

***ALBANY WATER BOARD
ALBANY MUNICIPAL WATER
FINANCE AUTHORITY***

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012



Teal, Becker & Chiramonte™
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

A Higher Standard of Excellence

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
ANNUAL FINANCIAL AND COMPLIANCE REPORTS**

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	1-3
Independent Auditors' Report	4-5
Combined Financial Statements	
Combined Statements of Net Position	6
Combined Statements of Revenues, Expenses, and Changes in Net Position	7
Combined Statements of Cash Flows	8
Notes to Combined Financial Statements	9-23
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24-25
Schedule of Findings and Responses	26

Albany Water Board

Albany Municipal Water Finance Authority

10 North Enterprise Drive
Albany, New York 12207
(518) 434-5300

Board Members

Anthony J. Ferrara, CHAIR
David R. McGuire, VICE CHAIR
John M. Prenderville, TREASURER
Leo P. Dean, SECRETARY
Joseph Bogdanowicz

Authority Members

Gardner D. Lerner, CHAIR
Reverend Edward B. Smart, VICE CHAIR
Michael J. Hall Esq, TREASURER
Gary R. Overdorf, SECRETARY
Julia Cannizzaro

Management's Discussion and Analysis 2013

The following Management's Discussion and Analysis (MD&A) presents a brief narrative of the Board and Authority's financial performance for the year ended December 31, 2013. Management has prepared the combined financial statements and related combined footnote disclosures, along with this MD&A. This information should be read in conjunction with the combined financial statements and accompanying notes.

In summary, the year ended December 31, 2013 reflected positive operational and financial results. The Board and Authority, working together with the City, realized strong revenues, generally controlled the growth of expenses, and recorded positive cash flow.

Required Financial Statements: The combined financial statements of the Board and Authority are prepared under accounting principles generally accepted in the United States of America and contain three statements that provide information on the Board and Authority's financial position and results of the operations as of and for the years ended December 31, 2013 and 2012. A description of these combined statements follows:

- The Combined Statements of Net Position include all assets, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets), the obligations to creditors (liabilities), and the sales of future revenues (deferred inflows of resources). The Combined Statement of Net Position presents the financial position of the Board and Authority at December 31, the end of its fiscal years.
- The Combined Statements of Revenues, Expenses, and Changes in Net Position report all of the year's revenues and expenses and results of operations.
- The Combined Statements of Cash Flows provide information about cash receipts and cash payments during the two reporting periods. The combined statements report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, capital, financing, and investing activities.

Operating Revenues: Operating Revenues for 2013 increased by approximately \$769,000 (or by 2.2%), principally due to both an increase in water usage and the fact that the 2012 rate structure changes were implemented for the entire year. While operating revenues exceeded the budget by approximately \$1,726,000, continuing issues with the unmetered rate (a rate imposed on approximately 250 of the systems 29,000 users) impacted collections and, as a result, a professional collections firm was engaged in 2011 to support collection efforts. Beginning September 15, 2012, the System rate structure was increased by approximately 4% for substantially all users.

Operating Expenses: Operating Expenses for 2013 increased by approximately \$990,000 (or by 4.7%), reflecting increased costs in several areas of the System's operations. On the water side, total costs approximated \$10,000,000, approximately \$444,000 in excess of similar costs in 2012. Certain increases in costs (approximating \$125,000) were noted in the areas of transmission and distribution, in the areas of water supply, power/pumping and purification, costs increased \$240,000. Taxes paid to municipalities, traditionally an expense line item which has experienced significant annual increases, increased by approximately \$74,000 (or 3.8%). On the sewer side, total costs approximated \$8,914,000, approximately \$246,000 in excess of similar costs in 2012. Sewer services, principally reflecting sewer repairs and maintenance, exceeded the prior year by approximately \$324,000. Costs associated with the County Sewer Contract, the System's largest line item cost at approximately \$5,880,000, increased by approximately \$15,000 (or less than 1%). Other system operating expenses, including administration and general, also increased due to enhanced security requirements and increases to payroll related costs.

Other Revenue and Expense Items: Depreciation expense was relatively unchanged from 2012 to 2013. Interest expense declined by approximately \$187,000, as total outstanding borrowings under the 2011 General Revenue Bond refunding reflected a full year of the lower rate bonds. Bad debt expense, a non-cash item, reflected a charge of approximately \$1,616,000 to parallel the progress of collection efforts.

