

O **NONDAGA COUNTY WATER
AUTHORITY**

FINANCIAL STATEMENTS
December 31, 2012 and 2011

Table of Contents

ONONDAGA COUNTY WATER AUTHORITY

INDEPENDENT AUDITORS' REPORT _____	1
MANAGEMENT'S DISCUSSION AND ANALYSIS _____	3
AUDITED FINANCIAL STATEMENTS _____	20
STATEMENTS OF NET POSITION _____	20
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION _____	22
STATEMENTS OF CASH FLOWS _____	23
NOTES TO FINANCIAL STATEMENTS _____	25
REQUIRED SUPPLEMENTARY INFORMATION _____	42
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN (UNAUDITED) _____	42
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 <i>GOVERNMENT AUDITING STANDARDS</i> _____	43
INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(F) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW _____	45



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) as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

443 North Franklin Street • Syracuse, NY 13204-1441 • (315) 471-9171 • Fax (315) 471-8555

1120 Corporate Drive • Auburn, NY 13021-1634 • (315) 253-6273 • Fax (315) 253-0890

4350 Middle Settlement Road • New Hartford, NY 13413-5328 • (315) 732-2991 • Fax (315) 732-0282

<http://www.dbbllc.com>

Opinions

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, 2012 and 2011, 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 the schedule of funding progress for the retiree healthcare plan, on pages 3 to 19 and 42, 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.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2012, 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 2011 financial report, which follows this report.

Financial Highlights

OCWA's 2012 water revenues increased by \$2,068,152 (5.7%) over 2011. Rate increases implemented January 1, 2012 played part in the overall increase in revenue. For 2012, residential and commercial rates were increased 2.47%, Wholesale rates were increased 2.31% and industrial rates were increased 2.38%. Fire protection rates were retained at the same level for the second straight year. The warm, dry year experienced throughout Central New York also played a major part in increased sales. Residential and commercial sales increased 178.7 million gallons (MG) with most of the increase coming during the summer months. Wholesale use increased 54.36 MG, however the increase was mitigated somewhat as the Town of Dewitt lost a major customer with the closing of New Venture Gear. Additionally, industrial use increased 118.6 MG with Anheuser Busch use increasing by 150.6 MG which offset decreased or flat use by the remaining industrial users. It should be noted that not all decreased industrial use was due to declining production or the economy. For example, Crucible Steel's use decreased by 70.6 MG through a concerted effort to address water losses throughout the plant.

OCWA's 2012 total customer account base increased by 553 (0.59%) over the year-end total for 2011. The North Shore Water District construction in the Towns of West Monroe and Constantia accounted for 112 of the new customers. The balance of customers added were spread throughout the 32 towns and 13 villages served by the system.

On the expense side of the Authority's operation, total expenses for 2012 increased by \$904,215 (2.42%) over 2011. Depreciation increased by \$237,319 (4.7%) for the year, primarily due to the completion of the 20 MG finished water storage facility located in Manlius, replacing the open reservoir formerly owned by the Metropolitan Water Board (MWB). The tank project was regulatory driven by the promulgation of the Long Term 2 – Enhanced Surface.

Labor, for 2012, increased by \$179,885 (2.4%) and benefit costs were up \$476,701 (10.47%). Wages were up, in part due to contractual obligations with OCWA's personnel who are members of the Teamsters (3% increase) and CSEA (2% increase). No new employees were added during the year and several vacancies were held open while negotiations with the Town of Camillus were underway regarding lease of the Camillus Consolidated Water System. Additionally, overtime was down due to fewer main breaks during the winter months due to mild weather.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Financial Highlights – Continued

The increase in employee benefits totaled \$476,701 (10.47%) over 2011 and is primarily attributed to a \$231,392 required increased contribution to the New York State Retirement System. Health insurance costs increased \$224,817 (9.04%) over 2011. Overall increased health insurance premiums were offset somewhat by increased employee contributions by all OCWA employees.

The cost of purchased water for 2012 increased by \$380,548 over 2011, with the total volume of water purchased increasing by 351.857 million gallons. The overall increase is attributed in part to increased customer demand due to the warm, dry weather experienced throughout the year and in part due to a rate increase of 4 cents per 1,000 gallons for Metropolitan Water Board (effective January 1, 2012). The Syracuse Water Department did not increase rates during 2012 and their sales to OCWA declined after completion of the West Hill Pump Station allowed for purchased water from Syracuse to be replaced by Otisco Lake Water provided by OCWA.

One item of major consequence relates to Bond Interest and Principal. In 2010 OCWA's 20 MG Western Reservoir in Van Buren was added to the list of projects in New York State eligible to receive principal forgiveness through the American Recovery and Reinvestment Act of 2009 (ARRA). With the tank project completed, audited and found to be in compliance with ARRA rules, the OCWA 2009 Series A Water Revenue Bond for \$33,000,000 issued through the New York State Environmental Facilities Corporation received principal forgiveness in the amount of \$5,696,270, which was applied in 2012. In addition to the principal forgiveness, unspent proceeds in the amount of \$2,121,260 were applied to the 2009 Bonds. These two items and the associated reduction of the bond reserve in the amount of \$714,635 reduced the 2009 Series A Water Revenue Bond from \$33,000,000 to \$24,467,835. This will result in considerable savings for the remaining life of the bond series. In 2012 the Authority's Bond Interest Expense was \$312,027 less than in 2011.

