

O **NONDAGA COUNTY WATER
AUTHORITY**

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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ONONDAGA COUNTY WATER AUTHORITY

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Dermody, Burke & Brown, CPAs, LLC

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS ONONDAGA COUNTY WATER AUTHORITY

We have audited the accompanying statements of net assets of **ONONDAGA COUNTY WATER AUTHORITY** (the Authority) as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis and the schedule of funding progress for the retiree healthcare plan, on pages 3 to 18 and 39, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

DERMODY, BURKE & BROWN

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2010, 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 2010 financial report, which follows this report.

Financial Highlights

OCWA's 2010 total revenues increased by \$4,215,232 (13.5%) compared to the total for 2009, with rate increases for all customer classes representing the main source of increased revenues for 2010. The OCWA Board took steps to increase the Authority's rates primarily to address added debt service related to construction. By the end of 2010 two of the three large covered tanks being built by OCWA to replace MWB's open reservoirs were substantially completed and placed in service. The \$14.5 million improvement of the OCWA water treatment plant was also completed in 2010. Additionally, OCWA refunded its 2001 revenue bond and as part of the same bond issue added \$2 million for green improvements to the Authority's headquarters in Salina.

Overall, water sales (consumption) for 2010 increased as compared to 2009, in part due to a warm, dry start to the summer and in part due to an increase in industrial water sales. Average quarterly water sales remained generally in line with the average experiences over the past decade, which remains substantially lower than the average use of the 1980s and 1990s. Further, the current averages are anticipated to be the new norm as we head into the 21st century. Fiscal year 2010 rates for residential and commercial customers were increased by 12%. Industrial and wholesale rates were increased 10%, and public and private fire protection rates were increased 3.25%. Water Revenues for 2010 increased by \$4,126,382 (13.7%) over 2009 revenues, and total water sold increased 643,000 (2%) gallons per day compared to 2009. Overall, residential water use increased 2.47%, commercial use was up 0.3%, wholesale purchases were up 0.95% and industrial sales rose 3.07% for the year. Water conservation efforts by OCWA's largest customer, Anheuser Busch, continued to be successful and the brewery's daily demand fell by 254,000 gallons per day. The decrease at Anheuser Busch, however, was offset by the emergence of Crucible Steel from bankruptcy and its return to former usage levels. Also, the former Northeast Biofuels ethanol plant went back into operation in June of 2010 as a Sunoco ethanol production facility, and Solvay Paperboard purchases increased by 7.3% over 2009.

OCWA's 2010 total customer account base increased by 800 (0.8%) over the year-end total for 2009. However it should be noted that the conversion of the Village of Marcellus water system from one intermittent wholesale customer to 620 retail customers took place in December of 2009 and as such the full impact of the new customers was not felt until 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Financial Highlights – Continued

On the expense side of the Authority's operation, total expenses for 2010 increased by \$2,958,028 (10%) over 2009. Depreciation and amortization total increased by \$477,684 (11%). Labor increased by \$194,363 (2.83%) and benefit costs were up \$482,853 (13.68%) with the increased contribution to the New York State Retirement System being the lead reason for the increased cost of benefits as compared to 2009. It should be noted that there are specific contractual obligations with the Authority's CSEA and Teamsters Union personnel; however successful negotiations with the Teamsters mitigated the overall impact of personnel related expenses. Additionally, the current number of OCWA employees remains below budgeted levels and will remain so until further signs of economic recovery are evident in Central New York. For 2010 chemical use added an additional expense of \$108,261 (23.8%) for the year, due primarily to changes in the treatment process brought about by the improvement project completed at the Marcellus water treatment plant and the Otisco Lake intake. Purchased water, due to demand management by OCWA Operations personnel, resulted in a decrease of \$92,223 compared to 2009. Outside professional service expenses increased by \$158,421, more than double the 2009 expenses, as a result of charges related to the Finger Lakes Railroad Condemnation, expenses related to OCWA's Cost of Service and Rate Study and the cost of additional engineering services. The largest increase in expenses for 2010 relate to additional bond interest expense, \$1,219,913 (93.81%) attributed to the 2009 \$33 million bond issue related to the construction of the Eastern 30 MG covered tank and the Western 20 MG tank, which were both placed into service in the latter part of 2010.