Assets: Capital assets increased from December 31, 2012 to December 31, 2013 as the Board and Authority committed approximately \$2.3 million to capital projects in 2013. In 2012, a similar commitment to capital projects approximated \$1.9 million. Cash and investments increased from 2012 to 2013 by approximately \$8,049,000 as a result of positive cash flow. Receivables, net of allowances, decreased by approximately \$5.7 million as amounts transferred from the City exceeded amounts actually expended by the City (on behalf of the Board and Authority).

Liabilities: During June 2011, the Authority took advantage of the low interest rate environment, and issued \$52,120,000 of Revenue Bonds for the purpose of providing the Authority with the funds required to refund its then outstanding (higher interest rate) Revenue Bonds and to fund certain reserve accounts. As a result of payments during 2013, the System's total bond debt declined by approximately \$4.4 million during 2013. During 2014 (and in each of the next four years), an additional \$3.3 million to \$4.5 million is scheduled to be paid in debt reduction payments.

Net Position: The System's Net Position (or assets less liabilities and deferred inflows of resources) more than doubled during the year, from approximately \$8.1 million at December 31, 2012 to approximately \$14.7 million at December 31, 2013, reflective of the strong operational results.

Debt Coverage Ratio: Under the Bond Resolution, the Board and Authority are required to maintain rates such that, in each year, revenues (net of operating expenses) are at least 115% of total annual debt service. This ratio approximated 180% in 2013.

Looking Ahead: The Board and Authority are focused on managing a balanced budget for 2014, continuing to improve the water and sewer infrastructure, controlling operating expenses, and minimizing the impact of future system rate structure changes on City residents. In 2011, the Board and Authority began allocating \$2 million annually to fund a reserve for major unbudgeted capital projects - while still committing over \$2 million annually to fund current capital projects. To this end, over the past 25 years the Board and Authority have expended over \$72 million to fund capital projects. This commitment to an aging infrastructure has done little to slow the frequent breaks and related repair costs. The Board and Authority continue to seek potential water sales to other municipalities and new commercial customers. All of these actions, along with a commitment to maintain an adequate security environment, position the Board and Authority to continue an increasing investment in needed infrastructure capital expenditures in future years. Working in concert with the City, we remain committed to our primary mission: to ensure system users have access to a clean, safe, plentiful, and low cost water supply for many generations.

The challenges for the future are many: budgetary pressures, an aging infrastructure, the likelihood of funding over \$50 million in the Hudson River Combined Sewer Overflow Project, and uncertainties with real estate tax assessments and the County sewer contract. But, looking ahead, the Board and Authority, and the overall System, remain in a strong financial and operating position with the leadership team and financial resources to appropriately address these challenges in the years ahead.

Questions about this report may be directed to the Board and Authority at 518-434-5300 or at 10 North Enterprise Drive, Albany, New York 12204.



To The Members
Albany Water Board
Albany Municipal Water Finance Authority
Albany, New York

Independent Auditors' Report

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Albany Water Board and Albany Municipal Water Finance Authority, (a component reporting unit of the City of Albany), as of and for the years ended December 31, 2013 and 2012, and the related notes to the combined financial statements, which collectively comprise the Albany Water Board and Albany Municipal Water Finance Authority's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Albany Water Board and Albany Municipal Water Finance Authority as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the combined financial statements of the Albany Water Board and Albany Municipal Water Finance Authority, (a component reporting unit of the City of Albany), are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, New York that is attributable to the transactions of the Albany Water Board and Albany Municipal Water Finance Authority. They do not purport to, and do not, present fairly the financial position of the City of Albany, New York as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 3 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated July 16, 2014, on our consideration of the Albany Water Board and Albany Municipal Water Finance Authority's internal control over financial reporting and 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* in considering the Albany Water Board and Albany Municipal Water Finance Authority's internal control over financial reporting and compliance.



ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED STATEMENTS OF NET POSITION
December 31, 2013 and 2012

ASSETS	2013	2012 (Restated)
Current Assets		
Cash and cash equivalents	\$ 13,171,021	\$ 5,124,522
Investments	4,685,910	4,683,621
Receivables, net		
Billed	7,888,121	13,740,167
Unbilled	6,848,306	6,614,007
Allowance for doubtful accounts	(4,112,433)	(7,974,972)
Due from City	5,891,025	9,823,099
Prepaid expenses	1,405,280	977,004
Total Current Assets	<u>35,777,230</u>	<u>32,987,448</u>
Capital Assets, at Cost, net of Accumulated Depreciation	<u>33,005,459</u>	<u>33,776,237</u>
Total Assets	<u>68,782,689</u>	<u>66,763,685</u>
LIABILITIES		
Current Liabilities		
Current portion of bonds and notes payable	4,185,000	4,070,000
Accrued expenses	2,230,317	2,196,389
Total Current Liabilities	6,415,317	6,266,389
Bonds and Notes Payable	<u>47,269,105</u>	<u>51,752,649</u>
Total Liabilities	<u>53,684,422</u>	<u>58,019,038</u>
Deferred Inflows of Resources		
Sales of Future Revenues	<u>484,384</u>	<u>643,384</u>
Net Position		
Net investment in capital assets	(18,448,646)	(22,046,412)
Reserve for encumbrances	367,482	66,218
Unrestricted	<u>32,695,047</u>	<u>30,081,457</u>
Total Net Position	<u>\$ 14,613,883</u>	<u>\$ 8,101,263</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Restated)
Net Operating Revenues	\$ 35,325,634	\$ 34,556,496
Operating Expenses		
<i>Operation and maintenance of water system:</i>		
Water supply, power and pumping	1,130,552	953,457
Water purification	2,368,636	2,304,015
Water transmission and distribution	4,473,430	4,343,807
Taxes paid to municipalities	2,040,691	1,966,551
<i>Operation and maintenance of sewer system:</i>		
Sewer services	2,550,508	2,226,021
Albany County sewer contract	5,882,876	5,868,336
Sewer pumping stations	480,615	573,250
<i>Administration and general</i>	<u>3,260,536</u>	<u>2,962,657</u>
Total operating expenses	<u>22,187,844</u>	<u>21,198,094</u>
Operating Income, before depreciation	13,137,790	13,358,402
Depreciation	<u>(3,105,177)</u>	<u>(3,064,975)</u>
Operating Income	10,032,613	10,293,427
Interest expense	(2,164,521)	(2,225,502)
Gain on sale of assets	30,680	-
Bad debt expense	(1,616,189)	(3,186,346)
Interest income	229,670	276,761
Net increase in the fair value of investments	<u>367</u>	<u>19,727</u>
Changes in Net Position	<u>6,512,620</u>	<u>5,178,067</u>
Total Net Position - Beginning of Year	8,101,263	4,145,322
Restatement of beginning balance due to change in accounting principle	<u>-</u>	<u>(1,222,126)</u>
Total Net Position - Beginning of Year, as restated	<u>8,101,263</u>	<u>2,923,196</u>
Total Net Position - End Of Year	<u>\$ 14,613,883</u>	<u>\$ 8,101,263</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED STATEMENTS OF CASH FLOWS
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 35,364,653	\$ 32,019,968
Cash payments to suppliers for goods and services	<u>(22,582,192)</u>	<u>(21,260,088)</u>
Net cash provided by operating activities	<u>12,782,461</u>	<u>10,759,880</u>
Cash Flows From Noncapital Financing Activities		
Interest income	229,670	276,761
Interest expense	<u>(2,164,521)</u>	<u>(2,225,502)</u>
Net cash used in noncapital financing activities	<u>(1,934,851)</u>	<u>(1,948,741)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,362,719)	(1,895,794)
Net proceeds from (payments to) City of Albany and other Government Agencies	3,932,074	(2,164,251)
Principal payments on bonds and notes	<u>(4,368,544)</u>	<u>(4,203,544)</u>
Net cash used in capital and related financing activities	<u>(2,799,189)</u>	<u>(8,263,589)</u>
Cash Flows From Investing Activities		
Net proceeds from the sale of investments	<u>(1,922)</u>	<u>(35,697)</u>
Net cash used in investing activities	<u>(1,922)</u>	<u>(35,697)</u>
Net increase in cash and cash equivalents	8,046,499	511,853
Cash and Cash Equivalents, Beginning of Year	<u>5,124,522</u>	<u>4,612,669</u>
Cash And Cash Equivalents, End Of Year	<u>\$ 13,171,021</u>	<u>\$ 5,124,522</u>
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities		
Operating income	<u>\$ 10,032,613</u>	<u>\$ 10,293,427</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	3,105,177	3,064,975
Changes in:		
Receivables, net	139,019	(2,436,528)
Prepaid expenses and deposits	(428,276)	(67,418)
Accrued expenses and deferred revenue	<u>(66,072)</u>	<u>(94,576)</u>
Total adjustments	<u>2,749,848</u>	<u>466,453</u>
Net Cash Provided By Operating Activities	<u>\$ 12,782,461</u>	<u>\$ 10,759,880</u>

