ONONDAGA COUNTY WATER AUTHORITY

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, and the changes in its nets 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 12, 2012 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 20 and 42, 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 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2011, provides an introduction to the major activities that had an effect on the operations of the Authority and it also addresses the financial performance and status of OCWA. The information contained within the Management's Discussion and Analysis (MD&A) should be used and considered in conjunction with all of the information contained within the 2011 financial report, which follows this report.

Financial Highlights

OCWA's 2011 water revenues increased by $1,994,809 over 2010. However the increase does not reflect the whole story. In 2010 OCWA undertook a study of its rate structure with the intent of radically restructuring rate schedules for all customer classifications. The study, which was concluded by the middle of January 2011, had two major impacts for the year. First and foremost, OCWA moved away from a minimum billing system that included minimum consumption based on meter size and embraced a new two pronged billing system that includes a base service fee based on meter size (and its related equivalent dwelling unit) that is tied to OCWA's capital improvement program. Additionally, the new rates encourage wise water use through the implementation of inclining rate blocks for all water used, a significant departure from the past practice of a multiple step system that included a minimum amount of water use coupled with an inclining / declining rate structure that essentially rewarded excess residential use. The second major impact of the conversion to the new rate structure was the delay in implementation of the new rates until March 1st as opposed to the January 1st norm for rate change implementation. In addition to the changed rate schedule structure, the weather has an impact on total sales as well. Initially the summer started out warm and dry and daily demand showed signs of exceeding budgeted production level. However by late July/early August the weather patterns changed and more persistent rains dampened daily demand and ultimately saw customer use fall below normal summer projections.

Overall, water sales (consumption) for 2011 decreased by 116.3 million gallons (MG) as compared to 2010. Industrial sales declined by 177.8 million gallons for the year. Continued conservation efforts at the Anheuser Busch brewery in Baldwinsville single handedly accounted for a 195.75 million gallons decrease from 2010. Increased use by the Sunoco Ethanol plant in Fulton offset the Anheuser Busch decline by 51.6 million gallons for the year. Increased wholesale water sales to Municipal customers (70.2 MG) also helped offset the decline in industrial sales. As stated earlier, the wetter summer weather had an impact on residential and commercial water sales with a resulting decrease of 83.2 MG as compared to 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Financial Highlights – Continued

OCWA's 2011 total customer account base increased by 704 (0.77%) over the year-end total for 2010. The completion of the North Shore Water District construction in the Towns of West Monroe and Constantia accounted for 334 of the new customers. Construction of the system's new pipelines was completed by the end of 2010, which allowed for customers at lower elevations to connect to and be served by the new system during part of 2011. With the completion of the water district's new storage tank and pump station (late in 2011) the number of new customers should more than double in 2012. In addition to new customers in West Monroe and Constantia, Hastings added 52 accounts per completion of a new water district and Onondaga County, as a whole, added 269 new customers in a sluggish economy.

On the expense side of the Authority's operation, total expenses for 2011 increased by $3,869,377 (11.6%) over 2010. Depreciation increased by $579,895 (13.0%) for the year, primarily due to the completion two large covered storage tanks built to replace open, finished water storage facilities formerly owned by the Metropolitan Water Board (MWB). The tank projects were regulatory driven by the promulgation of the Long Term 2 – Enhanced Surface Water Treatment rule whereby USEPA ordered water systems with such reservoirs implement alternative treatment or replacement with covered storage facilities. Review and analysis determined construction of three new covered tanks designed to replace two open reservoirs was the most cost effective, long-term solution for compliance with the regulation. All three of the planned tanks are now in service with two the three fully completed. The 20 MG Western tank in Van Buren was the first tank completed and the 30 MG tank in Manlius was next on line. By the end of 2011 the third tank, a 20 MG tank located next to the 30 MG tank in Manlius, was placed in service, but final work on this tank will not wrap up until the middle of 2012.

