,833
Capital Contributions	1,981,574	1,516,954
CHANGE IN NET POSITION	6,348,318	4,824,787
NET POSITION		
Balance, Beginning of Year, As Restated	180,597,741	175,772,954
Balance, End of Year	$ 186,946,059	$ 180,597,741

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 43,555,845	$ 41,922,484
Cash Payments for Goods and Services	(21,674,290)	(21,382,493)
Cash Payments to Employees	(9,010,886)	(8,907,475)
Net Cash Provided By Operating Activities	12,870,669	11,632,516
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	916,463	1,077,876
Refunding of Customer Deposits	(1,030,980)	(1,121,329)
Net Cash Used In Noncapital Financing Activities	(114,517)	(43,453)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	105,238	47,029
Cash Received from Contributed Capital	1,981,574	1,516,954
Payments for Capital Acquisitions	(9,773,799)	(8,781,068)
Debt Issuance Costs	(154,710)	(109,641)
Premium on Bond Issuance	1,575,849	125,937
Retirement of Debt (Paid to Escrow Fund)	(14,556,444)	0
Proceeds from Issuance of Long-Term Debt	12,320,000	5,200,000
Principal Payments	(3,020,925)	(2,980,925)
Interest Paid	(2,511,459)	(2,721,715)
Net Cash Used In Capital and Related Financing Activities	(14,034,676)	(7,703,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	97,354	22,534
Net Cash Provided By Investing Activities	97,354	22,534
Net Increase (Decrease) in Cash	(1,181,170)	3,908,168
Cash, Beginning of Year	28,889,367	24,981,199
Cash, End of Year	$ 27,708,197	$ 28,889,367

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	$ 7,034,851	$ 6,215,001
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	5,785,297	5,608,661
Amortization	291,058	309,860
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customers	(1,241,101)	(1,895,390)
Accounts Receivable - Other	(46,292)	3,391
Materials, Supplies, and Prepaid Expenses	(880,327)	(96,802)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(131,609)	341,311
Postemployment Benefits Other than Pension	1,406,421	1,815,324
Pension Related Deferrals and Liabilities	652,371	(668,840)
Net Cash Provided By Operating Activities	$ 12,870,669	$ 11,632,516

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 Accounting

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

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.

Basis of Presentation

GASB requires the classification of net position into three components defined as follows:

- *Net Investment in Capital Assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation and related debt.

- *Restricted Net Position* – This component of net position consists of amounts which have external constraints placed on their use 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 Position* – This component consists of the remaining net assets, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report separate sections for deferred outflows and inflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will therefore not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represents an acquisition of net position that is applicable to a future reporting period and will therefore not be recognized as an inflow of resources (revenue) until then. The Authority reports deferred amounts on refunding of water revenue bonds, as well as amounts relating to the New York State Employees' Retirement System in this category.

Cash and Cash Equivalents

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.

Assets Held by Trustee

Assets held in trust in accordance with the General Water System Revenue Bonds Trust Indentures and the Environmental Facilities Corporation's Drinking Water Installment Bond Indentures are included in Restricted Assets on the statement of net position. (See Note 5)

Assets held by the Trustee consist of fixed income United States Government securities. The Authority reports these items at fair value based on quoted market prices.

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.

Accrued unbilled revenues (included in accounts receivable on the statement of financial position) represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management. See Note 9 for more information on this estimate.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Materials and Supplies

Materials and supplies, consisting mainly of valves, pipe and hydrants are stated at cost and are determined using a weighted average cost method.

Bond Premium

Amortization of bond premium is on the straight-line basis over the life of the bonds and amounted to $190,796 and $183,625 for the years ended December 31, 2016 and 2015, respectively.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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 change in net position.

Pensions

For purposes of measuring the net pension liability, net pension asset, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Employee's Retirement System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported in the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the statutes governing the System. Investments are reported at fair value.

Other Postemployment Benefits

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Income Tax Status

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Cash held by the Authority at December 31, 2016 consists of the following:

	Carrying Value	Bank Balance
Cash Held:		
Cash on Hand	$ 1,000	$ 1,000
Bank Accounts	900,979	1,089,560
Total Cash Held	$ 901,979	$ 1,090,560

Cash held by the Authority at December 31, 2015, consists of the following:

	Carrying Value	Bank Balance
Cash Held:		
Cash on Hand	$ 1,000	$ 1,000
Bank Accounts	1,070,419	1,297,760
Total Cash Held	$ 1,071,419	$ 1,298,760

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 $513,395 from the Federal Depository Insurance Corporation plus $577,165 of pledged collateral at December 31, 2016. 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS – Continued

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities.