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, 2010

Summary of Statements of Net Assets

TABLE 1

	2009	2010
ASSETS		
Cash	\$ 98,481	\$ 243,275
Accounts Receivable	5,735,167	6,646,457
Materials, Supplies and Prepaid Expenses	2,230,583	2,353,726
Restricted Assets	13,486,407	21,697,846
Unamortized Bond Issuance Costs	723,879	707,872
Plant and Water Rights, Net	<u>189,987,093</u>	<u>203,137,805</u>
TOTAL ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 234,786,981</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,951,372	\$ 2,913,072
Liabilities Payable from Restricted Assets	4,394,480	2,832,980
Bonds Payable	45,522,196	64,665,960
OPEB Liability	3,142,428	4,839,610
Capital Lease Obligations	<u>656,875</u>	<u>551,000</u>
Total Liabilities	56,667,351	75,802,622
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	143,808,022	137,920,845
Restricted Net Assets	6,525,046	15,568,635
Unrestricted Net Assets	<u>5,261,191</u>	<u>5,494,879</u>
Total Net Assets	<u>155,594,259</u>	<u>158,984,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 234,786,981</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Summary of Statements of Net Assets – Continued

Total assets increased approximately \$22.6 million in 2010 as a result of the following items:

- The increase in cash of \$144,794 is due to the higher balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$905,917 or 15.9%. There are two components that make up most of this increase. The first is accounts receivable for water that has been billed to customers. Accounts Receivable – Water increased by \$561,193 (17.6%). The other component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. Accrued Utility Revenue increased by \$348,300 or 13.1% over the year-end 2009 balance. A portion of the increase is related to the rate increases ranging from 3.25% for fire protection to 12% for residential and commercial customers.
- Materials, Supplies and Prepaid Expenses increased by \$123,143 (5.5%). Prepaid Expenses increased by \$94,595. Part of that increase is due to the installation of the final two carbon filters at OCWA's Water Treatment Plant. The filter media, which cost \$100,000 per filter are part of new treatment processes at the plant and are expected to last five years before requiring replacement. Postage deposited with the USPS increased by \$36,980 because the facility that the Authority uses to mail bills moved toward the end of the year. This required that there be deposits at two post offices at year end. Also, OCWA's inventory increased by a small amount \$28,549 (1.8%) over 2009. A small offsetting factor is that prepaid insurance decreased by \$10,793 (8.0%) as compared to year-end 2010.
- Restricted assets increased by \$8,211,439 million (60.9%) in 2010. This increase is due to the net effect of several factors. One is the use of \$1.5 million in the construction of OCWA's Water Treatment Plant improvements. Another factor is the establishment of construction funds related to the 2009 and 2010 bonds. This increased restricted assets by nearly \$7 million. And finally, the net effect of converting the 2009 bonds to long-term, adding the 2010 bonds and refunding the 2001 bonds was an overall increase of \$2.1 million in the various bond payment and bond reserve funds.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2010. 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, 2010

Summary of Statements of Net Assets – Continued

Total liabilities increased by approximately \$19.1 million in 2010 as a result of the following items:

- Liabilities Payable from Restricted Assets decreased by \$1.6 million (39.8%) over 2009. This is because amounts due to contractors for work performed in 2010, for which payment was not made until 2011, was \$1.3 million less than in the same period of the previous year. Last year there were several large amounts payable to contractors working on OCWA's Water Treatment Plant and the 20MG and 30MG covered storage tanks. Also, retainage held at the end of 2010 was \$276,000 less than at the end of 2009. This decrease is also related to the above mentioned projects.
- The Bonds Payable balance increased due to several factors. One is the conversion of the 2009 EFC Bonds to long-term which increased bonds payable by \$19.3 million. Another is the issuance of the 2010 bonds which increased bonds payable by \$5.9 million. And finally, the refunding of the balance of the 2001 bonds which decreased bonds payable by \$5.5 million.
- 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, 2010 include a liability in the amount of \$4.8 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$105,875 due to principal payments made on various leases.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Review of Revenues

TABLE 2

	2009	2010
Residential/Commercial Sales	\$ 21,299,194	\$ 24,567,025
Industrial Sales	3,719,060	4,129,045
Municipal (Water Utility) Sales	4,024,555	4,399,573
Fire Protection	1,084,635	1,158,183
Miscellaneous Revenue	1,131,777	1,169,115
Interest from Investments Held in Trust	9,094	20,066
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	<u>(42,950)</u>	<u>(2,410)</u>
TOTAL REVENUES	<u><u>\$ 31,225,365</u></u>	<u><u>\$ 35,440,597</u></u>

- OCWA implemented rate increases for all customer classes during 2010. Residential and commercial customer rates were raised 12%, industrial and municipal customers 10.0% and fire protection 3.25%. The increases, which were determined in late 2009, were based on the projected requirements for 2010 and took into account changes that were expected to have an effect on 2010 operations.

Total water revenues for 2010 increased by \$4,126,382 (13.7%) from the previous year. 2010 revenue saw increases in each category of water revenue. Residential and commercial sales increased by \$3,267,831 (15.3%), industrial sales by \$409,985 (11.0%), municipal sales by \$375,018 (9.3%) and fire protection by \$73,548 (6.8%). Water revenues increased by more than the rate increases would indicate because consumption also increased in 2010 over 2009 amounts. Consumption increased in the various categories by the following percentages: Residential 2.47%, Commercial 0.3%, Industrial 3.07% and Municipal 0.95%.