Labor, for 2011, increased by $413,866 (5.9%) and benefit costs were up $540,127 (13.5%). Wages were up, in part due to contractual obligations with OCWA's personnel who are members of the Teamsters (3% increase) and CSEA (3.5% increase). Two new water distribution maintenance workers were added in 2011 as well. In addition to the wage increases and the newly added employees, overtime expense increased over 2010 due to a significant escalation in weather related main breaks experienced during the winter months.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Financial Highlights – Continued

The increase in Employee Benefits totaled $540,127 (13.5%) over 2010 is primarily attributed to a $403,140 required increased contribution to the New York State Retirement System. Health insurance costs increased $78,762 or 3.3% over 2010. Overall increased health insurance premiums were offset by increased employee contributions by both Teamsters personnel and non-bargaining unit personnel.

Purchased water for 2011 increased by $434,094 over 2010 purchases. Total water purchased for 2011 declined by 204.6 million gallons from the previous year, however the decrease was offset by rate increases by both the City of Syracuse (effective 7/1/10) and the Metropolitan Water Board (effective 1/1/11).

The largest increased expense for 2011 came about as a result of the completion of the triennial actuarial review of OCWA's Other Post Employment Benefits (OPEB). As a result of the review, completed at the end of 2011, the annual OPEB expense was increased by $990,465 over the 2010 calculation. The change in the OPEB obligation represents the single largest increased expense for all of 2011 and represents 25.6% of OCWA's total increased expenses for 2011.

Using This Annual Statement

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Summary of Statements of Net Assets

TABLE 1

	2010	2011
ASSETS		
Cash	$ 243,275	$ 147,588
Accounts Receivable	6,646,457	6,923,515
Materials, Supplies and Prepaid Expenses	2,353,726	2,393,097
Restricted Assets	21,697,846	30,250,954
Unamortized Bond Issuance Costs	707,872	782,973
Plant and Water Rights, Net	203,137,805	214,248,554
TOTAL ASSETS	$ 234,786,981	$ 254,746,681
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 2,913,072	$ 3,167,246
Liabilities Payable from Restricted Assets	2,832,980	2,398,589
Bonds Payable	64,665,960	80,191,925
OPEB Liability	4,839,610	7,527,257
Capital Lease Obligations	551,000	442,125
Total Liabilities	75,802,622	93,727,142
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,920,845	133,614,504
Restricted Net Assets	15,568,635	24,394,225
Unrestricted Net Assets	5,494,879	3,010,810
Total Net Assets	158,984,359	161,019,539
TOTAL LIABILITIES AND NET ASSETS	$ 234,786,981	$ 254,746,681

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Summary of Statements of Net Assets – Continued

Total assets increased approximately $20.0 million in 2011 as a result of the following items:

- The decrease in cash of $95,687 is due to the lower balance in the Authority's operations and maintenance fund at year-end.

- Accounts receivable have increased by $277,058 or 4.2%. 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 $93,233 (2.6%). The other component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. Accrued Utility Revenue increased by $222,500 or 7.4% over the year-end 2010 balance. The increase is related to the rate increase of 9% for all customer classes except fire protection which was not increased.

- Restricted assets increased by $8,553,108 (39.4%) in 2011. This increase is due to the net effect of several factors. One is that the amounts in various construction funds established prior to 2011 decreased by a total of $4.1 million. Another factor is the establishment of a construction fund related to the 2011 bonds. This increased restricted assets by nearly $10.3 million. And finally, the creation of bond payment and bond reserve funds related to the 2011 bonds increased restricted assets by $722,100.

- Unamortized bond issuance costs increased by $75,101 (10.6%) in 2011. This increase is due to the costs related to the issuance of OCWA's $16,910,000 revenue bonds which were issued during the year.

- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2011. 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, 2011

Summary of Statements of Net Assets – Continued

Total liabilities increased by approximately $17.9 million in 2011 as a result of the following items:

- Liabilities Payable from Restricted Assets decreased by $434,736 (15.3%) as compared to 2010 due to the combination of several factors. One factor is that the amounts due to contractors for work performed in 2011, for which payment was not made until 2012, was $591,371 million less than in the same period of the previous year. Retainage held at the end of 2011 was $83,546 less than at the end of 2010. Customer deposits increased by $47,439 and finally, accrued interest on bonds increased by $193,206.

- The Bonds Payable balance increased due to the issuance of bonds in the amount of $16.91 million in 2011. The Bonds Payable balance was also affected by principal payments totaling $2,500,000 which were made during 2011.

