ONONDAGA COUNTY WATER AUTHORITY

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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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, 2013 and 2012, 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 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.

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

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, 2013 and 2012, 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

Change in Accounting Principle

As described in Note 9 to the financial statements, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013.

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 4 to 19 and 44, 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 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 20, 2014, 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, 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 20, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2013, 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 2013 financial report, which follows this report.

Financial Highlights

For 2013, OCWA's water revenues decreased by $629,232 (1.64%) compared to 2012 and overall revenue, compared to 2012, decreased by $6,301,437. Ninety percent (90%) of the overall decrease in revenue is tied to $5,696,270 in principal forgiveness related to OCWA's $33 million 2009 Series A water revenue bond used to construct covered storage facilities. Specifically the money received through the American Recovery and Reinvestment Act of 2009 was used to offset the cost of construction of a 20 MG covered storage reservoir located in Van Buren. The decrease in water sales revenue was generally weather related. During the summer of 2012 rainfall was well below normal at 13.39 inches with 37% of the rain falling in 7 of the 122 days measured. Conversely, for the summer of 2013 total rainfall was 21.94 inches, with measurable rainfall on 59 out of the 122 days monitored and no dry spell longer than 7 days in length. As a result overall daily water sales for 2013 were 2.16 million gallons lower than the 2012 daily average.

While overall water sales revenue declined $629,232 and is generally explained by the wet summer weather, further explanation is warranted. Wholesale water sales for 2013 were $1,431,467 lower than 2012 sales. While partially weather related, the major reason for the decrease is OCWA's acquisition of the Camillus Consolidated Water System effective January 2, 2013, whereby OCWA's fourth largest customer was converted from a wholesale account into 6,432 retail residential and commercial accounts. As a result of the change, residential and commercial water sales increased by $845,851 for the year. Again, the weather impacted overall sales and partially mitigated the impact of the 2% rate increase enacted on January 1, 2013. Overall industrial water sales declined by $74,502 (1.6%), compared to the previous year, and is primarily tied to the closure of the Syracuse Tri-Gen cogeneration facility.

OCWA's 2013 total customer account base increased by 7,079 (7.57%) over the 2012 year-end total. The conversion of the Camillus Consolidated Water System from a wholesale account to individual retail residential and commercial accounts represents 6,432 (90.9%) of the overall increase in customer base, with the remaining 647 new accounts being added throughout OCWA's four county regional system. By year end OCWA's total customer base totaled 100,591 accounts with 99,306 metered residential, commercial, industrial and wholesale accounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Financial Highlights – Continued

On the expense side of the Authority's operation, total expenses for 2013 decreased by $434,530 (1.14%) compared to 2012. Leading the way, with respect to decreased expense, was a reduction in other post-employment benefits expense totaling $1,085,749 which came about through the transitioning of retirees over the age of 65 from OCWA's traditional health insurance plan to Medicare supplemental plans that provide the retiree with essentially the same health insurance coverage at a reduced rate for both the retiree and OCWA. Decreased water sales and increased production of water from OCWA's Marcellus Water Treatment Plant resulted in a $501,064 decrease in purchased water.

Conversely, $951,892 in increased Labor related expenses offset the aforementioned saving. $543,085 of the increase is due to increased payroll which is attributed to wage increases for members of OCWA's two bargaining units. For 2013 the Teamsters received a 2% wage increase on January 1, 2013 and the members of the CSEA bargaining unit received a 2.5% increase. In addition to wage increases, the total number of employees increased by 6 over the year-end total for 2012. It should be noted that while negotiations with Camillus were ongoing during 2012 a hiring freeze was put in place and as such no replacement or new employees were hired in 2012. With the agreement in place to assume operations and maintenance of the former Camillus Consolidated Water System, employment was offered to four former employees of the system and subsequently all four joined the Authority at the beginning of 2013. Given growth of the water system, OCWA also added one Meter Repair Worker and one Instrumentation Technician during the year. The increase in benefits corresponds to the addition of the new and replacement personnel as well as increases in health insurance costs from the Teamsters Health Insurance Fund and Excellus Blue Cross-Blue Shield. It should be noted that the overall increase in health insurance cost was mitigated somewhat due to the aforementioned transition of retirees from the traditional health insurance plan to the Medicare Supplemental plans.

For the year, Electric and Natural gas expense increased by $167,193, partly due to increased rates but mostly due to the addition of new and leased facilities. It is anticipated that some of the increased electric expense will be offset in future years through energy efficiency initiatives across the system. For example the refurbishing of the Southern Branch pump stations (Thurber St. and Seneca St.) in 2013 will result in a 30% reduction in energy use at each of the stations. Depreciation expense for 2013 increased by $303,441 over 2012 as a result of OCWA's ongoing capital improvement program, and the completion of projects like the aforementioned South Branch project.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Using This Annual Statement – Continued

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.