Using This Annual Statement

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

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

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

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Summary of Statements of Net Position

TABLE 1

	2011	2012
ASSETS		
Cash	\$ 147,588	\$ 264,705
Accounts Receivable	6,923,515	7,282,158
Materials, Supplies and Prepaid Expenses	2,393,097	2,454,272
Restricted Assets	30,250,954	26,709,423
Unamortized Bond Issuance Costs	782,973	739,459
Plant and Water Rights, Net	<u>214,248,554</u>	<u>217,069,946</u>
TOTAL ASSETS	<u><u>\$ 254,746,681</u></u>	<u><u>\$ 254,519,963</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 3,167,246	\$ 3,355,579
Liabilities Payable from Restricted Assets	2,398,589	1,678,009
Bonds Payable	80,191,925	69,090,939
OPEB Liability	7,527,257	10,315,671
Capital Lease Obligations	<u>442,125</u>	<u>356,475</u>
Total Liabilities	93,727,142	84,796,673
NET POSITION		
Net Investment in Capital Assets	133,614,504	147,622,532
Restricted	24,394,225	21,679,207
Unrestricted	<u>3,010,810</u>	<u>421,551</u>
Total Net Position	<u>161,019,539</u>	<u>169,723,290</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 254,746,681</u></u>	<u><u>\$ 254,519,963</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Summary of Statements of Net Position – Continued

Total assets decreased by \$226,718 in 2012 as a result of the following items:

- The increase in cash of \$117,117 is due to the higher balance in the Authority's operations and maintenance fund at year-end.
- Materials, supplies and prepaid expenses increased by \$61,175, 2.6% over 2011 levels. Inventory increased by \$289,517 due to increased prices and higher quantities required for jobs in progress or starting in the near future. Prepaid expenses went down by \$217,105 primarily due to the decrease in the value of water plant filter media which is being expensed over a period of five years and a service contract on the Authority's billing system was deemed no longer necessary.
- Accounts receivable have increased by \$358,643 or 5.2%. There are three components that make up most of this increase. The first is accounts receivable for water that has been billed to customers. Accounts Receivable – Water increased by \$177,577 (4.6%). The second component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. Accrued Utility Revenue increased by \$71,800 or 2.2% over the year-end 2011 balance. The increases are related to water rate which were raised by 2.31% - 2.47% for the various customer classes except fire protection which was not increased. The third component is Accounts Receivable – Miscellaneous which is used for the billing of non-water related projects that the Authority will be paid for in full. This account increased by \$97,532 over the 2011 balance.
- Restricted assets decreased by \$3,541,531 (11.7%) in 2012. This decrease is due to the net effect of several factors. One is that the amounts in various construction funds decreased by a total of \$5.4 million. \$2.1 million of the construction fund decrease was the application of unspent proceeds of the 2009 Bonds to the principal of those bonds. Also, due to the receipt and application of nearly \$5.7 million and the \$2.1 million of unspent proceeds described above, the debt service reserve fund related to the 2009 bonds was able to be reduced by \$714,635. Offsetting a portion of those decreases is the total increase of over \$2.0 million in money in the General Authority, Renewal and Replacement and General Funds.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2012. 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, 2012

Summary of Statements of Net Position – Continued

Total liabilities decreased by approximately \$8.9 million in 2012 as a result of the following items:

- Liabilities Payable from Restricted Assets decreased by \$720,235 (30.0%) as compared to 2011 due to the combination of several factors. Amounts due to contractors for work performed in 2012, for which payment was not made until 2013, was \$222,630 less than in the same period of the previous year. Retainage held at the end of 2012 was \$679,670 less than at the end of 2011. Customer deposits increased by \$179,101 and finally, accrued interest on bonds decreased by \$37,261.
- The Bonds Payable balance decreased most significantly due to reduction of the principal on the 2009 Bonds by over \$8.5 million. This is attributable to the Authority's receipt of ARRA Principal Forgiveness in the amount of \$5.7 million, the application of unspent proceeds in the amount of \$2.1 and the associated reduction of the required reserve fund by \$.7 million. The Bonds Payable balance was also affected by principal payments totaling \$2,465,000 which were made during 2012.
- GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB Statement No. 45, based on an actuarial valuation, an annual required contribution ("ARC") is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability. The financial statements at December 31, 2012 include a liability in the amount of \$10.3 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$85,650 due to principal payments made on various leases.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Review of Revenues

TABLE 2

	2011	2012
Residential/Commercial Sales	\$ 26,331,938	\$ 27,938,716
Industrial Sales	4,188,937	4,561,502
Municipal (Water Utility) Sales	4,580,244	4,642,380
Fire Protection	1,147,516	1,174,189
Miscellaneous Revenue	1,152,060	1,135,972
ARRA Principal Forgiveness	0	5,696,270
Interest from Investments Held in Trust	21,324	16,642
Gain (Loss) on Disposal of Fixed Assets	<u>(25,063)</u>	<u>(13,483)</u>
TOTAL REVENUES	<u><u>\$ 37,396,956</u></u>	<u><u>\$ 45,152,188</u></u>

- OCWA implemented rate increases for all customer classes except fire protection during 2012. Residential and commercial rates were increased 2.47%, industrials 2.38% and municipals 2.38%. The increases, which were determined in late 2011, were based on the projected requirements for 2012 and took into account changes that were expected to have an effect on 2012 operations. The rate increases took effect on January 1, 2012.

Total water revenues for 2012 increased by \$2,068,152 (5.7%) over the previous year. Residential and commercial sales increased by \$1,606,778 (6.1%), industrial sales by \$372,565 (8.9%), municipal sales by \$62,136 (1.4%) and fire protection by \$26,673 (2.3%). Residential and commercial sales increased by more than the rate increase would indicate because of the added consumption customers had due to the nice (hot and dry) summer experienced in 2012. Industrial consumption increased by 118,564,000 gallons (4.7%) over 2011.

- In 2012 the Authority received \$5,696,270 principal forgiveness on its 2009 Series A Water Revenue Bonds which were issued in the amount of \$33,000,000. In 2010 OCWA's 20 MG Western Reservoir in Van Buren was added to the list of projects in New York State eligible to receive principal forgiveness through the American Recovery and Reinvestment Act of 2009 (ARRA). After completion of the project and associated documentation, the eligible amount was determined to be the figure noted above.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Review of Expenses

TABLE 3

	2011	2012
Operations	\$ 8,638,883	\$ 8,793,022
Purchased Water	8,509,089	8,889,637
General and Administrative	6,289,454	6,918,432
Less: Burden Applied	(844,895)	(942,346)
Depreciation	5,047,924	5,285,243
Bond Amortization	(61,153)	(76,663)
Water District Lease Amortization	545,493	534,157
Maintenance	5,744,997	5,689,182
Other Expense	<u>3,348,778</u>	<u>3,032,120</u>
TOTAL EXPENSES	<u><u>\$ 37,218,570</u></u>	<u><u>\$ 38,122,784</u></u>

Total expenses for 2012 were up by \$904,215 (2.4%) compared to fiscal year 2011. Areas of expense that experienced significant changes, both plus and minus, in 2012 including: labor, health insurance, pensions, OPEB, purchased water, electric/natural gas; depreciation and bond interest expense 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 \$179,885 (2.4%) during 2012 as compared to 2011. This increase matches up well with employee rate increases. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2012. The rates for the CSEA employees increased by 2.0% and Teamsters rates increased by 3.0%.