- 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, 2011 include a liability in the amount of $7.5 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by $108,875 due to principal payments made on various leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Review of Revenues

TABLE 2

	2010	**2011**
Residential/Commercial Sales	$ 24,567,025	$ 26,331,938
Industrial Sales	4,129,045	4,188,937
Municipal (Water Utility) Sales	4,399,573	4,580,244
Fire Protection	1,158,183	1,147,516
Miscellaneous Revenue	1,169,115	1,152,060
Interest from Investments Held in Trust	20,066	21,324
Gain (Loss) on Disposal of Fixed Assets	(2,410)	(25,063)
TOTAL REVENUES	$ 35,440,597	$ 37,396,956

- OCWA implemented rate increases for all customer classes except fire protection during 2011. Residential, commercial, industrial and municipal customers were raised 9.0%. The increases, which were determined in late 2010, were based on the projected requirements for 2011 and took into account changes that were expected to have an effect on 2011 operations. The rate increases did not take effect until March 1, 2011. Rate increases normally take effect on January 1st.

  Total water revenues for 2011 increased by $1,994,809 (5.8%) over the previous year. Residential and commercial sales increased by $1,764,913 (7.2%), industrial sales by $59,892 (1.5%) and municipal sales by $180,671 (4.1%). Fire protection decreased by $10,667 (0.9%). Water revenues increased by less than the rate increases would indicate because as noted above, the rates did not take effect until March 1st which diminished the impact of the rate increase for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Review of Expenses

TABLE 3

	2010	2011
Operations	$ 8,614,002	$ 8,638,883
Purchased Water	8,074,995	8,509,089
General and Administrative	4,758,127	6,289,454
Less: Burden Applied	(862,828)	(844,895)
Depreciation	4,468,029	5,047,924
Bond Amortization	6,094	(61,153)
Water District Lease Amortization	571,746	545,493
Maintenance	5,161,554	5,744,997
Other Expense	2,557,474	3,348,778
TOTAL EXPENSES	$ 33,349,193	$ 37,218,570

Total expenses for 2011 were up by approximately $3.9 million (11.6%) compared to fiscal year 2010. Areas of expense that experienced significant changes, both plus and minus, in 2011 including: labor, health insurance, pensions, OPEB, purchased water, electric/natural gas, professional services, 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 $413,866 (5.9%) during 2011 as compared to 2010. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2011. The rates for the CSEA employees increased by 3.5% and Teamsters rates increased by 3.0%. In addition to the rate increases, the Authority also added two water distribution maintenance workers during 2011 and overtime increased due to the large number of main breaks that took place during the winter months.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Notable Expense Changes (Other Than Labor)

Group health insurance increased by $78,763 (3.8%) as compared to 2010 for the Authority's employees and retirees. Insurance coverage is contractual and it should be noted that both employees and retirees contribute toward the cost of their coverage.

For pensions, OCWA's employees are covered under the New York State and Local Employees' Retirement System. OCWA's expense for contributions made to the system was $1,320,804, an increase of $403,140 (44%) over the 2010 amount.

OPEB expense for 2011 increased by $990,465 (58.4%) over the 2010 amount. This is due to the results of an actuarial review which must be completed every three years. As noted earlier, this represents the single largest increased expense for all of 2011.

OCWA also experienced a $52,724 (5.8%) decrease to its electric and natural gas charges for 2011 as compared to 2010 amounts. This is due in part to rates and in part due to more energy efficient facilities.

Professional services decreased by $63,760 (21.5%) in 2011 over 2010 amounts. The decrease is due to two items that had an impact on 2010, but not on 2011. The first is that legal fees related to the Finger Lakes Railroad condemnation were primarily charged to 2010. The second is that the cost of the Authority's Cost of Service Study was completely charged to 2010.

Purchased water cost increased by $434,094 (5.4%) for 2011. Rate increases by both the City of Syracuse (effective 7/1/10) and the Metropolitan Water Board (effective 1/1/11) more than offset the decline by 204.6 million gallons purchased in 2011 as compared to 2010.

Depreciation increased by $579,895 (13.0%) in 2011 over 2010 figures. This is a reflection of the fact that OCWA added nearly $42 million to Water Plant in Service in 2010 as well as $7.5 million in 2011.