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.

Total marketable securities by type as of December 31 are as follows:

	2016	2015
Investments:		
Money Market Funds	$ 6,573,269	$ 6,653,868
U.S. Treasury Bills	20,232,949	21,164,080
Total Investments	$ 26,806,218	$ 27,817,948

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. United States Treasury bills are considered level 1 investments.

The Authority's recurring fair value measurements of its U.S. Treasury bills as of December 31, 2016 and 2015, are valued using quoted market prices (Level 1 inputs).

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2016 is as follows:

	December 31, 2015	Additions	Retirements / Reclassifications	December 31, 2016
Land	$ 988,834	$ 0	$ 0	$ 988,834
Dams, Buildings and Other Structures	79,923,119	1,405,974	0	81,329,093
Pumping and Purification Equipment	3,135,883	49,740	0	3,185,623
Mains, Meter, Services and Other Distribution Facilities	166,473,530	7,570,159	445,117	173,598,572
Filtration Plant	25,099,440	100,774	0	25,200,214
Automobiles, Trucks and Other Equipment	17,772,003	1,023,862	356,870	18,438,995
Leased Water Districts	23,169,890	0	0	23,169,890
	316,562,699	10,150,509	801,987	325,911,221
Construction-in-Progress	4,295,223	672,881	1,049,593	3,918,511
Water Rights	5,250,000	0	0	5,250,000
Total Plant and Water Rights	326,107,922	10,823,390	1,851,580	335,079,732
Less: Accumulated Depreciation and Amortization	101,569,339	6,267,151	668,381	107,168,109
Net Plant and Water Rights	$ 224,538,583	$ 4,556,239	$ 1,183,199	$ 227,911,623

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – PLANT AND WATER RIGHTS – Continued

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2015 is as follows:

	December 31, 2014	Additions	Retirements / Reclassifications	December 31, 2015
Land	$ 963,543	$ 25,291	$ 0	$ 988,834
Dams, Buildings and Other Structures	79,526,367	396,752	0	79,923,119
Pumping and Purification Equipment	3,135,883	0	0	3,135,883
Mains, Meter, Services and Other Distribution Facilities	160,266,246	6,515,652	308,368	166,473,530
Filtration Plant	24,615,981	483,459	0	25,099,440
Automobiles, Trucks and Other Equipment	17,094,577	887,916	210,490	17,772,003
Leased Water Districts	23,169,890	0	0	23,169,890
	308,772,487	8,309,070	518,858	316,562,699
Construction-in-Progress	3,823,225	3,660,389	3,188,391	4,295,223
Water Rights	5,250,000	0	0	5,250,000
Total Plant and Water Rights	317,845,712	11,969,459	3,707,249	326,107,922
Less: Accumulated Depreciation and Amortization	95,921,437	6,102,145	454,243	101,569,339
Net Plant and Water Rights	$ 221,924,275	$ 5,867,314	$ 3,253,006	$ 224,538,583

Depreciation and amortization charged to expense at December 31, 2016 and 2015 was $6,076,355 and $5,918,521, respectively, which includes amortization of leased water districts (see Note 5).

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005, August 2010, April 2011, March 2013, April 2015 and December 2016, the Authority issued $13,840,000, $5,925,000, $16,910,000, $8,390,000, $5,200,000 and $12,320,000, respectively, in General Water System Revenue Bonds, 2005, 2010, 2011, 2013, 2015 and 2016 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, 2016 and 2015 amounted to $27,820,000 and $30,910,000, respectively. The bonds mature serially in varying annual amounts through 2035, with interest ranging from 1.00% and 5.00%, payable semi-annually. The 2005 bonds matured on September 15, 2015. The 2010 bonds maturing on or after September 15, 2021, the 2011 bonds maturing on September 15, 2018, the 2013 bonds maturing on or after September 15, 2025, the 2015 bonds maturing on or after September 15, 2035 and the 2016 bonds maturing on or after September 15, 2028, 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.