- Interest from investments held in trust and other interest income increased by a total of \$10,972 (120.7%). This increase reflects the fact that the Authority had additional funds to invest as noted in the section on restricted assets on Table 1 above. The yields on investments, however, continue to be extremely low.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Review of Expenses

TABLE 3

	2009	2010
Operations	\$ 8,185,254	\$ 8,614,002
Purchased Water	8,168,218	8,074,995
General and Administrative	4,133,581	4,758,127
Less: Burden Applied	(898,846)	(862,828)
Depreciation	3,957,015	4,468,029
Bond Amortization	16,991	6,094
Water District Lease Amortization	594,179	571,746
Maintenance	4,895,272	5,161,554
Other Expense	<u>1,339,501</u>	<u>2,557,474</u>
TOTAL EXPENSES	<u><u>\$ 30,391,165</u></u>	<u><u>\$ 33,349,193</u></u>

Total expenses for 2010 were up by approximately \$3 million (9.7%) compared to fiscal year 2009. Areas of expense that experienced significant changes, both plus and minus, in 2010 included: labor, health insurance, pensions, purchased water, chemicals, electric/natural gas, professional services 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 \$194,363 (2.8%) during 2010 as compared to 2009. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2010. The rates for the CSEA employees increased by 3.5% and Teamsters rates increased by 3.0%.

Notable Expense Changes (Other Than Labor)

Group health insurance increased by \$112,356 (4.9%) as compared to 2009 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.

General liability and workers' compensation insurances increased by \$102,000 (16.6%) in 2010. The general liability portion of the increase was \$79,000 and the workers' compensation portion was \$23,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Notable Expense Changes (Other Than Labor) – Continued

For pensions, OCWA's employees are covered under the New York State and Local Employees' Retirement System. OCWA's expense for contributions made to the system was \$917,664, an increase of \$377,000 (70%) over the 2009 amount.

Chemical costs increased by \$108,261 (23.8%) in 2010 over 2009 figures. The increase is due to changes in the treatment processes at the Authority's water treatment plant.

Fuel costs increased by \$33,544 (17.6%) in 2010 as compared to the previous year. This is a reflection of fuel prices that were beginning to increase in the latter part of 2010.

OCWA also experienced a \$92,499 (11.4%) increase to its electric and natural gas charges for 2010 over 2009 amounts. This is due in part to rate increases plus the addition of new pumping facilities.

Professional services increased by \$158,421 (114.57%) in 2010 over 2009 amounts. The increase is due to several factors which include: legal fees related to the Finger Lakes Railroad Condemnation, the cost of the Authority's Cost of Service Study, and additional payments for engineering services to O'Brien & Gere.

Purchased water cost was down by \$93,223 (1.1%) for 2010. The Authority's Operations personnel made a concerted effort to maximize the delivery of water produced through OCWA's water treatment plant. This replaced more expensive purchased water with water produced through OCWA's plant at a lower cost.

Depreciation increased by \$511,014 (12.9%) in 2010 over 2009 figures. This is a reflection of the fact that OCWA added nearly \$42 million to Water Plant in Service in 2010.

There was an increase of \$1,213,202 (90.6%) in Other Expense in 2010. There are several factors that influenced this increase. The first is the \$1.26 million increase in interest expense on the 2009 bonds because the bonds were in place for a full year in 2010 as opposed to only part of the year in 2009. Next is the interest expense on the bonds that the Authority issued in 2010. These bonds had interest expense of \$79,000 in 2010, none in 2009. Finally, the 2001 bonds had a decrease in interest expense of \$96,000 in 2010 due to their being refunded during the year.

Summary of Overall 2010 Operations

In 2010 OCWA experienced a net income before capital contributions of \$2,091,404, an increase of \$1,257,204 from the net income of \$834,200 for the fiscal year ended December 31, 2010. This increase was caused by the net effect of the various factors described above.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

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, 2010

System Growth

Areas of growth included the following:

- Installation of 14 developer or individual main extensions, totaling 18,015 feet of main.
- By the end of 2010 the installation of water mains related to the new West Monroe / Constantia water system was completed and approximately 20 new customers were added. The full impact of the new system will not be recognized until later in 2011 when construction of the district's water storage tank and pump station are complete.
- The Town of Hastings added another small water district in the northern part of the Town and the total number of Hastings customers increased by 135.
- OCWA and Onondaga County are working proactively together to attract industrial customers to the County, using the availability and cost of water as a selling point.

Areas of growth, 2011 and beyond:

- The new West Monroe / Constantia water system construction is well underway. Water mains have been installed, the pump station and water storage facility are under construction and scheduled for completion in 2011. Once completed the impact of new customers should be between 600 and 1,000.
- The Town of Granby continues to work on the development of a northern water supply district.
- Demand for developer main extensions remains relatively flat, although the 2011 number of initial inquiries related to potential new developments has increased slightly over what was seen in 2009 and 2010.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2009	2010	2009-2010
Water Plant in Service	\$ 202,455,638	\$ 244,343,299	20.69%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	28,725,032	4,370,984	-84.78%
Water District Lease	23,080,458	23,169,890	0.39%
Pre-Survey and Investigation	568,494	413,111	-27.33%
Jobbing in Progress	435,104	493,401	13.40%
Allowance for Depreciation	(55,204,842)	(59,010,971)	6.89%
Accumulated Amortization/Water Districts	(10,048,037)	(10,619,783)	5.69%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(24,754)	(22,126)	-10.62%
Total	<u>\$ 189,987,093</u>	<u>\$ 203,137,805</u>	6.92%

Increase to Water Plant in Service Highlights

The Authority continues to remain active with respect to capital projects and acquisitions. During the year, the following three projects were substantially completed and placed into service. Their total cost is \$38.7 million of the nearly \$42 million in projects placed in service during 2010.