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The City of Albany Water and Sewer System (the System) provides water supply and distribution, and the collection and disposal of sewage, principally for the City of Albany (the City). The System, as presented in the accompanying combined financial statements, began operations in 1988, and consists of two legally separate, but interdependent, entities: Albany Water Board (the Board) and Albany Municipal Water Finance Authority (the Authority). The System is a component reporting unit of the City of Albany and, as such, is also included in the City of Albany's general purpose financial statements.

The Board, a corporate municipal instrumentality, was established in 1986 with the power to set and collect water and sewer fees in amounts sufficient to pay the debt service on the bonds of the Authority, as well as to provide for the costs of the operation and maintenance of the System. The primary responsibility of the Board is to charge, collect, and enforce rates and other charges for the System. The Board consists of five members who are appointed by the Mayor of the City.

The Authority, a public benefit corporation, was established in 1986 for the purpose of issuing revenue bonds to pay for the purchase, future improvement, and construction of the System. Among its powers, the Authority may borrow money, issue debt, and require that the Board charge and collect sufficient rates to pay the costs of operating and financing the System. The Authority consists of seven members, two members of which are appointed by the Governor of New York State and five members of which are appointed by the Mayor of the City.

Bond Resolutions

The Authority has entered into four Water and Sewer System General Revenue Bond Resolutions: the 1988 General Revenue Bond Resolution, the 2003 Second General Revenue Bond Resolution, the 2011 Third General Revenue Bond Resolution, and in 2012, the fourth General Revenue Bond Resolution. These resolutions provide that the Authority pledge, for the payment of the bonds, all System revenues, the proceeds from the sale of bonds, and all monies and securities in any funds and accounts. Additionally, the Bond Resolutions provide for the assignment and transfer of all of the Authority's rights and interests relative to the collection of revenues and the payment of debt service to an authorized trustee. Certain restricted funds and accounts (see Note 6) have been established with the trustee to assure the Board and Authority's compliance with the Bond Resolutions.

Operation Agreement

The Board is a party to an operation agreement with the City whereby the City provides the Board with management, operational and administrative personnel, and certain services, supplies, and equipment for the operation and maintenance of the System. Direct costs under this agreement, including substantially all operation, maintenance, payroll, and payroll related costs, are charged to the Board (by the City) as incurred. Certain indirect costs, including certain legal services and accounting and engineering support, were charged to the Board (by the City), in the amount of \$50,000 each year in 2013 and 2012. Other indirect costs have been assumed by the City in lieu of the City paying water and sewer charges. Revenues and expenses relating to the City's use of the System, which have not been quantified and recorded in the combined financial statements, are not believed to be significant relative to the total operations of the System.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financing Agreement

The City, Board, and Authority are parties to a financing agreement which authorized the issuance of bonds by the Authority to finance the purchase of the System (from the City). The financing agreement requires the Board to maintain a rate structure which adequately funds debt service (see Note 11), requires the Board to provide for the monthly transfer of revenues to the Authority for debt service payments, and stipulates other administrative requirements for the Board, Authority, and City. The financing agreement also requires the Board to prepare an annual budget for the funding of debt service costs of the Authority and the operation and maintenance costs of the System.

Combined Financial Statements

The Board and Authority, as fiscally interdependent entities, are combined for financial reporting purposes. Additionally, both the Board and the Authority are included in the City's financial statements as a component reporting unit (an enterprise fund) of the City.

Basis of Presentation

The Board and Authority follow the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and GASB Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus." Statement No. 34, as amended by Statement No. 37, 63, and 65, established standards for external reporting for all state and local government entities, which includes a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cash flows. Statement No. 34 also requires the classification of fund balance into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets: This component of fund balance consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, and 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 is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in fund balance as unspent proceeds.

Restricted: This component of fund balance consists of constraints placed on fund balance use through external constraints imposed by contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The Board and Authority had no restricted fund balance at either December 31, 2013 or 2012.

Unrestricted: This component of fund balance consists of fund balance that does not meet the definition of "restricted" or "net investment in capital assets."