On August 19, 2010, the Authority issued $5,925,000 in General Water System Revenue Bonds, Series 2010A to refund all outstanding General Water System Revenue Bonds, 2001A due September 15, 2015. The Series 2010A bonds bear interest at rates ranging from 3.0% to 5.0% and have a final maturity date of September 15, 2025. The net proceeds, along with the Debt Service Reserve for the 2001 Bonds, were used to refund $4,640,000 of the Series 2001A General Water System Revenue Bonds, fund the Debt Service Reserve Fund in the amount of $590,408, fund the Construction Fund for $2,006,255 and to pay bond issuance costs of $87,180. The refunding produced an approximate $372,573 net present value savings.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $81,780. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2015. The Authority completed the refunding to reduce its total debt service payments over the next five years by $389,037 and to obtain an economic gain of $372,573.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT – Continued

Water Revenue Bonds Payable – Continued

On March 5, 2013, the Authority issued $8,390,000 in General Water System Revenue Bonds, Series 2013A to partially advance refund outstanding General Water System Revenue Bonds, 2005A. The Series 2013A bonds bear interest rates ranging from 2.0% to 4.5% and have a final maturity date of September 15, 2025. The net proceeds (after payment of $97,987 in underwriting fees and other issuance costs) and $399,492 of existing reserve funds for the 2005A Series bonds were used to purchase State and Local Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, $8,390,000 of the 2005A Series bonds are considered to be defeased and the liability has been removed from the accounts. The outstanding principal for the unrefunded portion of the 2005A Series bonds matured on September 15, 2015.

The advance partial refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $870,452. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2025. The Authority completed the refunding to reduce its total debt service payments over the next thirteen years by $962,963 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $621,709. At December 31, 2016 and 2015, approximately $605,000 and $675,000, respectively, of the deferred amount on refunding was included in deferred outflows on the statement of net position.

On December 1, 2016, the Authority issued $12,320,000 in General Water System Revenue Bonds, Series 2016A to partially advance refund outstanding General Water System Revenue Bonds, 2011A. The Series 2016A bonds bear interest rates ranging from 2.0% to 5.0% and have a final maturity date of September 15, 2028. The net proceeds (after payment of $158,403 in underwriting fees and other issuance costs) and $660,595 of existing reserve funds for the 2011A Series bonds were used to purchase State and Local Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, $13,495,000 of the 2011A Series bonds are considered to be defeased and the liability has been removed from the accounts. The outstanding principal for the unrefunded portion of the 2011A Series bonds is $1,950,000 with a final maturity of September 15, 2018.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT – Continued

Water Revenue Bonds Payable – Continued

The advance partial refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $248,253. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2028. The Authority completed the refunding to reduce its total debt service payments over the next twelve years by $2,604,450 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,459,445. At December 31, 2016, approximately $246,505 of the deferred amount on refunding was included in deferred outflows on the statement of net position.

Environmental Facilities Corporation Revenue Bonds ("E.F.C. 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 provide 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 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. During 2012, the Authority received $5,696,270 in ARRA principal forgiveness and the bond purchase agreement was amended to reflect the new principal amount of $23,952,835. The bonds have a final maturity date of June 15, 2038 and bear interest at a rate of 4.8721%.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT – Continued

Environmental Facilities Corporation Revenue Bonds ("E.F.C. Drinking Water Installment Bonds") – Continued

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

	Principal on Bonds	Interest Payable	Total Debt Service
2017	$ 3,125,000	$ 2,314,890	$ 5,439,890
2018	3,225,000	2,302,257	5,527,257
2019	3,270,000	2,184,474	5,454,474
2020	3,385,000	2,075,546	5,460,546
2021	3,525,000	1,945,909	5,470,909
2022 - 2026	19,015,000	7,448,411	26,463,411
2027 - 2031	12,630,000	4,012,218	16,642,218
2032 - 2036	7,090,000	2,027,874	9,117,874
2037 - 2038	4,850,000	288,428	5,138,428
	60,115,000	$ 24,600,007	$ 84,715,007
Less: Current Portion	3,125,000		
Add: Premium on Long-Term Debt	2,644,665		
Bonds Payable - Long-Term	$ 59,634,665		