Summary of Statements of Net Position

TABLE 1

	(Restated) 2012	2013
ASSETS		
Cash	$ 264,705	$ 507,673
Accounts Receivable	7,282,158	7,338,838
Materials, Supplies and Prepaid Expenses	2,454,272	2,318,712
Restricted Assets	26,709,423	24,707,265
Plant and Water Rights, Net	217,069,946	220,238,765
TOTAL ASSETS	$ 253,780,504	$ 255,111,253
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	$ 44,298	$ 840,747
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 3,355,579	$ 3,195,426
Liabilities Payable from Restricted Assets	1,678,009	1,158,764
Bonds Payable	69,135,237	66,982,584
OPEB Liability	10,315,671	12,018,336
Capital Lease Obligations	356,475	266,725
TOTAL LIABILITIES	$ 84,840,971	$ 83,621,835
NET POSITION		
Net Investment in Capital Assets	$ 147,622,532	$ 153,830,203
Restricted	24,229,207	23,345,031
Unrestricted	(2,867,908)	(4,845,069)
TOTAL NET POSITION	$ 168,983,831	$ 172,330,165

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Summary of Statements of Net Position – Continued

Total assets increased by $1,330,749 in 2013 as a result of the following items:

- The increase in cash of $242,968 is due to the higher balances in the Authority's operations and maintenance and payroll accounts at year-end.

- Accounts receivable have increased by $56,680 or 0.8%. 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 decreased by $174,669 (4.3%). 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 $270,300 or 8.2% over the year-end 2012 balance. 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 decreased by $101,860 over the 2012 balance.

- Materials, supplies and prepaid expenses decreased by $135,560 (5.5%) over 2012 levels. Inventory decreased by $172,588 due to lower quantities required for jobs in progress or starting in the near future. Prepaid expenses went up by $37,028 primarily due to increases in prepaid insurance and the Authority's postage accounts.

- Restricted assets decreased by $2,002,158 (7.5%) in 2013. 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 $4.5 million. Another factor is that the Special Deposits Account decreased by $825,000. Offsetting a portion of those decreases is the total increase of over $3.6 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 2013. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

- Deferred outflows of resources increased by $796,449 over the 2012 amounts. In March 2013, the Authority issued bonds to complete a partial advance refunding of $8,390,000 of its 2005 Revenue Bonds. This resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $870,452. This deferred amount on refunding is being recognized as a component of interest expense over the remaining life of the old debt. In the past this item was netted against bonds payable. However, new GASB regulations require it be shown as a Deferred Outflow of Resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Summary of Statements of Net Position – Continued

Total liabilities decreased by approximately $1.2 million in 2013 as a result of the following items:

- Accounts Payable and Accrued Liabilities decreased by $160,153 (4.8%) in 2013 due to the net effect of the following items. The most significant items is that Accounts Payable decreased by $214,997. Offsetting a portion of that decrease were smaller increases in Social Security Withheld, Accrued Vacation and Accrued Payroll.
- Liabilities Payable from Restricted Assets decreased by $519,245 (30.9%) as compared to 2012 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 $205,963 less than in the same period of the previous year. Retainage held at the end of 2013 was $34,605 less than at the end of 2012. Customer deposits decreased by $226,745 and finally, accrued interest on bonds decreased by $51,932.
- The Bonds Payable balance decreased by $2.15 million. The Bonds Payable balance was affected by principal payments totaling $2,725,000 which were made during 2013. It was also significantly affected by the $985,753 premium on the 2013 bonds. These bonds which were issued in a par amount of $8.39 million were used to advance refund a comparable amount of the Authority's 2005 revenue bonds.
- 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, 2013 include a liability in the amount of $12.0 million that represents the Authority's unfunded liability. This is an increase of $1.7 million over the 2012 amount.
- Capital lease obligations decreased by $89,750 due to principal payments made on various leases.
- Net Position is the difference between all the other elements of the statement. That is assets plus deferred outflows, less liabilities, less deferred inflows.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Review of Revenues

TABLE 2

	2012	2013
Residential/Commercial Sales	$ 27,938,716	$ 28,784,567
Industrial Sales	4,561,502	4,487,000
Municipal (Water Utility) Sales	4,642,380	3,210,913
Fire Protection	1,174,189	1,205,075
Miscellaneous Revenue	1,135,972	1,130,295
ARRA Principal Forgiveness	5,696,270	0
Interest from Investments Held in Trust	16,642	15,273
Gain (Loss) on Disposal of Fixed Assets	(13,483)	17,628
TOTAL REVENUES	$ 45,152,188	$ 38,850,751

- OCWA implemented 2.0% rate increases for all customer classes except fire protection during 2013. The increases, which were determined in late 2012, were based on the projected requirements for 2013 and took into account changes that were expected to have an effect on 2013 operations. The rate increases took effect on January 1, 2013.