Due to the warm winter (January – March 2012), OCWA was required to repair 12% fewer water main breaks in 2012 than in 2011. This allowed the Authority to perform more preventive maintenance than in the previous year. Specifically, the number of hydrants serviced went from 8,873 in 2011 to 13,735 in 2012, an increase of 54%. Also, OCWA operated almost three times as many valves in 2012 as compared to 2011 (3,326 vs. 1,181).

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Notable Expense Changes (Other Than Labor)

Group health insurance increased by \$224,817 (9.0%) as compared to 2011 for the Authority's employees and retirees. Insurance coverage is contractual and it should be noted that both employees and retirees contribute toward the cost of their coverage.

For pensions, OCWA's employees are covered under the New York State and Local Employees' Retirement System. OCWA's expense for contributions made to the system was \$1,552,196, an increase of \$231,392 (17.5%) over the 2011 amount.

OPEB expense for 2012 increased by \$100,767 (3.75%) over the 2011 amount. This is due to the results of an actuarial review which must be completed every three years.

OCWA also experienced a \$149,719 (17.6%) decrease to its electric and natural gas charges for 2012 as compared to 2011 amounts. This is due in part to rates and in part due to more energy efficient facilities.

Purchased water cost increased by \$380,548 (4.5%) for 2012. The Authority purchased 489,112,000 more gallons from the Metropolitan Water Board in 2012 as compared to 2011. Also, the Metropolitan Water Board raised its rates by \$0.04 per 1,000 gallons effective January 1, 2012. The Authority's purchases from the City of Syracuse decreased in 2012 as compared to 2011.

The amount credited to Burden Applied increased by \$97,451 or 11.5% in 2012 as compared to 2011. This figure is attributable to the increased number of hours that Authority employees charged to capital work during the year which was 3,258 more than in 2011.

Depreciation increased by \$237,319 (4.7%) in 2012 over 2011 figures. This is a reflection of the fact that OCWA added nearly \$7.5 million to Water Plant in Service in 2011 as well as over \$18.0 million in 2012.

There was a decrease of \$316,658 (9.5%) in Other Expense in 2012. The most significant part of this change is the decrease of over \$450,000 in interest expense on the 2009 Bonds. The interest expense decreased due to reduction of the principal on the 2009 Bonds by over \$8.5 million, due to the Authority's receipt of ARRA Principal Forgiveness in the amount of \$5.7 million, the application of unspent proceeds in the amount of \$2.1 and the associated reduction of the required reserve fund by \$.7 million. Another factor that influenced other expense is that the 2011 bonds were in place for a full year in 2012 as opposed to only nine months in 2011. This increased the interest expense on the 2011 bonds by over \$200,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Summary of Overall 2012 Operations

In 2012 OCWA experienced a net income before capital contributions of \$7,029,403, an increase of \$6,851,017 from the net income of \$178,386 for the fiscal year ended December 31, 2011. This increase was caused by the principal forgiveness, increased water revenue as well as other factors mentioned above.

OCWA Budget Process

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

System Growth

Areas of growth included the following:

- For 2012 system growth included the installation of 25 developer / individual main extensions, totaling 28,393 feet of main.
- The recently completed West Monroe / Constantia water system continues to add customers, with 112 new connections added in 2012.
- The Town of Hastings continues to develop and add small districts.
- OCWA and Onondaga County continue to work proactively to attract industrial customers to the County, using the availability and cost of water as a selling point.

Areas of growth, 2013 and beyond:

- The Town of Granby continues to work on the development of new water supply districts. The proposed Water District #6 was defeated on February 26, 2013 so now the town is investigating the prospect of a smaller water district in the southwestern part of the town. Additionally, the Town Supervisor continues to seek additional funding from any and all sources.
- The Town of Hastings is investigating a small water district in the north-eastern portion of the Town, east of Route 81.
- The Town of Constantia is working on design and funding for its Bernard's Bay Water System which will extend water lines to the east, coming close to the western border of the Village of Cleveland.
- Demand for developer main extensions remains soft. For 2012 twenty-five main extension contracts were completed adding 28,393 feet of main or 1,135 feet average per contact. OCWA completed 22 system improvement projects replacing 22,354 feet of main and adding 10,109 feet of main, all aimed at better serving existing customers.
- OCWA essentially now serves all the towns and villages within its potential service territory, which covers a very large geographic footprint in the four counties (Onondaga, Oswego, Madison and Oneida). Collectively OCWA serves 32 towns and 13 villages on a retail basis. With the lease of the Camillus Consolidated Water System being effective January 2, 2013 OCWA now 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 32 towns served throughout the four-county region.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2011	2012	2011-2012
Water Plant in Service	\$ 251,845,495	\$ 270,101,414	7.25%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	13,348,277	3,252,721	-75.63%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	296,041	153,584	-48.12%
Jobbing in Progress	326,289	403,840	23.77%
Allowance for Depreciation	(63,552,664)	(68,295,200)	7.46%
Accumulated Amortization/Water Districts	(11,165,276)	(11,699,433)	4.78%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	<u>(19,498)</u>	<u>(16,870)</u>	-13.48%
Total	<u><u>\$ 214,248,554</u></u>	<u><u>\$ 217,069,946</u></u>	1.32%