There was an increase of $791,304 (30.9%) in Other Expense in 2011. The main factor that influenced the increase was the $785,126 (31.2%) increase in bond interest expense in 2011 over 2010 amounts. The first is the $126,925 increase in interest expense on the 2010 bonds because the bonds were in place for a full year in 2011 as opposed to only part of the year in 2010. Next is the interest expense on the bonds that the Authority issued in 2011. These bonds had interest expense of $576,136 in 2011, none in 2010. Finally, interest expense on the 2009 bonds increased by $291,825. These bonds converted to long-term in March 2010 and had only 10 months of interest at the new rate. 2011 interest expense on the 2009 bonds reflects a full year at the new rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Summary of Overall 2011 Operations

In 2011 OCWA experienced a net income before capital contributions of $178,386, a decrease of $1,913,018 from the net income of $2,091,404 for the fiscal year ended December 31, 2010. This decrease was caused by the net effect of the various factors described above.

OCWA Budget Process

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

System Growth

Areas of growth included the following:

- For 2011 system growth included the installation of 10 developer / individual main extensions, totaling 15,381 feet of main.

- By the end of 2011 the new West Monroe / Constantia water system was completed with the addition of 146,873 feet of water main, 245 hydrants, a new pump station and a 500,000 gallon elevated storage tank. To date 334 new customers have been added, however the full impact of the new system will not be recognized until 2012 as construction of the storage tank and pump station were not completed and placed into service until the latter part of 2011.

- The Town of Hastings continues to develop and add small districts. For 2011 another 52 services were activated.

- For all of Onondaga County 269 services were activated for the year, representing continued sluggish growth in the current economic environment.

- 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. Additionally, OCWA and CenterState CEO (formerly the Greater Syracuse Chamber of Commerce) instituted a collaborative effort aimed at attracting industries with high water demands.

Areas of growth, 2012 and beyond:

- The Town of Granby continues to work on the development of a northwestern water supply district and is now investigating a third, larger water district in the southwestern part of the town.

- Demand for developer main extensions declined for 2011 as compared to 2010. However the number of initial inquiries for 2012 indicates there could be a slight increase over number of new development requests seen in each of the last three years.

- 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 30 towns and 13 villages on a retail basis. Additionally OCWA wholesales water to three 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 30 towns served throughout the four county region.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2010	**2011**	**2010-2011**
Water Plant in Service	$ 244,343,299	$ 251,845,495	3.07%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	4,370,984	13,348,277	205.38%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	413,111	296,041	-28.34%
Jobbing in Progress	493,401	326,289	-33.87%
Allowance for Depreciation	(59,010,971)	(63,552,664)	7.70%
Accumulated Amortization/Water Districts	(10,619,783)	(11,165,276)	5.14%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(22,126)	(19,498)	-11.88%
Total	$ 203,137,805	$ 214,248,554	5.47%

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

During the year, projects that were completed and placed into service included the following:

- OCDOT Improvements E. Taft Road – install approximately 9,935 ft. of 4", 6", 8", 10" & 12" pipe – $1,572,247
- Main Extension Inverness Gardens – install approximately 3,310 ft of 8" pipe – $128,999
- Improvements to Coye Road, Westvale and Howlett Hill Tanks – $523,443
- The purchase of water meters in the amount of $662,826 as part of OCWA's ongoing meter replacement project
- The completion of various additional water main projects – $1,388,394
- The installation of new and replacement water services – $947,093
- The installation of new and replacement hydrants – $401,953
- The replacement of vehicles in its fleet as part of OCWA's asset management program

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress increased by $8,977,293 during 2011, from $4,370,984 at the beginning of the year, to $13,348,277 at year end. Of that amount, $10,300,663 is related to the following two projects:

- Eastern Reservoir (20MG) covered storage tank – $8,108,511
- Northern Concourse – Roof, Siding and HVAC improvements at OCWA's Headquarters Facility – $2,192,152

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

- New West Hill Pump Station to serve West Hill Water District and surrounding areas
- 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
- 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 of maintenance agreements with various water systems. The balance in this account had decreased by $167,112 at the end of 2011 as compared to the previous year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Long-Term Debt Administration

The Authority has three General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling $78,395,000 as of December 31, 2011. OCWA's most recent bonds were issued in April 2011.