- Total water revenues for 2013 decreased by $629,232 (1.6%) over the previous year. Residential and commercial sales increased by $845,851 (3.0%), industrial sales decreased by $74,502 (1.6%), municipal sales decreased by $1,431,467 (30.8%) and fire protection increased by $30,886 (2.6%).

- Although Residential and Commercial sales grew by more than the rate increase, we would normally have expected higher sales due to the addition of 6,400 customers with the transition of Camillus from wholesale to retail. One reason that Residential and Commercial sales are not higher is that summer weather went from hot and dry in 2012 to generally wet in 2013. This caused the average Residential customer to use 3,500 gallons (19.0%) less and the average Commercial customer to use 3,000 gallons (8.6%) less during the summer billing period in 2013 than in 2012.

- Municipal sales decreased by so much for a couple of reasons. Most significantly Camillus, which was billed $1.256 million in 2012, was converted to retail at the beginning of 2013. The other reason is that, as with residential and commercial customers, consumption was down in 2013 as compared to 2012.

- The ARRA Principal Forgiveness that was received in 2012 had no counterpart in 2013. This $5,696,270 is the most significant revenue change from 2012 to 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Review of Expenses

TABLE 3

	(Restated) 2012	2013
Operations	$ 8,793,022	$ 9,502,166
Purchased Water	8,889,637	8,388,573
General and Administrative	6,918,432	5,998,060
Less: Burden Applied	(942,346)	(980,400)
Depreciation	5,285,243	5,588,684
Bond Amortization	(120,176)	(166,200)
Water District Lease Amortization	534,157	514,945
Maintenance	5,689,182	5,960,908
Other Expense	3,032,120	2,838,005
TOTAL EXPENSES	$ 38,079,271	$ 37,644,741

Total expenses for 2013 were up by $434,530 (1.1%) compared to fiscal year 2012. Areas of expense that experienced significant changes, both plus and minus, in 2013 included: 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 $543,085 (7.1%) during 2013 as compared to 2012. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2013. The rates for the CSEA employees increased by 2.5% and Teamsters rates increased by 2.0%.

Also impacting the increases was that the Authority had six more employees at the end of 2013 than at the end of 2012. Four of the additions were former Camillus workers. Employees were added to several different departments: two in Distribution, one in the Business Office, one in Meter Reading, one in Operations and one in Meter Repair.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Notable Expense Changes (Other Than Labor)

Group health insurance had an overall increase of $147,084 (5.4%) as compared to 2012 for the Authority's employees and retirees. While health insurance premiums increased by 16.1% for CSEA and non-union employees in July and premiums for Teamsters employees increased by 8.6% in January 2013, the Authority enrolled its retirees 65 and older in a Medicare supplement plan which reduced the overall increase significantly. The additional employees also had an impact on the increase. Health Insurance coverage is contractual and it should be noted that both employees and retirees contribute toward the cost.

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 $1,788,417, an increase of $236,221 (15.2%) over the 2012 amount.

OPEB expense for 2013 decreased by $1,085,749 (38.9%) as compared to the 2012 figure. The amount is determined by actuarial review and the changes that the Authority made to retiree health insurance coverage, moving retirees 65 and older from its indemnity plan to a Medicare supplement plan reduced the calculated OPEB expense for the year greatly.

OCWA also experienced a $167,193 (23.9%) increase to its electric and natural gas charges for 2013 as compared to 2012 amounts. With the addition of Camillus, OCWA added four facilities including two pump stations. These facilities increased electric and natural gas costs by $79,000. This and rate increases caused most of the rise in costs.

Purchased water cost decreased by $501,064 (5.6%) for 2013. The Authority purchased 622,375,000 fewer gallons from the Metropolitan Water Board in 2013 than in 2012. This decrease, as noted in other areas was due to the wet summer we experienced in 2013.

The amount credited to Burden Applied increased by $38,054 or 4.0% in 2013 as compared to 2013. This figure is attributable to the increased labor rates that were noted previously and additional hours that Authority employees charged to capital work during the year.

Depreciation increased by $303,441 (5.7%) in 2013 over 2012 figures. This is a reflection of the fact that OCWA added nearly $6.7 million to Water Plant in Service in 2013 as well as over $18.0 million in 2012.