Increase to Water Plant in Service Highlights

- Eastern Reservoir (20 MG) covered storage tank – \$8,704,610
- Northern Concourse – Roof, Siding and HVAC improvements at OCWA’s Headquarters Facility – \$2,271,202
- System Betterment Myers Rd – install approximately 5,515 ft of 6” & 8” pipe – \$298,552
- System Betterment Supply to East Syracuse – install approximately 3,150 ft of 12” pipe – \$234,523
- The purchase of water meters in the amount of \$522,364 as part of OCWA’s ongoing meter replacement project
- The completion of various additional water main projects – \$4,080,889
- The installation of new and replacement water services – \$750,908
- The installation of new and replacement hydrants – \$573,575
- The replacement of vehicles in its fleet as part of OCWA’s asset management program

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress decreased by \$10,095,556 during 2012, from \$13,348,277 at the beginning of the year, to \$3,252,721 at year end. Of that amount, \$2,201,463 is related to the following six projects:

- New West Hill Pump Station to serve West Hill Water District and surrounding areas – \$574,383
- Linda Road Tank Improvements and Renovations – \$450,807
- Customer Information System Upgrade – \$358,260
- West Hill Tank Improvements and Renovations – \$301,667
- Seneca Street Pump Station Upgrade – \$278,796
- Thurber Street Pump Station Upgrade – \$237,550

Pre-Survey and Investigation Highlights

Pre-survey and investigation costs capture costs related to studies undertaken related to potential additions and improvements to the OCWA system. This account decreased due to factors including the transfer of project costs to Construction Work-in-Progress and/or Water Plant in Service.

Jobbing in Progress

Jobbing in progress captures costs associated with activities for which an individual or developer will pay for the job in full. The installation of new hydrants and large services within certain areas of OCWA's system are examples of this. A deposit for the job is taken. When the project is completed, the Authority will either bill the developer if the actual cost is more than the deposit or refund a portion of the deposit if the cost is less. "Job Orders" are also used to capture costs associated with repairing or replacing assets, generally hydrants and services, which are hit and damaged by individuals. The Authority then bills the individual or the individual's insurance for the repair cost. The account is also used to track the cost of contract operations and of maintenance agreements with various water systems. The balance in this account had increased by \$77,551 at the end of 2012 as compared to the previous year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Long-Term Debt Administration

The Authority has three General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$67,397,835 as of December 31, 2012. OCWA's most recent bonds were issued in April 2011.

On April 5, 2011, the Authority issued \$16,910,000 in General Water System Revenue Bonds Series 2011. 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 first principal payment in the amount of \$565,000 is due on September 15, 2015.

The General Water System Revenue Bonds, Series 2010A have a remaining principal balance of \$3,980,000 as of December 31, 2012. This amount reflects a principal payment of \$995,000 made in September 2012. The required principal payment on the bond in 2013 is \$1,025,000. 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.

The E.F.C. Drinking Water Bonds, 2009 Series A have a remaining principal balance of \$23,552,835 as of December 31, 2012. This amount includes ARRA principal forgiveness in the amount of \$5,696,270, the application of \$2,121,260 in unspent proceeds and a reduction of \$714,635 in the bond reserve requirement. The debt service schedules were revised to reflect the aforementioned changes. The remaining balance also reflects a principal payment of \$400,000 made in June 2012. The required principal payment on the bond in 2013 is \$420,000. 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 \$12,740,000 as of December 31, 2012. This amount reflects a principal payment of \$510,000 made in October 2012. The required principal payment on the bond in 2013 is \$525,000. 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).

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Long-Term Debt Administration – Continued

The other revenue bond issue that the Authority has outstanding is the General Water System Revenue Bonds, 2005 Series A which has a remaining principal balance of \$10,215,000 as of December 31, 2012. This amount reflects a principal payment of \$560,000 made in September 2012. The required principal payment on the bond in 2013 is \$580,000. As is the case with all of the bonds, one twelfth of the required amount is set aside monthly. The 2005 bonds mature serially in varying annual amounts through 2025, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

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

Series Bonds	Bonds Outstanding as of December 31, 2012
2011 Series Bonds	\$ 16,910,000
2010 Series A Bonds	3,980,000
2009 E.F.C. Bonds	23,552,835
2008 E.F.C. Bonds	12,740,000
2005 Series A Bonds	<u>10,215,000</u>
Total	<u>\$ 67,397,835</u>

OCWA Bond Rating

In July of 2012, Moody’s Investors Service downgraded the Authority’s rating to Aa3 from Aa2 affecting the previously-issued parity revenue bonds outstanding.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Looking Forward

For 2013 OCWA implemented a 2% rate increase for all customer classifications with the exception of rates for fire protection accounts, which were not increased. Anticipating the favorable application of the American Recovery and Reinvestment Act of 2009 (ARRA) funding related to the bonds issued to construct the 20 MG Western Reservoir in the Town of Van Burn, the base fee portion of rates was not increased for 2012. The overall increase was placed on the commodity rates for all water purchased by all customers. The ongoing annual rate increases are in accordance with the Authority’s 2001 Bond Indenture, whereby OCWA’s Board is required to review rates on an annual basis and adjust them accordingly. Rate increases since 2001 and up to and including 2013 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2013	2.0%	2.0%	2.0%	0.0%
2012	2.47%	2.31%	2.38%	0.0%
2011	9.0%	9.0%	9.0%	0.0%
2010	12.0%	10.0%	10.0%	3.25%
2009	15.0%	15.0%	9.9%	3.25%
2008	7.7%	7.7%	6.7%	3.25%
2007	9.8%	9.8%	6.75%	4%
2006	6%	6%	4%	4%
2005	8%	8%	5%	5%
2004	15%	15%	3%	3%
2003	2%	2%	2%	2%
2002	2%	2%	2%	2%

- For 2013 the Metropolitan Water Board elected not to raise rates. Also, the Syracuse Water Department, which is on a July 1 – June 30 budget cycle, did not raise rates during 2012. OCWA’s 2013 O&M Budget takes both into account. For 2012 OCWA purchased 51.84% (up from 49.78% in 2011) of its water from MWB. The purchase of water from the City of Syracuse decreased to 3.03%, down from 3.79% in 2011. Total water purchased for 2012 increased to 54.88% for 2011, up from 53.59% in 2011. The completion of the new West Hill Pump Station in the spring 2012 resulted in the decrease of water purchased from the Syracuse Water Department. However, the overall increase in purchased water is generally attributed to the warm, dry weather experienced for most of 2012. For 2012, purchased water costs represent 30.03% of the Authority’s operating expense, before depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Looking Forward – Continued