On April 5, 2011, the Authority issued $16,910,000 in General Water System Revenue Bonds Series 2011. The bonds bear interest at rates ranging from 2.5% to 5.0% and have a final maturity date of September 15, 2028. The bonds were issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects. The first principal payment in the amount of $565,000 is due on September 15, 2015.

The General Water System Revenue Bonds, Series 2010A have a remaining principal balance of $4,975,000 as of December 31, 2011. This amount reflects a principal payment of $950,000 made in September 2011. The required principal payment on the bond in 2012 is $995,000. 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 $32,485,000 as of December 31, 2011. This amount reflects a principal payment of $515,000 made in June 2011. The required principal payment on the bond in 2012 is $540,000. 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 $13,250,000 as of December 31, 2011. This amount reflects a principal payment of $495,000 made in October 2011. The required principal payment on the bond in 2012 is $510,000. 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, 2011

Long-Term Debt Administration – Continued

The other revenue bond issue that the Authority has outstanding is the General Water System Revenue Bonds, 2005 Series A which has a remaining principal balance of $10,775,000 as of December 31, 2011. This amount reflects a principal payment of $540,000 made in September 2011. The required principal payment on the bond in 2012 is $560,000. As is the case with all of the bonds, one twelfth of the required amount is set aside monthly. The 2005 bonds mature serially in varying annual amounts through 2025, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

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

Series Bonds	Bonds Outstanding as of December 31, 2011
2011 Series Bonds	$ 16,910,000
2010 Series A Bonds	4,975,000
2009 E.F.C. Bonds	32,485,000
2008 E.F.C. Bonds	13,250,000
2005 Series A Bonds	10,775,000
Total	$ 78,395,000

OCWA Bond Rating

In March of 2011, Moody's Investors Service assigned a Aa2 rating to OCWA's General Water System Revenue Bonds, 2011 Series. At the same time it also affirmed the Aa2 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, 2011

Looking Forward

The rate increase for 2012 was not a simple percentage increase for each customer class. As state earlier, OCWA completed a rate study in January of 2011 and implemented completely revised rate schedules for all metered customer classifications effective March 1, 2011. Based on the new rate structure, the base system fee, tied to OCWA's capital improvement program, was increased by $0.91 per equivalent dwelling unit (EDU). Additionally, the commodity rate per 1,000 gallons used was increased by 4 cents for all customer classes at all levels of use. Accordingly, the percentage increases presented below are based on the impact on average use for each customer classification. 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 2012 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
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 2012 the Metropolitan Water Board elected to raise its water rates $0.04 per 1,000 gallons purchased. In July of 2010 the City of Syracuse Water Department raised rates 10%. OCWA's 2012 O&M Budget takes both increases into account. As OCWA Water Distribution personnel continue to become more familiar with the operation of the Southern Branch water system and other system changes, the mix of water produced by and purchased continues to evolve. For 2011 OCWA purchased 49.78% (down from 50.89% in 2010) of its water from MWB. The purchase of water from the City of Syracuse increased to 3.79%, up from 3.46% in 2010. However, total water purchased for 2011 dropped to 53.59% for 2011, down from 54.37% in 2010. With the completion of the new West Hill Pump Station, by the spring 2012 purchased water should decline again. It should be noted that for 2011, purchased water costs were roughly 27.14% of the Authority's operating expense, before depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

Looking Forward – Continued

- OCWA added two employees in the Distribution Maintenance department in 2011 bringing total full time employees to 129 by year end. As the system continues to grow and the miles of main and the number of hydrants and valves continue to increase, additional personnel will be added in the Distribution Maintenance and Meter Repair departments to handle the increased work load and a long vacant supervisory position in the Distribution Operations department is expected to be filled as well. Personnel additions will be made within budgetary limits, which are monitored on a continual basis.

- On a positive note, chemical costs for 2012 should remain stable as they did for 2011. Additionally OCWA's cost of electric and natural gas should decline again in 2012 as it did in 2011. Energy efficiency improvements at the Marcellus Water Treatment Plant and OCWA's Northern Concourse headquarters account for a major part of the savings. Additionally decreased National Grid rates will add to the lowered expense for the year.