There was a decrease of $194,115 (6.4%) in Other Expense in 2013. The most significant part of this occurred due to the issuance of bonds in 2013 to advance refund of $8,390,000 of the Authority's 2005 bonds. That transaction produced a decrease in interest expense for 2013 of $239,523 as compared to 2012 with an offsetting increase of $97,476 for debt issuance costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Summary of Overall 2013 Operations

In 2013 OCWA experienced a net income before capital contributions of $1,206,010, a decrease of $5,866,907 from the net income of $7,072,917 for the fiscal year ended December 31, 2012. The most significant parts of the decrease were principal forgiveness, decreased water revenue and decreased OPEB expense.

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, 2013

System Growth

Areas of growth included the following:

- For 2013 system growth included the installation of 17 developer / individual main extensions, totaling 22,762 feet of main.
- A recently completed Town of Lenox water district will potentially add 225 new connections to the 50,160 feet of main installed during 2013.
- The Town of Hastings continues to develop and add small districts.
- The Operation and Maintenance Agreement between OCWA and the Town of Camillus resulted in the conversion of the former wholesale account into 6,432 residential and commercial accounts.
- 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, 2014 and beyond:

- The Town of Granby continues to work on the development of new water supply districts, and the Town Supervisor continues to seek additional funding from any and all sources.
- The Town of Hastings is preparing to start work on a small water district in the north-eastern portion of the Town, east of Route 81.
- The Town of Constantia is working on funding for it 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 2013 seventeen main extension contracts were completed adding 22,762 feet of main or 1,339 feet average per contract. OCWA completed 8 system improvement projects replacing 10,045 feet of main and adding 3,965 feet of new 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 (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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities 2012	Governmental Activities 2013	Total Percent Change 2012-2013
Water Plant in Service	$ 270,101,414	$ 276,793,028	2.48%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	3,252,721	5,180,869	59.28%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	153,584	164,381	7.03%
Jobbing in Progress	403,840	278,540	-31.03%
Allowance for Depreciation	(68,295,200)	(73,119,322)	7.06%
Accumulated Amortization/Water Districts	(11,699,433)	(12,214,379)	4.40%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(16,870)	(14,242)	-15.58%
Total	$ 217,069,946	$ 220,238,765	1.46%

Increase to Water Plant in Service Highlights

- New West Hill Pump Station – $578,683
- Linda Road Tank Improvements and Renovations – $461,430
- West Hill Tank Improvements and Renovations – $317,195
- Customer Information System Upgrade – $1,015,201
- Water meters in the amount of $825,796 as part of an ongoing meter replacement project
- The completion of various additional water main projects – $2,314,260
- The installation of new and replacement water services – $838,193
- The installation of new and replacement hydrants – $446,761
- The replacement of vehicles in its fleet as part of OCWA's asset management program

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress increased by $1,928,148 during 2013, from $3,252,721 at the beginning of the year, to $5,180,869 at year end. Of that amount, $3,491,410 is related to the following four projects:

- Seneca Street Pump Station Upgrade **–** $1,292,853
- Thurber Street Pump Station Upgrade **–** $1,131,988
- Corporate Park Drive Hastings Tank Improvements and Renovations **–** $550,965
- East Hill Standpipe Improvements and Renovations **–** $515,604

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 slightly 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. The balance in this account had decreased by $125,300 at the end of 2013 as compared to the previous year end due to the completion of 46 projects including one with a cost of $211,000.

Long-Term Debt Administration

The Authority has four General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling $64,672,835 as of December 31, 2013. OCWA's most recent bonds were issued in March 2013.

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, 2013, the 2013 bonds have a remaining principal of $8,215,000. This amount reflects a principal payment of $175,000 made in September 2013.

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 $2,955,000 as of December 31, 2013. This amount reflects a principal payment of $1,025,000 made in September 2013. The required principal payment on the bond in 2014 is $1,060,000. 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 $23,132,835 as of December 31, 2013. The remaining balance reflects a principal payment of $420,000 made in June 2013. The required principal payment on the bond in 2014 is $465,000. 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 $12,215,000 as of December 31, 2013. This amount reflects a principal payment of $525,000 made in October 2013. The required principal payment on the bond in 2014 is $540,000. 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Long-Term Debt Administration – Continued

The General Water System Revenue Bonds, 2005 Series A have a remaining principal balance of $1,245,000 as of December 31, 2013. During 2013, the 2005 Series A bonds maturing after 2015 ($8,390,000) were advance refunded. The advance refunding reduced the total debt service payments by $962,963. This amount also reflects a principal payment of $580,000 made in September 2013. The required principal payment on the bond in 2014 is $610,000. 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 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, 2013
2013 Series Bonds	$ 8,215,000
2011 Series Bonds	16,910,000
2010 Series A Bonds	2,955,000
2009 E.F.C. Bonds	23,132,835
2008 E.F.C. Bonds	12,215,000
2005 Series A Bonds	1,245,000
Total	$ 64,672,835