- OCWA intends to add three new employees to its roster during 2013. An Instrumentation Technician will be added to Distribution Operations. A Data Base Administrator will be added to the Information Technology Department. Finally, a Meter Repair Worker will be added to the Customer Service Department. All three positions are being added as a result of growth of the water system and increasing demands on day to day operations. Once all three positions have been filled OCWA's complement of full time personnel will total 134.
- With respect to chemical costs for 2013, projected costs should increase 13% after two years of stable, flat pricing. OCWA's cost of electric and natural gas costs should see an increase after two years of decreased rates; however energy efficiency improvements at the Marcellus Water Treatment Plant and OCWA's Northern Concourse headquarters will continue to offset some of the increased energy costs. Further, once the improvements to the two Southern Branch pump stations are completed (slated for mid-2013) additional energy savings should be realized.
- After several years with major capital construction projects in the works, the pace should be slowing down in 2013 to a more traditional level. The Manlius 20 MG covered tank was completed in 2012, as was construction of the new West Hill Water District, where customers once supplied water purchased from the Syracuse Water Department are now supplied treated water from Otisco Lake. For 2013 the largest project on the docket is the completion of the two Southern Branch pipeline pump stations. Pumps, motors, controls and auxiliary power for both stations are being replaced with newer, more energy efficient equipment. Additionally each station will be fitted with a new, more energy efficient heating system and energy efficient roofing system.
- In addition to the aforementioned major capital projects, OCWA's ongoing annual capital budget for 2013 is projected to be \$4,079,658. The capital budget will address the increasing demand for meter replacements and upgrades, replacement of water main hydrants and valves. The budget also addresses the need for ongoing replacement of vehicles and heavy equipment. Additionally the capital budget addresses building and facilities improvements ranging from control pit repairs to two 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

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.

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash	\$ 264,705	\$ 147,588
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$80,000 in 2012 and 2011)	7,176,151	6,915,041
Accounts Receivable - Other	106,007	8,474
Materials, Supplies and Prepaid Expenses	<u>2,454,272</u>	<u>2,393,097</u>
Total Current Assets	10,001,135	9,464,200
 RESTRICTED ASSETS		
Customer Deposits	1,330,492	1,202,324
General Authority Fund	2,668,092	2,265,662
Bond Fund	1,843,922	1,975,325
General Fund	6,346,252	3,820,402
Renewal and Replacement Fund	1,042,407	1,382,125
Bond Reserve Fund	5,503,885	6,217,672
Construction Fund	<u>7,974,373</u>	<u>13,387,444</u>
Total Restricted Assets	26,709,423	30,250,954
 PLANT AND WATER RIGHTS, NET	217,069,946	214,248,554
 OTHER ASSETS		
Unamortized Bond Issuance Costs	<u>739,459</u>	<u>782,973</u>
 TOTAL ASSETS	<u><u>\$ 254,519,963</u></u>	<u><u>\$ 254,746,681</u></u>

LIABILITIES AND NET POSITION

	2012	2011
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 3,355,579	\$ 3,167,246
Capital Lease Obligations - Current Portion	<u>83,650</u>	<u>85,650</u>
Total Current Liabilities	3,439,229	3,252,896
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	591,232	1,453,532
Customer Deposits	528,285	349,184
Bonds Payable, Portion Due Within One Year	2,550,000	2,605,000
Accrued Interest on Bonds Payable	<u>558,492</u>	<u>595,873</u>
Total Liabilities Payable from Restricted Assets	4,228,009	5,003,589
LONG-TERM DEBT		
Bonds Payable	66,540,939	77,586,925
Postemployment Benefits Other Than Pension	10,315,671	7,527,257
Capital Lease Obligations, Net of Current Portion	<u>272,825</u>	<u>356,475</u>
Total Long-Term Debt	<u>77,129,435</u>	<u>85,470,657</u>
Total Liabilities	84,796,673	93,727,142
NET POSITION		
Net Investment in Capital Assets	147,622,532	133,614,504
Restricted	21,679,207	24,394,225
Unrestricted	<u>421,551</u>	<u>3,010,810</u>
Total Net Position	<u>169,723,290</u>	<u>161,019,539</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 254,519,963</u></u>	<u><u>\$ 254,746,681</u></u>

See notes to financial statements.