- Improvements to the Marcellus Water Treatment Plant and the Otisco Lake intake - \$12.4 million.
- Western Reservoir (20MG) covered storage tank - \$11.3 million.
- Eastern Reservoir (30MG) covered storage tank - \$15.0 million.

In addition to the three large projects mentioned above OCWA placed additional water plant into service during 2010, including the following:

- The purchase of water meters in the amount of \$520,000 as part of OCWA's ongoing meter replacement project.
- The installation of water mains totaling \$1.75 million.
- The installation of new and replacement hydrants and water services.
- The replacement of vehicles in its fleet as part of OCWA's asset management program.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress decreased by \$24,354,048 during 2010, from \$28,725,032 at the beginning of the year, to \$4,370,984 at year end. The decrease is related to the substantial completion of the three major projects that the Authority moved to Water Plant in Service during the year. They are, as noted above, the Improvements to the Marcellus Water Treatment Plant and the Otisco Lake intake, the Western Reservoir (20MG) covered storage tank and the Eastern Reservoir (30MG) covered storage tank

Some of the projects that make up the current balance in Construction Work-In-Progress include the following:

- OCDOT Improvements E. Taft Road – a project to install approximately 9,935 ft. of 4”, 6”, 8”, 10 “ & 12 “ pipe.
- System Betterment Sun Harbor Drive – a project to install approximately 1,915 ft. of 8” pipe.
- System Betterment Reed Street – a project to install approximately 1,965 ft. of 8” pipe.
- System Betterment Main Street (Nine Mile Creek to Elm Street) – a project to install approximately 915 ft. of 6”, 8” & 10” pipe.
- Northern Concourse – Roof, Siding and HVAC improvements at OCWA’s Headquarters Facility.
- Various smaller system betterments and main extensions still in progress at year-end.

Pre-Survey and Investigation Highlights

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

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 maintenance agreements with various water systems. The balance in this account had increased by \$58,297 at the end of 2010 as compared to the previous year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$63,985,000 as of December 31, 2010. OCWA's most recent bonds were issued in August 2010.

On August 19, 2010, the Authority issued \$5,925,000 in General Water System Revenue Bonds, Series 2010A. 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 first principal payment in the amount of \$950,000 is due on September 15, 2011.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of \$33,000,000. The New York State Environmental Facilities Corporation (EFC) agreed to purchase the bonds from time to time in amounts equal to "Advances" which were based upon requisitions submitted by the Authority. The balance, up to the maximum principal amount, was to be advanced upon conversion. The conversion to long-term bonds took place in March 2010. The unpaid principal sum at December 31, 2010 was \$33,000,000 with interest rate at 4.8721%. Bonds mature serially in varying annual amounts and have a final maturity date of June 15, 2038. The first principal payment in the amount of \$515,000 is due on June 15, 2011.

The E.F.C. Drinking Water Installment Bonds, 2008 Series A were issued in the amount of \$14,226,510 and has a remaining principal balance of \$13,745,000 as of December 31, 2010. The scheduled principal payment for 2011 is \$495,000 and is due on October 1, 2011. The 2008 Bonds mature serially in varying annual amounts through 2029, with an interest rate of 4.27%, one third of which is subsidized by E.F.C. (New York State Environmental Facilities Corporation).

The 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 \$11,315,000 as of December 31, 2010. This amount reflects a principal payment of \$520,000 made in September 2010. The required principal payment on the bond in 2011 is \$540,000, one twelfth of which is set aside monthly. The 2005 bonds mature serially in varying annual amounts through 2025, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

As noted above, 2001 Series A, General Water System Revenue Bonds were all refunded as part of the 2010 Series A bond issue. The refunding took place on September 15, 2010

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

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Long-Term Debt Administration – Continued

Series Bonds	Bonds Outstanding as of December 31, 2010
2010 Series A Bonds	\$ 5,925,000
2009 E.F.C. Bonds	33,000,000
2008 E.F.C. Bonds	13,745,000
2005 Series A Bonds	<u>11,315,000</u>
Total	<u>\$ 63,985,000</u>

OCWA Bond Rating

In August of 2010, Moody’s Investors Service assigned an Aa2 rating to OCWA’s General Water System Revenue Bonds, 2010 Series A. At the same time it also assigned an Aa2 rating to OCWA’s previously issued 2008 and 2009 EFC Bonds totaling \$47.2 million and affirmed the Aa2 rating on the Authority’s 2005 Series A Bonds.