OCWA Bond Rating

In February 2013, Moody's Investors Service assigned an Aa3 rating to OCWA's 2013 Bonds. At the same time it affirmed the Aa3 rating on OCWA's previously issued revenue bonds and the 2008 and 2009 E.F.C. Bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Looking Forward

For 2014 OCWA implemented a $2 per quarter ($8 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 the 99,333 metered accounts (as of February 27, 2014) the total EDU count is 116,911 which, at $8 per year, equals an annual increase in revenue of $935,288 for 2014 or a 2.48% increase in total water sales revenue. It should also be pointed out that the increase is fixed and not subject to the water use fluctuations as is the commodity rate per 1,000 gallons. 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 2001 and up to and including 2014 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2014	$8.00 / EDU	$8.00 / EDU	$8.00 / EDU	0.0%
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 2014 the Metropolitan Water Board increased its water rates 9-cents per 1,000 gallons which, based on OCWA's approved budget, should result in a $604,890 increased cost for purchased water. The Syracuse Water Department, which is on a July 1 – June 30 budget cycle, did not raise rates for the 2013-2014 cycle. OCWA's 2014 O&M Budget takes both into account. For 2013 OCWA purchased 50.3% (down from 51.84% in 2012) of its water from MWB. The purchase of water from the City of Syracuse decreased to 2.8%, down from 3.03% in 2012. Total water purchased for 2013 decreased to 53.1%, down from 54.88% in 2012. For 2013, purchased water costs represents 29.06% of the Authority's operating expense, before depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Looking Forward – Continued

- OCWA intends to add eight employees to its roster during 2014. A SCADA/GIS Tech will be added and split between the Engineering and Operations Departments. A Data Base Administrator will be added to the Information Technology Department. Two additional Water Maintenance Workers will be added to Distribution Maintenance. Two Custodial Workers are being added, replacing a custodial contractor that was not meeting expectations and a part-time Human Resources Assistant will be added. All the positions are being added as a result of growth of the water system and increasing demands on day to day operations. Once all the positions have been filled OCWA's complement of full time equivalent personnel total to 139.
- Chemical costs for 2014 are projected to remain stable. OCWA's cost of electric and natural gas costs in 2014 are expected to rise significantly for the first quarter of 2014 primarily due to the harsh weather brought about due to the Polar Vortex that has gripped the northeastern portion of the U.S. Early indications show electric bills for large facilities doubling in spite of decreased overall electric demand. It is anticipated the increase will subside as warmer weather arrives.
- After several years of larger major capital construction projects in the works, the pace has not slowed down; however the size and scope of projects being undertaken are somewhat smaller. Key projects getting underway in 2014 include enhancing the stability of the Otisco Lake Dam, design for the replacement of two of the recently acquired Camillus pump stations with construction expected in 2015 and evaluation of the five Camillus water storage tanks with work anticipated to be completed by 2016.
- OCWA's ongoing annual capital budget for 2014 is approved at $5,934,238 with an additional $9 million in improvements anticipated in 2015 and 2016. The 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 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.

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, 2013 and 2012

ASSETS

	2013	2012 (Restated)
CURRENT ASSETS		
Cash	$ 507,673	$ 264,705
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of $80,000 in 2013 and 2012)	7,334,692	7,176,151
Accounts Receivable - Other	4,146	106,007
Materials, Supplies and Prepaid Expenses	2,318,712	2,454,272
Total Current Assets	10,165,223	10,001,135
RESTRICTED ASSETS		
Customer Deposits	505,010	1,330,492
General Authority Fund	2,516,287	2,668,092
Bond Fund	1,825,623	1,843,922
General Fund	10,256,923	6,346,252
Renewal and Replacement Fund	899,678	1,042,407
Bond Reserve Fund	5,277,254	5,503,885
Construction Fund	3,426,490	7,974,373
Total Restricted Assets	24,707,265	26,709,423
PLANT AND WATER RIGHTS, NET	220,238,765	217,069,946
TOTAL ASSETS	255,111,253	253,780,504
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	840,747	44,298
TOTAL DEFERRED OUTFLOWS OF RESOURCES	840,747	44,298