Changes in long-term liabilities in 2016 are as follows:

	December 31, 2015	Additions	Reductions	December 31, 2016
Bonds Payable:				
Water Revenue Bonds	$ 30,910,000	$ 12,320,000	$ 15,410,000	$ 27,820,000
E.F.C. Drinking Water Installment Bonds	33,350,000	0	1,055,000	32,295,000
Total Bonds Payable	$ 64,260,000	$ 12,320,000	$ 16,465,000	$ 60,115,000

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT – Continued

Environmental Facilities Corporation Revenue Bonds ("E.F.C. Drinking Water Installment Bonds") – Continued

Changes in long-term liabilities in 2015 are as follows:

	December 31, 2014	Additions	Reductions	December 31, 2015
Bonds Payable:				
Water Revenue Bonds	$ 27,625,000	$ 5,200,000	$ 1,915,000	$ 30,910,000
E.F.C. Drinking Water Installment Bonds	34,370,000	0	1,020,000	33,350,000
Total Bonds Payable	$ 61,995,000	$ 5,200,000	$ 2,935,000	$ 64,260,000

Capital Leases

The Authority leases certain water facilities under capital lease obligations. Water facilities included in capital assets amounted to $23,169,890 for both years ending December 31, 2016 and 2015. Accumulated amortization related to these water facilities was $13,697,832 and $13,215,979 for the years ending December 31, 2016 and 2015, respectively.

Amortization expense related to water facilities under capital leases was $481,854 and $493,485 for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, amounts remaining to be paid under long-term lease obligations are as follows:

2017	$ 55,815
2018	20,384
2019	19,292
	95,491
Less: Current Portion	50,925
Less: Imputed Interest	8,166
Lease Obligations – Long-Term	$ 36,400

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Authority participates in the New York State and Local Employees' Retirement System (ERS) which is referred to as New York State and Local Retirement System (the System). This is a cost sharing multiple employer defined benefit retirement system, providing retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report may be found at www.osc.state.ny.us/retire/publications/index.php or by writing to the New York State and Local Employees' Retirement System, Alfred E. Smith State Office Building, State Street, Albany, New York 12244.

Contributions

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

	Annual Contributions
2014	$ 1,858,246
2015	$ 1,751,828
2016	$ 1,467,536

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the Authority reported a liability of $5,729,286 and $1,166,871, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2016 and March 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2016 and 2015, the Authority's proportion was .0357% and .0345%, respectively.

At December 31, 2016, the Authority reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 28,952	$ 679,111
Changes of Assumptions	1,527,828	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,398,927	0
Changes in Proportion and Differences Between the Employer Contributions and Proportionate Share of Contributions	265,598	0
Authority Contributions Subsequent to the Measurement Date	1,467,536	0
Total	$ 6,688,841	$ 679,111

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – Continued

Authority contributions subsequent to the measurement date of $1,467,536, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended:		
2017	$	1,157,791
2018		1,157,791
2019		1,157,791
2020		1,068,820
Total	$	4,542,193

At December 31, 2015, the Authority reported $347,858 as deferred outflows of resources from the accumulated net difference between projected and actual earnings on NYSLRS investments. In addition, deferred outflows of resources of $1,751,828 at December 31, 2015 resulting from the Authority's contributions subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended December 31, 2016.

The Authority recorded pension expense for the years ending December 31, 2016 and 2015 in the amounts of $2,119,907 and $1,082,988, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – Continued

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015 with update procedures used to roll forward the total pension liability to March 31, 2016. The total pension liability for the March 31, 2015 measurement date was determined using an actuarial valuation as of April 1, 2014, with update procedures to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions.