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

Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUE		
Charges for Services	\$ 38,316,787	\$ 36,248,635
Penalties	586,040	549,105
Other	549,932	602,955
	<hr/>	<hr/>
Total Operating Revenue	39,452,759	37,400,695
OPERATING EXPENSE		
Source of Supply	8,889,637	8,509,089
Transmission and Distribution	13,280,645	13,187,679
Collection	1,201,559	1,196,201
Administration	5,976,086	5,444,559
Depreciation and Amortization	5,742,737	5,532,264
	<hr/>	<hr/>
Total Operating Expense	35,090,664	33,869,792
INCOME FROM OPERATIONS	4,362,095	3,530,903
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	16,642	21,324
Gain (Loss) on Disposal of Fixed Assets	(13,483)	(25,063)
ARRA Principal Forgiveness	5,696,270	0
Interest Expense	(3,032,120)	(3,348,778)
	<hr/>	<hr/>
Net Other Expense	2,667,309	(3,352,517)
Net Income Before Capital Contributions	7,029,404	178,386
Capital Contributions	1,674,347	1,856,794
	<hr/>	<hr/>
CHANGE IN NET POSITION	8,703,751	2,035,180
NET POSITION		
Balance, Beginning of Year	161,019,539	158,984,359
	<hr/>	<hr/>
Balance, End of Year	<u>\$ 169,723,290</u>	<u>\$ 161,019,539</u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 39,094,115	\$ 37,123,637
Cash Payments for Goods and Services	(19,710,726)	(18,443,022)
Cash Payments to Employees	<u>(7,621,309)</u>	<u>(7,473,886)</u>
Net Cash Provided By Operating Activities	11,762,080	11,206,729
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	702,793	398,083
Refunding of Customer Deposits	<u>(523,726)</u>	<u>(350,644)</u>
Net Cash Provided By Noncapital Financing Activities	179,067	47,439
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	67,302	92,489
Cash Received from Contributed Capital	1,674,347	1,856,794
Debt Issuance Costs	0	(116,942)
Payments for Capital Acquisitions	(8,721,546)	(16,821,720)
Premium on 2010 Bond Issuance	0	1,202,605
Proceeds from Issuance of Long-Term Debt	0	16,910,000
ARRA Principal Forgiveness	5,696,270	0
Principal Payments	(11,082,815)	(2,608,875)
Interest Paid	<u>(3,015,761)</u>	<u>(3,332,422)</u>
Net Cash Used In Capital and Related Financing Activities	(15,382,203)	(2,818,071)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	<u>16,642</u>	<u>21,324</u>
Net Cash Provided By Investing Activities	<u>16,642</u>	<u>21,324</u>
Net Increase (Decrease) in Cash	(3,424,414)	8,457,421
Cash, Beginning of Year	<u>30,398,542</u>	<u>21,941,121</u>
Cash, End of Year	<u><u>\$ 26,974,128</u></u>	<u><u>\$ 30,398,542</u></u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 4,362,095	\$ 3,530,903
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	5,285,243	5,047,924
Amortization	457,494	484,340
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(261,110)	(292,258)
Accounts Receivable - Other	(97,533)	15,200
Materials, Supplies, and Prepaid Expenses	(61,175)	(39,371)
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	2,788,414	2,687,647
Accounts Payable and Accrued Liabilities	(711,348)	(227,656)
Net Cash Provided By Operating Activities	<u>\$ 11,762,080</u>	<u>\$ 11,206,729</u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). In addition, the Authority follows the pronouncements of only applicable Financial Accounting Standards Board (“FASB”) Statements and Interpretations, issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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

The Authority has adopted the provisions of GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement establishes reporting standards for all state and local governments which include Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position.

The Statement of Net Position of the Authority reports all assets, deferred outflows of resources, liabilities, deferred inflow of resources, and net position. The Statement of Net Position represents the difference between all other elements in a statement of financial position in three components – net investment in capital assets, restricted and unrestricted. The Statement of Net Position provides information about the nature and amount of investment in resources (assets) and obligations to the Authority’s creditors (liabilities) at year-end.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

The Statement of Net Position requires the classification of net position into three components 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 Assets* are the net assets that have been restricted as in use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* are 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.

Cash, Cash Equivalents and Investments

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.

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

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Materials and Supplies

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

Plant and Water Rights

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

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

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

Accounts Receivable

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Authority analyzes accounts receivable on a monthly basis and adjusts the allowance for doubtful accounts as is necessary. Accounts receivable are written off against the allowance for doubtful accounts as they are deemed uncollectible.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition

The Authority distinguishes operating revenues and expenses from nonoperating 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 estimate 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 nonoperating revenues and expenses.

Bond Issuance Costs

Certain costs incurred in issuing long-term borrowings have been deferred and are being amortized over the life of the bonds on a straight-line basis. Amortization amounted to \$43,513 and \$41,843 for the years ended December 31, 2012 and 2011, respectively.

Bond Premium

Amortization of bond premium is on the straight-line basis over the life of the bonds and amounted to \$51,456 for both the years ended December 31, 2012 and 2011.

Income Taxes

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

Contributed Capital

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 3 – ASSETS HELD BY TRUSTEE

Assets held in trust in accordance with the General Water System Revenue Bonds Trust Indentures dated November 1, 2005, August 19, 2010 and April 5, 2011, and the Environmental Facilities Corporation's Drinking Water Installment Bond Indenture dated June 18, 2008 and March 12, 2009 are stated at cost plus accrued income, which approximates fair market value at December 31, 2012 and 2011. Assets held by Trustee consist principally of cash and cash equivalents.

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority's investments are categorized in accordance with criteria established by the GASB to give an indication of the level of risk assumed.

Cash, cash equivalents and investments of the Authority at December 31, 2012 consist of the following:

December 31, 2012	Carrying Value	Bank Balance
Cash and Cash Equivalents:		
Cash on Hand	\$ 1,025	\$ 1,025
Bank Accounts	<u>1,813,807</u>	<u>1,903,817</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,814,832</u></u>	<u><u>\$ 1,904,842</u></u>
Investments:		
Money Market Funds	\$ 12,635,383	\$ 12,578,420
U.S. Treasury Bills	10,191,036	10,192,475
Federated Treasury Obligation Held by a Fiscal Agent	<u>2,271,814</u>	<u>2,271,814</u>
	<u>61,063</u>	<u>61,063</u>
Total Investments	<u><u>\$ 25,159,296</u></u>	<u><u>\$ 25,103,772</u></u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS –

Continued

Cash, cash equivalents and investments of the Authority at December 31, 2011, consist of the following:

December 31, 2011	Carrying Value	Bank Balance
Cash and Cash Equivalents:		
Cash on Hand	\$ 1,025	\$ 1,025
Bank Accounts	<u>1,437,209</u>	<u>1,687,309</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,438,234</u></u>	<u><u>\$ 1,688,334</u></u>
Investments:		
Money Market Funds	\$ 15,653,437	\$ 15,653,437
U.S. Treasury Bills	7,137,999	7,139,524
Federated Treasury Obligation	3,078,114	3,078,114
Held by a Fiscal Agent	<u>3,090,758</u>	<u>3,090,758</u>
Total Investments	<u><u>\$ 28,960,308</u></u>	<u><u>\$ 28,961,833</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority's deposits are secured by \$509,748 from the Federal Depository Insurance Corporation plus \$1,395,094 of pledged collateral at December 31, 2012. For the Authority, all pledged collateral and all investments are classified in the highest category by being held in bank trust departments in the Authority's name.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2012 is as follows:

	December 31, 2011	Additions	Retirements / Reclassifications	December 31, 2012
Land	\$ 844,764	\$ 118,779	\$ 0	\$ 963,543
Dams, Buildings and Other Structures	62,684,782	11,138,619	0	73,823,401
Pumping and Purification Equipment	3,092,569	18,456	0	3,111,025
Mains, Meter, Services and Other Distribution Facilities	145,646,066	7,088,729	361,258	152,373,537
Filtration Plant	24,589,997	12,738	0	24,602,735
Automobiles, Trucks and Other Equipment	14,987,317	504,720	264,864	15,227,173
Leased Water Districts	23,169,890	0	0	23,169,890
	<u>275,015,385</u>	<u>18,882,041</u>	<u>626,122</u>	<u>293,271,304</u>
Construction-in-Progress	13,970,607	3,388,965	13,549,427	3,810,145
Water Rights	5,250,000	0	0	5,250,000
	<u>294,235,992</u>	<u>22,271,006</u>	<u>14,175,549</u>	<u>302,331,449</u>
Less: Accumulated Depreciation and Amortization	<u>79,987,438</u>	<u>5,586,117</u>	<u>312,052</u>	<u>85,261,503</u>
Net Plant and Water Rights	<u><u>\$ 214,248,554</u></u>	<u><u>\$ 16,684,889</u></u>	<u><u>\$ 13,863,497</u></u>	<u><u>\$ 217,069,946</u></u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 5 – PLANT AND WATER RIGHTS – Continued

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2011 is as follows:

	December 31, 2010	Additions	Retirements / Reclassifications	December 31, 2011
Land	\$ 844,764	\$ 0	\$ 0	\$ 844,764
Dams, Buildings and Other Structures	60,652,877	2,031,905	0	62,684,782
Pumping and Purification Equipment	3,092,569	0	0	3,092,569
Mains, Meter, Services and Other Distribution Facilities	140,834,423	5,110,294	298,651	145,646,066
Filtration Plant	24,605,962	0	15,965	24,589,997
Automobiles, Trucks and Other Equipment	14,312,704	1,002,374	327,761	14,987,317
Leased Water Districts	<u>23,169,890</u>	<u>0</u>	<u>0</u>	<u>23,169,890</u>
	267,513,189	8,144,573	642,377	275,015,385
Construction-in-Progress	5,277,496	12,470,056	3,776,945	13,970,607
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
	278,040,685	20,614,629	4,419,322	294,235,992
Less: Accumulated Depreciation and Amortization	<u>74,902,880</u>	<u>5,586,117</u>	<u>501,559</u>	<u>79,987,438</u>
Net Plant and Water Rights	<u><u>\$ 203,137,805</u></u>	<u><u>\$ 15,028,512</u></u>	<u><u>\$ 3,917,763</u></u>	<u><u>\$ 214,248,554</u></u>

Depreciation and amortization charged to expense at December 31, 2012 and 2011 was \$5,742,737 and \$5,532,264, respectively, which includes amortization of leased water districts amounting to \$534,157 and \$545,493 for 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 6 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005, August 2010 and April 2011, the Authority issued \$13,840,000, \$5,925,000 and \$16,910,000, respectively, in General Water System Revenue Bonds, 2005, 2010 and 2011 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, 2012 and 2011 amounted to \$31,105,000 and \$32,660,000, respectively. The bonds mature serially in varying annual amounts through 2028, with interest ranging from 3.50% and 5.00%, payable semi-annually. The 2005 bonds, maturing on or after September 15, 2016, the 2010 bonds maturing on or after September 15, 2021 and the 2011 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 deduction from bonds payable, is being charged to operations 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.

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.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 6 – LONG-TERM DEBT – Continued

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

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 New York State Environmental Facilities Corporation (E.F.C.) agrees to purchase the bonds from time to time in amounts equal to “Advances” which are based upon requisitions submitted by the Authority. The bonds have a final maturity date of June 15, 2038 and bear interest at a rate of 4.8721%.

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

	Principal on Bonds	Interest Payable	Total Debt Service
2013	\$ 2,550,000	\$ 2,942,719	\$ 5,492,719
2014	2,647,835	2,850,026	5,497,861
2015	2,640,000	2,742,111	5,382,111
2016	2,745,000	2,641,116	5,386,116
2017	2,880,000	2,526,209	5,406,209
2018 - 2022	16,490,000	10,660,435	27,150,435
2023 - 2027	18,415,000	6,710,113	25,125,113
2028 - 2032	9,380,000	3,224,357	12,604,357
2033 - 2037	6,155,000	1,630,083	7,785,083
2038 - 2040	3,495,000	85,140	3,580,140
	<u>67,397,835</u>	<u>\$ 36,012,309</u>	<u>\$ 103,410,144</u>
Less: Current Portion	2,550,000		
Deferred Amount on Refunding	44,298		
Add: Premium on Long-Term Debt	<u>1,737,402</u>		
Total	<u>\$ 66,540,939</u>		

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 6 – LONG-TERM DEBT – Continued

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

Changes in long-term liabilities are as follows:

	December 31, 2011	Additions	Reductions	December 31, 2012
Bonds Payable:				
Water Revenue Bonds	\$ 32,660,000	\$ 0	\$ 1,555,000	\$ 31,105,000
E.F.C. Drinking Water Installment Bonds	<u>45,735,000</u>	<u>0</u>	<u>9,442,165</u>	<u>36,292,835</u>
Total Bonds Payable	<u>\$ 78,395,000</u>	<u>\$ 0</u>	<u>\$ 10,997,165</u>	<u>\$ 67,397,835</u>

	December 31, 2010	Additions	Reductions	December 31, 2011
Bonds Payable:				
Water Revenue Bonds	\$ 17,240,000	\$ 16,910,000	\$ 1,490,000	\$ 32,660,000
E.F.C. Drinking Water Installment Bonds	<u>46,745,000</u>	<u>0</u>	<u>1,010,000</u>	<u>45,735,000</u>
Total Bonds Payable	<u>\$ 63,985,000</u>	<u>\$ 16,910,000</u>	<u>\$ 2,500,000</u>	<u>\$ 78,395,000</u>