Note: In the first half of 2010 Moody’s “recalibrated” all of its long-term municipal ratings to its global rating scale. As part of that process Moody’s “recalibrated” the bond rating on the Authority’s 2001 and 2005 Bond issues on April 16, 2010. The ratings changed from Aa3 to Aa2. A change of this nature would normally be considered an upgrade. In this case, however, Moody’s advises that “Market participants should not view the recalibration of the municipal ratings as ratings upgrades, but rather as a recalibration of the ratings to a different rating scale”.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Looking Forward

Based on increased debt expense related to the construction of two covered tanks built to replace MWB’s open reservoirs in Manlius and Van Buren, along with the debt related to the 2010 bond issue and the projected 2011 bond issue, and taking into account projected increased operating expenses, the OCWA Board opted to increase rates for 2011 by 9.0% for residential, commercial, wholesale and industrial customers. Rates for fire protection accounts were not increased. 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 2011 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
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 2011 the Metropolitan Water Board elected to raise its water rates. The Authority’s 2011 O&M Budget takes that increase into account. With the change in operation of the Southern Branch water system, OCWA purchased 51.5% (down from 53.3% in 2009) of its water from MWB and 3.5% from the City of Syracuse (up from 3.3% in 2009). Purchased water costs are roughly 31.4% of the Authority’s operating expense, before depreciation and amortization.
- OCWA’s personnel level remained flat for 2010 as new hires were restricted to replacement of key personnel only. At present, several positions are vacant due to retirement and will remain vacant for the foreseeable future, as the local and State economies continue to recover.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2010

Looking Forward – Continued

- With respect to major capital construction projects, the table is set for 2011. Construction of the Manlius (20MG Eastern Reservoir) tank is slated to begin in April of 2011, however full completion, including start up and clean up will run until June of 2012. Also, in April of 2011 major improvements to OCWA's Northern Concourse headquarters will begin. Once completed the \$2 million dollar project will result in energy savings through implementation of green technologies. Also on the docket for 2011 is the construction of a new pump station designed to feed the West Hill Water District, where customers are supplied unfiltered water purchased from the Syracuse Water Department. Once completed the new pump station will supply the West Hill customers with lower cost OCWA water produced at the Marcellus water treatment plant. The final major project that will get underway in 2011, but will not be completed until early in 2012, is the rehabilitation of the two Southern Branch pipeline pump stations. Pumps, motors, controls and auxiliary power for both stations will be 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 major capital improvements, OCWA has ongoing capital needs related to the operation and maintenance of the distribution system. In keeping with its ongoing asset management efforts, operating and engineering staff will continue to review and prioritize the overall needs related to replacement and or enhancement of all OCWA assets throughout the system.

Request for Information

This report is presented as a broad overview of the financial condition of the Onondaga County Water Authority. Questions related to the report or the Authority in general should be sent to the Executive Director, Onondaga County Water Authority, PO Box 9, Syracuse, New York 13211-0009. Questions can also be directed to the Executive Director via the Authority's web site at www.ocwa.org.

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash	\$ 243,275	\$ 98,481
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$80,000 in 2010 and 2009)	6,622,783	5,716,866
Accounts Receivable - Other	23,674	18,301
Materials, Supplies and Prepaid Expenses	<u>2,353,726</u>	<u>2,230,583</u>
Total Current Assets	9,243,458	8,064,231
 RESTRICTED ASSETS		
Customer Deposits	1,097,976	1,031,328
General Authority Fund	2,240,202	2,120,455
Bond Fund	1,592,360	1,122,099
General Fund	2,202,728	1,690,652
Renewal and Replacement Fund	1,584,160	1,575,774
Bond Reserve Fund	5,773,057	4,132,766
Construction Fund	<u>7,207,363</u>	<u>1,813,333</u>
Total Restricted Assets	21,697,846	13,486,407
 PLANT AND WATER RIGHTS, NET	203,137,805	189,987,093
 OTHER ASSETS		
Unamortized Bond Issuance Costs	<u>707,872</u>	<u>723,879</u>
 TOTAL ASSETS	<u><u>\$ 234,786,981</u></u>	<u><u>\$ 212,261,610</u></u>

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,913,072	\$ 2,951,372
Capital Lease Obligations - Current Portion	<u>108,875</u>	<u>105,875</u>
Total Current Liabilities	3,021,947	3,057,247
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	2,128,447	3,754,655
Customer Deposits	301,745	280,957
Bonds Payable, Portion Due Within One Year	2,500,000	1,816,510
Accrued Interest on Bonds Payable	<u>402,788</u>	<u>358,868</u>
Total Liabilities Payable from Restricted Assets	5,332,980	6,210,990
LONG-TERM DEBT		
Bonds Payable	62,165,960	43,705,686
Postemployment Benefits Other Than Pension	4,839,610	3,142,428
Capital Lease Obligations, Net of Current Portion	<u>442,125</u>	<u>551,000</u>
Total Long-Term Debt	<u>67,447,695</u>	<u>47,399,114</u>
Total Liabilities	75,802,622	56,667,351
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,920,845	143,808,022
Restricted Net Assets	15,568,635	6,525,046
Unrestricted Net Assets	<u>5,494,879</u>	<u>5,261,191</u>
Total Net Assets	<u>158,984,359</u>	<u>155,594,259</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 234,786,981</u></u>	<u><u>\$ 212,261,610</u></u>

See notes to financial statements.