- Major capital construction projects once again lead the way for OCWA in 2012. The Manlius 20MG covered tank should be completed by the middle of 2012. Construction of a new pump station designed to feed the West Hill Water District, where customers are supplied water purchased from the Syracuse Water Department, will also be wrapped up by mid-year. 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 to get underway in 2012 addressed 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 the aforementioned major capital projects, OCWA's ongoing annual capital budget for 2012 is projected to be $4,075,810, with 57% directed toward system improvements related to replacement of mains, valves and hydrants. Routine rehabilitation of two storage tanks accounts for 15.7% of the capital budget. Meter replacements (11.7%) and heavy equipment and vehicle replacements (10.7%) account for 22.4% of the 2012 capital budget. The remaining 4.9% of the capital budget is split between several OCWA departments for SCADA, security and radio equipment upgrades. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2011

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.

STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	$ 147,588	$ 243,275
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of $80,000 in 2011 and 2010)	6,915,041	6,622,783
Accounts Receivable - Other	8,474	23,674
Materials, Supplies and Prepaid Expenses	2,393,097	2,353,726
Total Current Assets	9,464,200	9,243,458
RESTRICTED ASSETS		
Customer Deposits	1,202,324	1,097,976
General Authority Fund	2,265,662	2,240,202
Bond Fund	1,975,325	1,592,360
General Fund	3,820,402	2,202,728
Renewal and Replacement Fund	1,382,125	1,584,160
Bond Reserve Fund	6,217,672	5,773,057
Construction Fund	13,387,444	7,207,363
Total Restricted Assets	30,250,954	21,697,846
PLANT AND WATER RIGHTS, NET	214,248,554	203,137,805
OTHER ASSETS		
Unamortized Bond Issuance Costs	782,973	707,872
TOTAL ASSETS	$ 254,746,681	$ 234,786,981

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 3,167,246	$ 2,913,072
Capital Lease Obligations - Current Portion	85,650	108,875
Total Current Liabilities	3,252,896	3,021,947
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	1,453,532	2,128,447
Customer Deposits	349,184	301,745
Bonds Payable, Portion Due Within One Year	2,605,000	2,500,000
Accrued Interest on Bonds Payable	595,873	402,788
Total Liabilities Payable from Restricted Assets	5,003,589	5,332,980
LONG-TERM DEBT		
Bonds Payable	77,586,925	62,165,960
Postemployment Benefits Other Than Pension	7,527,257	4,839,610
Capital Lease Obligations, Net of Current Portion	356,475	442,125
Total Long-Term Debt	85,470,657	67,447,695
Total Liabilities	93,727,142	75,802,622
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	133,614,504	137,920,845
Restricted Net Assets	24,394,225	15,568,635
Unrestricted Net Assets	3,010,810	5,494,879
Total Net Assets	161,019,539	158,984,359
TOTAL LIABILITIES AND NET ASSETS	$ 254,746,681	$ 234,786,981

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUE		
Charges for Services	$ 36,248,635	$ 34,253,826
Penalties	549,105	500,931
Other	602,955	668,184
Total Operating Revenue	37,400,695	35,422,941
OPERATING EXPENSE		
Source of Supply	8,509,089	8,074,995
Transmission and Distribution	13,187,679	12,657,950
Collection	1,196,201	1,117,606
Administration	5,444,559	3,895,299
Depreciation and Amortization	5,532,264	5,045,869
Total Operating Expense	33,869,792	30,791,719
INCOME FROM OPERATIONS	3,530,903	4,631,222
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	21,324	20,066
Gain (Loss) on Disposal of Fixed Assets	(25,063)	(2,410)
Interest Expense	(3,348,778)	(2,557,474)
Net Other Expense	(3,352,517)	(2,539,818)
Net Income Before Capital Contributions	178,386	2,091,404
Capital Contributions	1,856,794	1,298,696
CHANGE IN NET ASSETS	2,035,180	3,390,100
NET ASSETS		
Balance, Beginning of Year	158,984,359	155,594,259
Balance, End of Year	$ 161,019,539	$ 158,984,359