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2012, amounts remaining to be paid under long-term lease obligations are as follows:

2013	\$ 101,891
2014	102,902
2015	55,975
2016	58,520
2017	55,815
Thereafter	<u>39,676</u>
	414,779
Less: Current Portion	83,650
Less: Imputed Interest	<u>58,304</u>
Total	<u>\$ 272,825</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

Funding Policies

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

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

	Annual Contributions
2010	<u>\$ 917,664</u>
2011	<u>\$ 1,320,804</u>
2012	<u>\$ 1,552,196</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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

Funding Policy

The obligations of the plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements which will be renegotiated at various times in the future. The Authority, per its contracts with employee units, will pay the full premium costs for the health insurance coverage (currently provided by Blue Cross/Blue Shield of the Syracuse Area) for an employee of the Authority at retirement, provided the employee is at least 55 years of age and has been employed with the Authority for at least five consecutive years prior to the date of retirement. For family coverage the retirees share amounts to 50% of the difference between the family and individual coverage. Spousal benefits continue until the death of the retiree. Surviving spouses are permitted to continue coverage after the death of the retiree, but are responsible for 100% of the premium. The Authority currently pays for postemployment health care benefits on a pay-as-you-go basis.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

Annual Other Postemployment Benefit Cost

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

The following table shows the components of the Authority’s annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority’s net OPEB obligation for the years ended December 31, 2012 and 2011:

	2012	2011
Annual Required Contribution	\$ 3,529,410	\$ 3,299,121
Interest on Net OPEB Obligation	301,090	193,584
Adjustment to Annual Required Contributions	<u>(452,847)</u>	<u>(284,972)</u>
Annual OPEB Cost (Expense)	3,377,653	3,207,733
Contributions Made	<u>(589,239)</u>	<u>(520,086)</u>
Increase in Net OPEB Obligation	2,788,414	2,687,647
Net OPEB Obligation - Beginning of Year	<u>7,527,257</u>	<u>4,839,610</u>
Net OPEB Obligation - End of Year	<u><u>\$ 10,315,671</u></u>	<u><u>\$ 7,527,257</u></u>

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, 2012	<u>\$ 3,377,653</u>	<u>17.4%</u>	<u>\$ 10,315,671</u>
December 31, 2011	<u>\$ 3,207,733</u>	<u>16.2%</u>	<u>\$ 7,527,257</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

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, 2011 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, 2012 and 2011

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

Deferred Compensation Plan

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

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

NOTE 9 – CONTINGENCY

In 2009, the Authority exercised its right to condemn under the NYS Eminent Domain Procedure Law to acquire a subterranean easement from the Finger Lakes Railway. Appraisals estimating the value of the easement taken and any resulting damages have been exchanged by the parties and indicate a range of damages from \$103,000 to \$610,000. The sum of \$103,000 was paid to Finger Lakes Railway in 2007, as required by law, to commence the condemnation proceedings.

The Authority contested the appraisal submitted by Finger Lakes Railway and the matter went to trial in 2010. In April 2012, the court awarded Finger Lakes Railway the sum of \$150,870 plus accrued interest. OCWA satisfied the judgment in 2012 and the matter is now concluded.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 10 – NEW ACCOUNTING PRONOUNCEMENTS

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65 Items Previously Reported as Assets and Liabilities which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement 65; GASB Concepts Statement No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

The provisions of the Statement are effective for periods beginning after December 15, 2012. The Authority is evaluating the effects of the adoption of this statement on its financial statements

NOTE 11 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 22, 2013, the date the financial statements were available to be issued, and identified the following additional disclosures:

Effective January 2, 2013, the Town of Camillus, entered into a 40 year lease agreement with the Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant. The Town of Camillus has agreed to lease all of the rights, title, and interest in the entire operations, plant, hydrants, and distribution system, real property, and all extensions thereto. Previously, the Town of Camillus purchased water from the Authority under the Wholesale Water Rate Category and contracted with the Authority to operate and maintain its water supply system and customers.

Subsequent to year-end, in March 2013, the Authority participated in the Series 2013A refunding \$8.39 million of Onondaga County Water Authority General Water System Revenue Bonds 2005 Series A.

ONONDAGA COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
December 31, 2008	<u>\$ 0</u>	<u>\$ 18,941,883</u>	<u>\$ 18,941,883</u>	<u>0%</u>	N/A	N/A
December 31, 2009	<u>\$ 0</u>	<u>\$ 20,195,354</u>	<u>\$ 20,195,354</u>	<u>0%</u>	N/A	N/A
December 31, 2010	<u>\$ 0</u>	<u>\$ 21,483,184</u>	<u>\$ 21,483,184</u>	<u>0%</u>	<u>\$ 7,993,104</u>	<u>269%</u>
December 31, 2011	<u>\$ 0</u>	<u>\$ 30,843,497</u>	<u>\$ 30,843,497</u>	<u>0%</u>	<u>\$ 8,145,048</u>	<u>379%</u>
December 31, 2012	<u>\$ 0</u>	<u>\$ 32,967,461</u>	<u>\$ 32,967,461</u>	<u>0%</u>	<u>\$ 8,507,242</u>	<u>388%</u>

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 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), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2013.

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 opinions 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.

443 North Franklin Street • Syracuse, NY 13204-1441 • (315) 471-9171 • Fax (315) 471-8555

1120 Corporate Drive • Auburn, NY 13021-1634 • (315) 253-6273 • Fax (315) 253-0890

4350 Middle Settlement Road • New Hartford, NY 13413-5328 • (315) 732-2991 • Fax (315) 732-0282

<http://www.dbbllc.com>

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 22, 2013



Dermody, Burke & Brown, CPAs, LLC

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

**BOARD OF DIRECTORS
ONONDAGA COUNTY WATER AUTHORITY**

We have examined Onondaga County Water Authority's (the Authority) compliance with Section 2925(3)(f) of the New York State Public Authorities Law during the year ended December 31, 2012. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2012.

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 22, 2013