LIABILITIES AND NET POSITION

	2013	2012 (Restated)
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	3,195,426	3,355,579
Capital Lease Obligations - Current Portion	82,550	83,650
Total Current Liabilities	3,277,976	3,439,229
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	350,664	591,232
Customer Deposits	301,540	528,285
Bonds Payable, Portion Due Within One Year	2,677,835	2,550,000
Accrued Interest on Bonds Payable	506,560	558,492
Total Liabilities Payable from Restricted Assets	3,836,599	4,228,009
LONG-TERM DEBT		
Bonds Payable	64,304,749	66,585,237
Postemployment Benefits Other Than Pension	12,018,336	10,315,671
Capital Lease Obligations, Net of Current Portion	184,175	272,825
Total Long-Term Debt	76,507,260	77,173,733
TOTAL LIABILITIES	83,621,835	84,840,971
NET POSITION		
Net Investment in Capital Assets	153,830,203	147,622,532
Restricted	23,345,031	24,229,207
Unrestricted	(4,845,069)	(2,867,908)
TOTAL NET POSITION	$ 172,330,165	$ 168,983,831

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
OPERATING REVENUE		
Charges for Services	$ 37,687,555	$ 38,316,787
Penalties	579,800	586,040
Other	550,495	549,932
Total Operating Revenue	38,817,850	39,452,759
OPERATING EXPENSE		
Source of Supply	8,388,573	8,889,637
Transmission and Distribution	14,167,497	13,280,645
Collection	1,295,577	1,201,559
Administration	5,017,660	5,976,086
Depreciation and Amortization	5,937,429	5,699,224
Total Operating Expense	34,806,736	35,047,151
INCOME FROM OPERATIONS	4,011,114	4,405,608
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	15,273	16,642
Gain (Loss) on Disposal of Fixed Assets	17,628	(13,483)
ARRA Principal Forgiveness	0	5,696,270
Debt Issuance Costs	(97,476)	0
Interest Expense	(2,740,529)	(3,032,120)
Net Other Expense	(2,805,104)	2,667,309
Net Income Before Capital Contributions	1,206,010	7,072,917
Capital Contributions	2,140,324	1,674,347
CHANGE IN NET POSITION	3,346,334	8,747,264
NET POSITION		
Balance, Beginning of Year, Restated	168,983,831	160,236,567
Balance, End of Year	$ 172,330,165	$ 168,983,831

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 38,761,169	$ 39,094,115
Cash Payments for Goods and Services	(19,292,658)	(19,710,726)
Cash Payments to Employees	(8,191,076)	(7,621,309)
Net Cash Provided By Operating Activities	11,277,435	11,762,080
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	731,120	702,793
Refunding of Customer Deposits	(957,864)	(523,726)
Net Cash Provided By (Used In) Noncapital Financing Activities	(226,744)	179,067
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	120,288	67,302
Cash Received from Contributed Capital	2,140,324	1,674,347
Payments for Capital Acquisitions	(9,375,108)	(8,721,546)
Debt Issuance Costs	(97,476)	0
Premium on 2013 Bond Issuance	985,783	0
Proceeds from Issuance of Long-Term Debt	8,390,000	0
Retirement of Debt (Paid to Escrow Fund)	(9,507,688)	0
ARRA Principal Forgiveness	0	5,696,270
Principal Payments	(2,814,750)	(11,082,815)
Interest Paid	(2,666,527)	(3,015,761)
Net Cash Used In Capital and Related Financing Activities	(12,825,154)	(15,382,203)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	15,273	16,642
Net Cash Provided By Investing Activities	15,273	16,642
Net Increase (Decrease) in Cash	(1,759,190)	(3,424,414)
Cash, Beginning of Year	26,974,128	30,398,542
Cash, End of Year	$ 25,214,938	$ 26,974,128

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	$ 4,011,114	$ 4,405,608
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	5,588,684	5,285,243
Amortization	348,745	413,981
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(158,541)	(261,110)
Accounts Receivable - Other	101,861	(97,533)
Materials, Supplies, and Prepaid Expenses	135,560	(61,175)
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	1,702,665	2,788,414
Accounts Payable and Accrued Liabilities	(452,653)	(711,348)
Net Cash Provided By Operating Activities	$ 11,277,435	$ 11,762,080

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Bond Premium

Amortization of bond premium is on the straight-line basis over the life of the bonds and amounted to $166,200 and $120,176 for the years ended December 31, 2013 and 2012, respectively.

Other Postemployment Benefits

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

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, 2013 and 2012

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.

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.

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 position.

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.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

Adoption of New Accounting Pronouncements

During the year ended December 31, 2013, the Authority implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. As required, the cumulative effect of applying Statement No. 65 is reported as a restatement of beginning net position on the 2012 financial statements (Note 9).

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, April 5, 2011 and March 5, 2013, 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, 2013 and 2012. Assets held by Trustee consist principally of cash and cash equivalents and are included in Restricted Assets on the statement of net position.