	2016	**2015**
Inflation Rate	2.5%	2.7%
Salary Increases	3.8%	4.9%
Investment Rate of Return (Net of Investment Expense, Including Inflation)	7.0%	7.5%

Annuitant mortality rates are based on April 1, 2005 to March 31, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 to March 31, 2010.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – Continued

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 and 2015 are summarized below:

Asset Class	**Expected Real Rate of Return**	
	2016	**2015**
Domestic Equities	7.3%	7.3%
International Equities	8.5%	8.5%
Real Estate	8.3%	8.3%
Private Equity/Alternative Investments	11.0%	11.0%
Absolute Return Strategies	6.8%	6.8%
Opportunistic Portfolio	8.6%	8.6%
Real Assets	8.7%	8.7%
Cash	2.3%	2.3%
Inflation-Indexed Bonds	4.0%	4.0%
Mortgages and Bond	0.0%	4.0%

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – Continued

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% and 7.5% at December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's December 31, 2016 proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
Authority's Proportionate Share of the Net Pension (Asset) Liability	$ 12,919,125	$ 5,729,286	$ (345,820)

The following presents the Authority's December 31, 2015 proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Discount 7.50%	1% Increase 8.50%
Authority's Proportionate Share of the Net Pension (Asset) Liability	$ 7,777,697	$ 1,166,871	$ (4,414,306)

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – Continued

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2016 and 2015 were as follows:

	(Dollars in Thousands)	
	2016	**2015**
Employer Total Pension Liability	$ 172,303,544	$ 164,591,504
Plan Net Position	(156,253,265)	(161,213,259)
Employer Net Pension Liability	$ 16,050,279	$ 3,378,245
Ratio of Plan Net Position to the Employers' Total Pension Liability	90.7%	97.9%

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 does not make contributions to this plan.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – 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 individual health insurance coverage provided by Blue Cross/Blue Shield of the Syracuse Area for an employee of the Authority at retirement and until the employee attains age 65, provided the employee is eligible for retirement and has been employed with the Authority for at least ten consecutive years prior to the date of retirement. After the employee attains the age of 65, the Authority will pay the full premium costs for individual health insurance coverage provided by Medicare Supplemental Plan F and prescription coverage provided by Simply Prescriptions. Teamster employees retiring on or after July 1, 2010 and CSEA employees retiring on or after January 1, 2012 shall be required to pay 10% of the premium cost.

For family coverage the retirees share amounts to 50% of the difference between the family and individual coverage until the age of 65. After the age of 65, the Authority will no longer pay any premium costs of the spouse. 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – Continued

Annual Other Post-Employment 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, 2016 and 2015:

	2016	2015
Annual Required Contribution	$ 2,160,088	$ 2,707,198
Interest on Net OPEB Obligation	545,579	550,906
Adjustment to Annual Required Contributions	(818,878)	(891,369)
Annual OPEB Cost (Expense)	1,886,789	2,366,735
Contributions Made	(480,368)	(551,411)
Increase in Net OPEB Obligation	1,406,421	1,815,324
Net OPEB Obligation - Beginning of Year	15,587,963	13,772,639
Net OPEB Obligation - End of Year	$ 16,994,384	$ 15,587,963

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – Continued

Annual Other Post-Employment 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, 2016	$ 1,886,789	25.5%	$ 16,994,384
December 31, 2015	$ 2,366,735	23.3%	$ 15,587,963

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. The required schedule of funding progress presented as required supplemental information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 January 1, 2013 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, 2016 and 2015

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

The Authority adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* for the year ended December 31, 2015. The implementation of the statements required the Authority to report as an asset and/or liability its portion of the collective net pension asset and liability in the New York State Employees' Retirement Systems. The implementation of the statements also required the Authority to report a deferred outflow and/or inflow for the effect of the net change in the Authority's proportion of the collective net pension asset and/or liability and difference during the measurement period between the Authority's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included as a deferred outflow is the Authority's contributions to the pension system subsequent to the measurement date.

The Authority determined that a restatement to the January 1, 2015 beginning net position was required to recognize the change in accounting principle for the implementation of these statements. This adjustment resulted in a change to the beginning net position of the Authority as follows:

Net Position Beginning of Year, as Previously Stated	$ 175,508,979
GASB Statement No. 68 Implementation:	
Beginning System Liability - Employees' Retirement System	(1,560,847)
Beginning Deferred Outflow of Resources for Contributions Subsequent to the Measurement Date:	
Employees' Retirement System	1,824,822
Net Position Beginning of Year, as Restated	$ 175,772,954

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 – CHANGE IN ACCOUNTING ESTIMATE

During 2015, the Authority changed its method of estimating accrued utility revenue as a result of an upgrade to its billing software which provided enhanced reporting features.