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

Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUE		
Charges for Services	\$ 34,253,826	\$ 30,127,444
Penalties	500,931	427,547
Other	668,184	704,230
	<hr/>	<hr/>
Total Operating Revenue	35,422,941	31,259,221
OPERATING EXPENSE		
Source of Supply	8,074,995	8,168,218
Transmission and Distribution	12,657,950	11,856,125
Collection	1,117,606	1,224,401
Administration	3,895,299	3,234,735
Depreciation and Amortization	5,045,869	4,568,185
	<hr/>	<hr/>
Total Operating Expense	30,791,719	29,051,664
INCOME FROM OPERATIONS	4,631,222	2,207,557
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	20,066	9,094
Gain (Loss) on Disposal of Fixed Assets	(2,410)	(42,950)
Interest Expense	(2,557,474)	(1,339,501)
	<hr/>	<hr/>
Net Other Expense	(2,539,818)	(1,373,357)
Net Income Before Capital Contributions	2,091,404	834,200
Capital Contributions	1,298,696	1,053,949
	<hr/>	<hr/>
CHANGE IN NET ASSETS	3,390,100	1,888,149
NET ASSETS		
Balance, Beginning of Year	155,594,259	153,706,110
	<hr/>	<hr/>
Balance, End of Year	\$ 158,984,359	\$ 155,594,259
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See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 34,511,651	\$ 30,923,021
Cash Payments for Goods and Services	(18,751,118)	(13,255,799)
Cash Payments to Employees	<u>(7,041,281)</u>	<u>(6,851,200)</u>
Net Cash Provided By Operating Activities	8,719,252	10,816,022
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	288,964	274,776
Refunding of Customer Deposits	<u>(268,176)</u>	<u>(363,378)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	20,788	(88,602)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	80,057	55,003
Cash Received from Contributed Capital	1,298,696	1,053,949
Debt Issuance Costs	(87,178)	(263,471)
Payments for Capital Acquisitions	(18,272,956)	(27,971,823)
Proceeds from Issuance of Long-Term Debt	25,692,596	13,671,633
Principal Payments	(6,562,385)	(1,428,375)
Interest Paid	<u>(2,552,703)</u>	<u>(1,339,501)</u>
Net Cash Used In Capital and Related Financing Activities	(403,873)	(16,222,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	<u>20,066</u>	<u>9,094</u>
Net Cash Provided By Investing Activities	<u>20,066</u>	<u>9,094</u>
Net Increase (Decrease) in Cash	8,356,233	(5,486,071)
Cash, Beginning of Year	<u>13,584,888</u>	<u>19,070,959</u>
Cash, End of Year	<u><u>\$ 21,941,121</u></u>	<u><u>\$ 13,584,888</u></u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 4,631,222	\$ 2,207,557
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	4,468,029	3,957,015
Amortization	577,840	611,170
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(905,917)	(311,783)
Accounts Receivable - Other	(5,373)	(4,420)
Materials, Supplies, and Prepaid Expenses	(123,143)	(615,720)
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	1,697,182	1,626,861
Accounts Payable and Accrued Liabilities	<u>(1,620,588)</u>	<u>3,345,342</u>
Net Cash Provided By Operating Activities	<u>\$ 8,719,252</u>	<u>\$ 10,816,022</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 – NATURE OF OPERATIONS

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Method of Accounting

The Authority classifies net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ◇ Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- ◇ Restricted Net Assets – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ◇ Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash, Cash Equivalents and Investments

The deposit and investment of Authority monies is governed by provisions in its enabling legislation and by an Investment Policy adopted by the Authority on August 16, 2006.

Statutes authorize the Authority to invest in defeasance obligations, obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated F-1 by Fitch, A-1+ by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, among other things. At the present time the investments are primarily in money market funds, commercial paper and obligations of the U.S. Treasury.

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

Materials and Supplies

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

Plant and Water Rights

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

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Accounts Receivable

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

Revenue Recognition

Revenues are recorded as water service is supplied. Water supplied, but not billed, as of the calendar year end is estimated based upon historical usage and has been accounted for as earned but unbilled revenue.

Bond Issuance Costs

Certain costs incurred in issuing long-term borrowings have been deferred and are being amortized over the life of the bonds on a straight-line basis. Amortization amounted to \$42,558 and \$41,301 for the years ended December 31, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 \$36,464 and \$24,310 for the years ended December 31, 2010 and 2009, respectively.