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS 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, 2013 consist of the following:

December 31, 2013	**Carrying Value**	**Bank Balance**
Cash and Cash Equivalents:		
Cash on Hand	$ 1,025	$ 1,025
Bank Accounts	1,121,306	1,217,373
Total Cash and Cash Equivalents	$ 1,122,331	$ 1,218,398
Investments:		
Money Market Funds	$ 3,983,234	$ 4,002,799
U.S. Treasury Bills	19,865,339	19,868,644
Federated Treasury Obligation	222,971	222,982
Held by a Fiscal Agent	21,063	21,063
Total Investments	$ 24,092,607	$ 24,115,488

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS – Continued

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	1,813,807	1,903,817
Total Cash and Cash Equivalents	$ 1,814,832	$ 1,904,842
Investments:		
Money Market Funds	$ 12,635,383	$ 12,578,420
U.S. Treasury Bills	10,191,036	10,192,475
Federated Treasury Obligation	2,271,814	2,271,814
Held by a Fiscal Agent	61,063	61,063
Total Investments	$ 25,159,296	$ 25,103,772

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 $678,910 from the Federal Depository Insurance Corporation plus $539,488 of pledged collateral at December 31, 2013. 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, 2013 and 2012

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2013 is as follows:

	December 31, 2012	Additions	Retirements / Reclassifications	December 31, 2013
Land	$ 963,543	$ 0	$ 0	$ 963,543
Dams, Buildings and Other Structures	73,823,401	1,564,622	0	75,388,023
Pumping and Purification Equipment	3,111,025	0	0	3,111,025
Mains, Meter, Services and Other Distribution Facilities	152,373,537	4,493,291	443,514	156,423,314
Filtration Plant	24,602,735	0	0	24,602,735
Automobiles, Trucks and Other Equipment	15,227,173	1,503,550	426,335	16,304,388
Leased Water Districts	23,169,890	0	0	23,169,890
	293,271,304	7,561,463	869,849	299,962,918
Construction-in-Progress	3,810,145	4,409,088	2,595,443	5,623,790
Water Rights	5,250,000	0	0	5,250,000
	302,331,449	11,970,551	3,465,292	310,836,708
Less: Accumulated Depreciation and Amortization	85,261,503	6,098,041	761,601	90,597,943
Net Plant and Water Rights	$ 217,069,946	$ 5,872,510	$ 2,703,691	$ 220,238,765

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 – PLANT AND WATER RIGHTS – Continued

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
	275,015,385	18,882,041	626,122	293,271,304
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
	294,235,992	22,271,006	14,175,549	302,331,449
Less: Accumulated Depreciation and Amortization	79,987,438	5,586,117	312,052	85,261,503
Net Plant and Water Rights	$ 214,248,554	$ 16,684,889	$ 13,863,497	$ 217,069,946

Depreciation and amortization charged to expense at December 31, 2013 and 2012 was $5,937,429 and $5,699,224, respectively, which includes amortization of leased water districts (see Note 6).

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 6 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005, August 2010, April 2011 and March 2013, the Authority issued $13,840,000, $5,925,000, $16,910,000 and $8,390,000, respectively, in General Water System Revenue Bonds, 2005, 2010, 2011 and 2013 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, 2013 and 2012 amounted to $29,325,000 and $31,105,000, 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 September 15, 2015, the 2010 bonds maturing on or after September 15, 2021, the 2011 bonds maturing on or after September 15, 2028 and the 2013 bonds maturing on or after September 15, 2025, 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, 2013 and 2012

NOTE 6 – 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 is $1,245,000 with a final maturity of September 15, 2015.

The outstanding principal of the defeased bonds is $8,215,000 at December 31, 2013.

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.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 6 – LONG-TERM DEBT – Continued

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

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%.

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

	Principal on Bonds	Interest Payable	Total Debt Service
2014	$ 2,677,835	$ 2,744,557	$ 5,422,392
2015	2,670,000	2,636,042	5,306,042
2016	2,780,000	2,534,447	5,314,447
2017	2,900,000	2,431,890	5,331,890
2018	3,020,000	2,320,044	5,340,044
2019 - 2023	17,085,000	9,733,839	26,818,839
2024 - 2028	17,760,000	5,874,486	23,634,486
2029 - 2033	7,245,000	2,801,102	10,046,102
2034 - 2038	8,535,000	1,272,227	9,807,227
	64,672,835	$ 32,348,634	$ 97,021,469
Less: Current Portion	2,677,835		
Add: Premium on Long-Term Debt	2,309,749		
Total	$ 64,304,749		

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2012	Additions	Reductions	December 31, 2013
Bonds Payable:				
Water Revenue Bonds	$ 31,105,000	$ 8,390,000	$ 10,170,000	$ 29,325,000
E.F.C. Drinking Water Installment Bonds	36,292,835	0	945,000	35,347,835
Total Bonds Payable	$ 67,397,835	$ 8,390,000	$ 11,115,000	$ 64,672,835

	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	45,735,000	0	9,442,165	36,292,835
Total Bonds Payable	$ 78,395,000	$ 0	$ 10,997,165	$ 67,397,835

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 6 – LONG-TERM DEBT – Continued

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, 2013 and 2012. Accumulated amortization related to these water facilities was $12,214,378 and $11,699,433 for the years ending December 31, 2013 and 2012, respectively.