The billing software upgrade allows the Authority to more accurately estimate accrued revenue based on the last meter reading date rather than the last billing date which was the previous method used to estimate accrued utility revenue. The effect of this change was to increase both accounts receivable – customers on the statement of net position and charges for services on the statement of revenues, expenses and change in net position by approximately $750,000.

NOTE 10 – RECENT AND UPCOMING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, Financial Reporting for pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement addresses issues related to the presentation of payroll related measures in required supplementary information, selection of assumptions and the treatment of deviations and classification of payments made by employers to meet employee contribution requirements. The Statement takes effect for reporting periods beginning after June 15, 2016, except for the requirements of this standard for the selection of assumptions when the Authority's pension liability is measured as of a date other than their most recent fiscal year-end. In that case, the requirements for selection of assumptions are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier adoption is encouraged.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 – RECENT AND UPCOMING PRONOUNCEMENTS – Continued

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2019.

The Authority's management has not yet assessed the impact of these statements on its future financial statements.

NOTE 11 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 21, 2017, the date the financial statements were available to be issued, and identified the following additional disclosures.

Beginning January 1, 2017, the operations of Onondaga County Metropolitan Water Board (MWB) will be consolidated into the OCWA system. The MWB's main function is to treat and wholesale water from Lake Ontario to three customers, one being OCWA.

The terms of the consolidation agreement will require OCWA to assume operation of and maintain the MWB system which includes running a water treatment plant, five pump stations, one chlorine booster facility and five water storage tanks. OCWA is projecting their cost to run the MWB operations to be less than the amount historically paid for purchased water from MWB.

In addition, OCWA will be required to fund a major upgrade of the 50-year-old Lake Ontario water treatment plant over the next three to four years, which is estimated to be a $40 million project and will be funded with water revenue bonds.

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN (UNAUDITED)

Year Ended December 31, 2016

Actuarial Valuation Date	Year End 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-a)/c
12/31/09	1/1/10	$ 0	$ 20,195,354	$ 20,195,354	0%	N/A	N/A
12/31/10	1/1/10	$ 0	$ 21,483,184	$ 21,483,184	0%	$ 7,993,104	269%
12/31/11	1/1/10	$ 0	$ 30,843,497	$ 30,843,497	0%	$ 8,145,048	379%
12/31/12	1/1/10	$ 0	$ 32,967,461	$ 32,967,461	0%	$ 8,507,242	388%
12/31/13	1/1/13	$ 0	$ 20,973,049	$ 20,973,049	0%	$ 8,768,150	239%
12/31/14	1/1/13	$ 0	$ 22,394,412	$ 22,394,412	0%	$ 9,120,140	246%
12/31/15	1/1/13	$ 0	$ 23,852,908	$ 23,852,908	0%	$ 9,741,297	245%
12/31/16	1/1/16	$ 0	$ 21,875,602	$ 21,875,602	0%	$ 9,495,344	230%

SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
For the Year Ended December 31, 2016

	2016	2015	2014
NYSLRS Pension Plan			
Contractually Required Contributions	$ 1,467,536	$ 1,751,828	$ 1,824,822
Contributions in Relation to Contractually Required Contributions	(1,467,536)	(1,751,828)	(1,824,822)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0
Employer's Covered - Employee Payroll	$ 9,495,344	$ 9,239,591	$ 8,823,689
Contribution as a Percentage of Covered - Employee Payroll	15.5%	19.0%	20.7%

The Authority is required to present information in this schedule for a ten year period. Data for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Year Ended December 31, 2016

	2016	2015
NYSLRS Pension Plan		
Authority's Proportion of the Net Pension Liability	0.0356959%	0.0345407%
Authority's Proportionate Share of the Net Pension Liability	$ 5,729,286	$ 1,166,871
Authority's Covered-Employee Payroll During Measurement Period	$ 9,495,344	$ 9,239,591
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	60.3%	12.6%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.7%	97.9%

The Authority is required to present information in this schedule for a ten year period. Data for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

See notes to 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, in accordance with the 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, the financial statements of the Onondaga County Water Authority (the Authority), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 21, 2017

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 its own investment policies, applicable laws and regulations related to investments, and the New York State Office of the State Comptroller Investment Guidelines for Public Authorities Section 2925(3)(f) for the year ended December 31, 2016. 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, 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, 2016.

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 21, 2017

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