Taxes

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

Contributed Capital

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

Use of Estimates

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

NOTE 3 – ASSETS HELD BY TRUSTEE

Assets held in trust in accordance with the General Water System Revenue Bonds Trust Indentures dated November 1, 2005 and August 19, 2010, 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, 2010 and 2009. Assets held by Trustee consist principally of cash and cash equivalents.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 2010 and 2009 consist of the following:

	Carrying Value	Bank Balance
December 31, 2010		
Cash and Cash Equivalents:		
Cash on Hand	\$ 1,025	\$ 1,025
Bank Accounts	1,363,746	1,507,929
Total Cash and Cash Equivalents	<u>\$ 1,364,771</u>	<u>\$ 1,508,954</u>
Investments:		
Money Market Funds	\$ 6,350,175	\$ 6,372,495
U.S. Treasury Bills	6,230,474	6,230,474
Federated Treasury Obligation Held by a Fiscal Agent	2,795,021	2,795,021
	5,200,680	5,200,680
Total Investments	<u>\$ 20,576,350</u>	<u>\$ 20,598,670</u>
	Carrying Value	Bank Balance
December 31, 2009		
Cash and Cash Equivalents:		
Cash on Hand	\$ 775	\$ 775
Bank Accounts	1,221,656	1,400,817
Total Cash and Cash Equivalents	<u>\$ 1,222,431</u>	<u>\$ 1,401,592</u>
Investments:		
Money Market Funds	\$ 9,463,208	\$ 9,490,936
U.S. Treasury Bills	1,085,914	1,086,279
Held by a Fiscal Agent	1,813,333	1,813,333
Total Investments	<u>\$ 12,362,455</u>	<u>\$ 12,390,548</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 \$529,980 from the Federal Depository Insurance Corporation plus \$978,974 of pledged collateral at December 31, 2010. 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, 2010 and 2009

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2010 and 2009 is as follows:

	December 31, 2009	Additions	Retirements / Reclassifications	December 31, 2010
Land	\$ 819,764	\$ 25,000	\$ 0	\$ 844,764
Dams, Buildings and Other Structures	34,051,589	26,601,288	0	60,652,877
Pumping and Purification Equipment	3,092,569	0	0	3,092,569
Mains, Meter, Services and Other Distribution Facilities	137,888,276	3,284,784	338,637	140,834,423
Filtration Plant	12,226,368	12,379,594	0	24,605,962
Automobiles, Trucks and Other Equipment	14,377,071	343,991	408,358	14,312,704
Leased Water Districts	23,080,457	89,433	0	23,169,890
	<hr/>	<hr/>	<hr/>	<hr/>
	225,536,094	42,724,090	746,995	267,513,189
Construction-in- Progress	29,728,630	2,506,217	26,957,351	5,277,496
Water Rights	5,250,000	0	0	5,250,000
	<hr/>	<hr/>	<hr/>	<hr/>
	260,514,724	45,230,307	27,704,346	278,040,685
Less: Accumulated Depreciation and Amortization	70,527,631	5,039,775	664,526	74,902,880
	<hr/>	<hr/>	<hr/>	<hr/>
Net Plant and Water Rights	<u>\$ 189,987,093</u>	<u>\$ 40,190,532</u>	<u>\$ 27,039,820</u>	<u>\$ 203,137,805</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 5 – PLANT AND WATER RIGHTS – Continued

	December 31, 2008	Additions	Retirements / Reclassifications	December 31, 2009
Land	\$ 503,667	\$ 316,097	\$ 0	\$ 819,764
Dams, Buildings and Other Structures	33,380,616	670,973	0	34,051,589
Pumping and Purification Equipment	3,092,569	0	0	3,092,569
Mains, Meter, Services and Other Distribution Facilities	132,638,272	5,617,894	367,890	137,888,276
Filtration Plant	12,226,368	0	0	12,226,368
Automobiles, Trucks and Other Equipment	13,292,056	1,409,268	324,253	14,377,071
Leased Water Districts	<u>23,080,457</u>	<u>0</u>	<u>0</u>	<u>23,080,457</u>
	218,214,005	8,014,232	692,143	225,536,094
Construction-in- Progress	9,771,040	28,568,613	8,611,023	29,728,630
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
	233,235,045	36,582,845	9,303,166	260,514,724
Less: Accumulated Depreciation and Amortization	<u>66,570,627</u>	<u>4,551,194</u>	<u>594,190</u>	<u>70,527,631</u>
Net Plant and Water Rights	<u>\$ 166,664,418</u>	<u>\$ 32,031,651</u>	<u>\$ 8,708,976</u>	<u>\$ 189,987,093</u>