Amortization expense related to water facilities under capital leases was $514,945 and $534,157 for the years ended December 31, 2013 and 2013, respectively.

At December 31, 2013, amounts remaining to be paid under long-term lease obligations are as follows:

2014	$ 95,668
2015	55,975
2016	58,520
2017	55,815
2018	20,384
Thereafter	19,292
	305,654
Less: Current Portion	82,550
Less: Imputed Interest	38,929
Total	$ 184,175

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

Funding Policies

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 (Tier 6) will contribute 3% of their reportable salary. Beginning April 1, 2013 the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

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
2011	$ 1,320,804
2012	$ 1,552,196
2013	$ 1,788,417

The Authority's contributions made to the System were equal to 100% of the contributions required for each year. Effective May 14, 2003, the System requires a minimum employer contribution of 4.5% annually of the System's fund value at April 1of the previous fiscal year.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 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, 2013 and 2012

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, 2013 and 2012:

	2013	2012
Annual Required Contribution	$ 2,361,092	$ 3,529,410
Interest on Net OPEB Obligation	412,627	301,090
Adjustment to Annual Required Contributions	(634,929)	(452,847)
Annual OPEB Cost (Expense)	2,138,790	3,377,653
Contributions Made	(436,125)	(589,239)
Increase in Net OPEB Obligation	1,702,665	2,788,414
Net OPEB Obligation - Beginning of Year	10,315,671	7,527,257
Net OPEB Obligation - End of Year	$ 12,018,336	$ 10,315,671

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, 2013	$ 2,138,790	20.4%	$ 12,018,336
December 31, 2012	$ 3,377,653	17.4%	$ 10,315,671

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2013, the Authority adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). This statements requires reporting of deferred outflows and inflows of resources separately from assets and liabilities. In addition, certain items previously reported as assets and liabilities are now recognized as outflows or inflows of resources. Implementation of GASB No. 65 results in expensing unamortized bond issuance costs and is applied retroactively by restating the prior period financial statements.

The following summarizes the effect of GASB 65 on the net position of the Authority as of January 1, 2012, the earliest period presented:

Net Assets Previously Reported	$ 169,723,290
Bond Issuance Costs	(739,459)
Restated Net Assets	$ 168,983,831

In addition, the statements of revenue, expenses, and changes in net position have been retroactively restated for such change, which resulted in a decrease in depreciation and amortization and an increase to the change in net position of $43,513. These differences reflect the removal of amortization of bond issuance costs.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 10 – NEW ACCOUNTING PRONOUNCEMENTS

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. GASB No. 67 and No. 68 change how governments calculate and report the costs and obligations associated with pensions and improve the decision usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. Statement No. 67 will take effect for periods beginning after June 15, 2013. Statement No. 68 will take effect for periods beginning after June 15, 2014. The Authority is currently assessing impact of this statement on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations and require measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. The provisions of Statement 69 are effective in financial reporting periods beginning after December 15, 2013. The adoption of this statement does not affect the financial statements of the Water Authority.

In April 2013 GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. The adoption of this statement does not affect the financial statements of the Authority.

NOTE 11 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 20, 2014, the date the financial statements were available to be issued, and identified the following additional disclosures.

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

Year Ended December 31, 2013

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, 2009	$ 0	$ 20,195,354	$ 20,195,354	0%	N/A	N/A
December 31, 2010	$ 0	$ 21,483,184	$ 21,483,184	0%	$ 7,993,104	269%
December 31, 2011	$ 0	$ 30,843,497	$ 30,843,497	0%	$ 8,145,048	379%
December 31, 2012	$ 0	$ 32,967,461	$ 32,967,461	0%	$ 8,507,242	388%
December 31, 2013	$ 0	$ 20,973,049	$ 20,973,049	0%	$ 8,768,150	239%

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), which comprise the statement of net position as of December 31, 2013, and the related statements of revenue, expenses and changes 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 20, 2014.

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.

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 20, 2014

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, 2013. 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, 2013.

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 20, 2014

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