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 37,123,637	$ 34,511,651
Cash Payments for Goods and Services	(18,443,022)	(18,751,118)
Cash Payments to Employees	(7,473,886)	(7,041,281)
Net Cash Provided By Operating Activities	11,206,729	8,719,252
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	398,083	288,964
Refunding of Customer Deposits	(350,644)	(268,176)
Net Cash Provided By Noncapital Financing Activities	47,439	20,788
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	92,491	80,057
Cash Received from Contributed Capital	1,856,794	1,298,696
Debt Issuance Costs	(116,942)	(87,178)
Payments for Capital Acquisitions	(16,821,720)	(18,272,956)
Premium on 2010 Bond Issuance	1,202,605	0
Proceeds from Issuance of Long-Term Debt	16,910,000	25,692,596
Principal Payments	(2,608,875)	(6,562,385)
Interest Paid	(3,332,422)	(2,552,703)
Net Cash Used In Capital and Related Financing Activities	(2,818,069)	(403,873)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	21,324	20,066
Net Cash Provided By Investing Activities	21,324	20,066
Net Increase (Decrease) in Cash	8,457,423	8,356,233
Cash, Beginning of Year	21,941,121	13,584,888
Cash, End of Year	$ 30,398,544	$ 21,941,121

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	$ 3,530,903	$ 4,631,222
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	5,047,924	4,468,029
Amortization	484,340	577,840
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customer	(292,258)	(905,917)
Accounts Receivable - Other	15,200	(5,373)
Materials, Supplies, and Prepaid Expenses	(39,371)	(123,143)
Increase (Decrease) in Operating Liabilities:		
OPEB Liability	2,687,647	1,697,182
Accounts Payable and Accrued Liabilities	(227,656)	(1,620,588)
Net Cash Provided By Operating Activities	$ 11,206,729	$ 8,719,252

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 consists of capital assets, net of accumulated depreciation, 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 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 consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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, 2011 and 2010

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.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Accounts Receivable

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

Revenue Recognition

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

Bond Issuance Costs

Certain costs incurred in issuing long-term borrowings have been deferred and are being amortized over the life of the bonds on a straight-line basis. Amortization amounted to $41,843 and $42,558 for the years ended December 31, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 $51,456 and $36,464 for the years ended December 31, 2011 and 2010, 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, August 19, 2010 and April 5, 2011, and the Environmental Facilities Corporation's Drinking Water Installment Bond Indenture dated June 18, 2008 and March 12, 2009 are stated at cost plus accrued income, which approximates fair market value at December 31, 2011 and 2010. Assets held by Trustee consist principally of cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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, 2011 and 2010 consist of the following:

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

December 31, 2010	**Carrying Value**	**Bank Balance**
Cash and Cash Equivalents:		
Cash on Hand	$ 1,025	$ 1,025
Bank Accounts	1,363,746	1,507,929
Total Cash and Cash Equivalents	$ 1,364,771	$ 1,508,954
Investments:		
Money Market Funds	$ 6,350,175	$ 6,372,495
U.S. Treasury Bills	6,230,474	6,230,474
Federated Treasury Obligation	2,795,021	2,795,021
Held by a Fiscal Agent	5,200,680	5,200,680
Total Investments	$ 20,576,350	$ 20,598,670

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 $506,829 from the Federal Depository Insurance Corporation plus $1,181,505 of pledged collateral at December 31, 2011. 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, 2011 and 2010

NOTE 5 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the years ended December 31, 2011 and 2010 is as follows:

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 – PLANT AND WATER RIGHTS – Continued

	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
	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
	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
Net Plant and Water Rights	$ 189,987,093	$ 32,031,651	$ 8,708,976	$ 203,137,805

Depreciation and amortization charged to expense at December 31, 2011 and 2010 was $5,532,264 and $5,045,869, respectively, which includes amortization of leased water districts amounting to $545,493 and $571,746 for 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005, August 2010 and April 2011, the Authority issued $13,840,000, $5,925,000 and $16,910,000, respectively, in General Water System Revenue Bonds, 2005, 2010 and 2011 Series A pursuant to a Trust Indenture which pledges all revenues collected by the Authority to the payment of the principal and interest on the bonds. All such revenues are deposited in the name of the trustee for allocation to funds in accordance with the provisions of the Trust Indenture.

Bonds outstanding at December 31, 2011 and 2010 amounted to $32,660,000 and $17,240,000, respectively. The bonds mature serially in varying annual amounts through 2028, with interest ranging from 3.50% and 5.00%, payable semi-annually. The 2005 bonds, maturing on or after September 15, 2016, the 2010 bonds maturing on or after September 15, 2021 and the 2011 bonds maturing on or after September 15, 2028, are redeemable, at the option of the Authority, prior to maturity in the inverse order of their maturity at par, plus accrued interest thereon to the redemption date.