Depreciation and amortization charged to expense at December 31, 2010 and 2009 was \$5,045,869 and \$4,568,185, respectively, which includes amortization of leased water districts amounting to \$571,746 and \$594,179 for 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 6 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005 and August 2010, the Authority issued \$13,840,000 and \$5,925,000, respectively, in General Water System Revenue Bonds, 2005 and 2010 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, 2010 and 2009 amounted to \$17,240,000 and \$17,290,000, respectively. The bonds mature serially in varying annual amounts through 2025, with interest ranging from 3.50% and 5.00%, payable semi-annually. The 2005 bonds, maturing on or after September 15, 2016 and the 2010 bonds maturing on or after September 15, 2021 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 (“EFC Drinking Water Installment Bonds”)

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the “Revolving Fund”) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (the “Corporation”) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. The Corporation issues bonds to 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, 2010 and 2009

NOTE 6 – LONG-TERM DEBT – Continued

Environmental Facilities Corporation Revenue Bonds (“EFC 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. The New York State Environmental Facilities Corporation (EFC) agrees to purchase the bonds from time to time in amounts equal to “Advances” which are based upon requisitions submitted by the Authority. The 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
2011	\$ 2,500,000	\$ 2,764,467	\$ 5,264,467
2012	2,605,000	2,660,373	5,265,373
2013	2,700,000	2,565,264	5,265,264
2014	2,810,000	2,464,967	5,274,967
2015	2,240,000	2,349,082	4,589,082
2016 - 2020	11,025,000	10,352,748	21,377,748
2021 - 2025	13,685,000	7,718,057	21,403,057
2026 - 2030	10,465,000	5,096,070	15,561,070
2031 - 2035	7,555,000	3,002,066	10,557,066
2036 - 2038	8,400,000	763,945	9,163,945
	63,985,000	<u>\$ 39,737,039</u>	<u>\$ 103,722,039</u>
Less: Current Portion	2,500,000		
Deferred Amount on Refunding	77,010		
Add: Premium on Long-Term Debt	757,970		
Total	<u>\$ 62,165,960</u>		

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 6 – LONG-TERM DEBT – Continued

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

Changes in long-term liabilities are as follows:

	December 31, 2009	Additions	Reductions	December 31, 2010
Bonds Payable:				
Water Revenue Bonds	\$ 17,290,000	\$ 5,925,000	\$ 5,975,000	\$ 17,240,000
EFC Drinking Water Installment Bonds	<u>27,898,413</u>	<u>19,328,097</u>	<u>481,510</u>	<u>46,745,000</u>
Total Bonds Payable	<u>\$ 45,188,413</u>	<u>\$ 25,253,097</u>	<u>\$ 6,456,510</u>	<u>\$ 63,985,000</u>
	December 31, 2008	Additions	Reductions	December 31, 2009
Bonds Payable:				
Water Revenue Bonds	\$ 18,575,000	\$ 0	\$ 1,285,000	\$ 17,290,000
EFC Drinking Water Installment Bonds	<u>14,226,510</u>	<u>13,671,633</u>	<u>0</u>	<u>27,898,143</u>
Total Bonds Payable	<u>\$ 32,801,510</u>	<u>\$ 13,671,633</u>	<u>\$ 1,285,000</u>	<u>\$ 45,188,143</u>

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2010, amounts remaining to be paid under long-term lease obligations are as follows:

2011	\$ 135,768
2012	107,913
2013	101,891
2014	102,902
2015	55,975
Thereafter	<u>154,011</u>
	658,460
Less: Current Portion	108,875
Less: Imputed Interest	<u>107,460</u>
Total	<u>\$ 442,125</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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
2008	<u>\$ 636,219</u>
2009	<u>\$ 540,216</u>
2010	<u>\$ 917,664</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, 2010 and 2009

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, 2010 and 2009

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, 2010 and 2009:

	2010	2009
Annual Required Contribution	\$ 2,278,791	\$ 2,140,565
Interest on Net OPEB Obligation	125,697	59,928
Adjustment to Annual Required Contributions	<u>(181,333)</u>	<u>(84,821)</u>
Annual OPEB Cost (Expense)	2,223,155	2,115,672
Contributions Made	<u>(525,973)</u>	<u>(471,448)</u>
Increase in Net OPEB Obligation	1,697,182	1,644,224
Net OPEB Obligation - Beginning of Year	<u>3,142,428</u>	<u>1,498,204</u>
Net OPEB Obligation - End of Year	<u><u>\$ 4,839,610</u></u>	<u><u>\$ 3,142,428</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, 2010	<u>\$ 2,223,155</u>	<u>23.7%</u>	<u>\$ 4,839,610</u>
December 31, 2009	<u>\$ 2,115,672</u>	<u>22.3%</u>	<u>\$ 3,142,428</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 is vigorously contesting the appraisal submitted by Finger Lakes Railway. The matter went to trial in 2010 and management is awaiting the judge’s decision as of the issuance date of these financial statements.

ONONDAGA COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended December 31, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-c)/a
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>

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 the financial statements of the Onondaga County Water Authority (the Authority), as of and for the year ended December 31, 2010, and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 7, 2011



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, 2010. 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, 2010.

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 7, 2011