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

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

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

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the "Revolving Fund") to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (the "Corporation") is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. The Corporation issues bonds to provide loans from the Revolving Fund to private water companies, political subdivisions and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table below to finance safe drinking water projects.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 – LONG-TERM DEBT – Continued

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

In 2008, the Authority received bond proceeds in the amount of $14,226,510 from the Environmental Facilities Corporation's 2008 Series A Drinking Water Installment Bond Offering. The bonds have a final maturity date of October 1, 2029 and bear interest at a rate of 4.27%. The interest cost of these bonds is subsidized by the State of New York drinking water revolving fund.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of $33,000,000. The New York State Environmental Facilities Corporation (E.F.C.) agrees to purchase the bonds from time to time in amounts equal to "Advances" which are based upon requisitions submitted by the Authority. The bonds have a final maturity date of June 15, 2038 and bear interest at a rate of 4.8721%.

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

	Principal on Bonds	Interest Payable	Total Debt Service
2012	$ 2,605,000	$ 3,443,048	$ 6,048,048
2013	2,700,000	3,347,939	6,047,939
2014	2,810,000	3,247,642	6,057,642
2015	2,805,000	3,131,757	5,936,757
2016	2,925,000	3,022,358	5,947,358
2017 - 2021	16,755,000	13,105,931	29,860,931
2022 - 2026	19,925,000	9,041,775	28,966,775
2027 - 2031	13,285,000	4,894,231	18,179,231
2032 - 2036	7,930,000	2,624,844	10,554,844
2037 - 2039	6,655,000	397,198	7,052,198
	78,395,000	$ 46,256,723	$ 124,651,723
Less: Current Portion	2,605,000		
Deferred Amount on Refunding	60,654		
Add: Premium on Long-Term Debt	1,857,579		
Total	$ 77,586,925		

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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

	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
E.F.C. Drinking Water Installment Bonds	27,898,413	19,328,097	481,510	46,745,000
Total Bonds Payable	$ 45,188,413	$ 25,253,097	$ 6,456,510	$ 63,985,000

Capital Leases

The Authority leases certain water facilities under capital lease obligations.

At December 31, 2011, amounts remaining to be paid under long-term lease obligations are as follows:

2012	$ 107,913
2013	101,891
2014	102,902
2015	55,975
2016	58,520
Thereafter	95,491
	522,692
Less: Current Portion	85,650
Less: Imputed Interest	80,567
Total	$ 356,475

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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
2009	$ 540,216
2010	$ 917,664
2011	$ 1,320,804

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, 2011 and 2010

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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, 2011 and 2010:

	2011	2010
Annual Required Contribution	$ 3,299,121	$ 2,278,791
Interest on Net OPEB Obligation	193,584	125,697
Adjustment to Annual Required Contributions	(284,972)	(181,333)
Annual OPEB Cost (Expense)	3,207,733	2,223,155
Contributions Made	(520,086)	(525,973)
Increase in Net OPEB Obligation	2,687,647	1,697,182
Net OPEB Obligation - Beginning of Year	4,839,610	3,142,428
Net OPEB Obligation - End of Year	$ 7,527,257	$ 4,839,610

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, 2011	$ 3,207,733	16.2%	$ 7,527,257
December 31, 2010	$ 2,223,155	23.7%	$ 4,839,610

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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, 2011 actuarial valuation, the liabilities were computed using the projected unit credit method and level dollar amortization. The actuarial assumptions utilized a 4% discount rate.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 – NET ASSETS

The Authority’s net assets represent the excess of assets over liabilities and are categorized as follows:

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

- *Restricted Net Assets* are the net assets that have been restricted as in use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* are the remaining net assets, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 10 – 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.

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN (UNAUDITED)
Year Ended December 31, 2011

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	$ 0	$ 18,941,883	$ 18,941,883	0%	N/A	N/A
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%

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, 2011, and have issued our report thereon dated March 12, 2012. 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 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 significant 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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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 12, 2012

DB&B

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, 2011. 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, 2011.

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 12, 2012

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