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting

The accompanying combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities, as prescribed by GASB. In accordance with the provisions promulgated by GASB, the Authority has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 1989.

The operations of the Board and Authority are reported as an enterprise fund and, as such, are accounted for on a flow of economic resources measurement focus under the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the combined statement of net position with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Capital Assets

Capital assets, acquired through either purchase or construction, are recorded at cost. Depreciation is computed using the straight-line method based upon estimated depreciable lives as follows:

	<u>Estimated Useful Life</u>
Buildings	20-40 Years
Water supply and waste water treatment systems	5-50 Years
Water distribution and sewage collection systems	5-50 Years
Equipment, furniture, and fixtures	3-10 Years

Maintenance and repairs are charged to current operations. Major replacements and improvements, including all costs associated with the Board/Authority capital plan, are capitalized as capital assets.

Investments

Investments principally consist of obligations of the United States and its agencies, and are carried at fair market value determined by the investor's quotation services.

Receivables

Net receivables include all unpaid customer bills for System related services and also include estimated amounts earned for unbilled usage which relate to billing cycles which end subsequent to December 31 of each year. The Board records estimated unbilled revenue based on historic billing trends and, when applicable, considers the effect of rate structure changes which may have been implemented during the year. At December 31 of each year, substantially all metered delinquent accounts are transferred to the City and placed on the City's general property tax rolls. These accounts are subject to the City's collection procedures (which subsequently provide for full collection by the County of Albany). Certain unmetered residents accounts (which comprise less than 1% of the overall customer base) are not transferred to the City and are not placed on the City's general property tax rolls. However, these unmetered balances are subject to the Board's collection procedures.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Allowance For Doubtful Accounts

The Board maintains an allowance for doubtful accounts to reflect potentially uncollectible receivables that may not be subject to the City or County's collection procedures. The allowance for doubtful accounts, which is reflected as a contra-receivable for financial reporting purposes, for the years ended December 31, 2013 and 2012 was \$4,112,433 and \$7,974,972, respectively.

Restrictions on Cash and Investments

Certain proceeds from bond issues, including monies set aside for future capital expenditures or debt reserve purposes, are restricted under various provisions of the bond resolution and financing agreement.

Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents unearned revenues that do not meet both the measurable and available criteria for recognition in the current year. The Board has one item that qualifies for reporting in this category. It is the deferred sales of future revenues reported in the Combined Statement of Net Position. The deferred sales of future revenues results from an inter-municipality agreement with the Town of Guilderland which provides for a commitment to sell water to the Town (see Note 11).

Employee Benefit Plans

Certain employee benefit plans are provided (by the City) for System employees and reimbursed (by the Board) under the operation agreement. In this regard, employees earn vacation time credits as they provide service. Pursuant to collective bargaining agreements, they may accumulate (subject to certain limitations) unused time earned and, upon retirement, termination, or death, may be compensated for such accumulated time. In addition, substantially all full-time employees of the City are members of the New York State Employees' Retirement System, a multi-employer defined benefit pension plan. Participant contributions are mandatory for those employed after June 1976. The majority of participants employed before that date do not contribute. Under the operation agreement, all employee benefits are recorded in the combined financial statements at the time they are billed by the City.

Operating Revenues

Net operating revenues include all water and sewer user charges billed to customers, including penalties relating to late payments, service income, and connection and repair charges. The System had approximately 29,000 water and sewer customer accounts at December 31, 2013. Approximately 80% of the customer base comprises of residential customers, substantially all of which are within the City of Albany. Water services are billed based on meter readings or at flat rate charges; sewer charges are generally billed at 100% of water charges. Revenues, which are based on billing rates imposed by the Board, were last increased in September 2012. Approximately 20% of operating revenues are derived from the System's 50 largest customers, which also include certain inter-municipality agreements.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Income Taxes

The Board and Authority are both municipal entities which are not subject to any income taxes at the federal, state, and local levels.

Estimates and Assumptions

The preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Board and Authority periodically evaluate estimates and assumptions used in the preparation of the combined financial statements and make changes on a prospective basis when adjustments are necessary. Significant estimates made by the Board and Authority in the accompanying combined financial statements include certain assumptions related to the allowance for doubtful accounts.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

The Board and Authority have adopted all current statements of the GASB that are applicable. At December 31, 2013, the Board and Authority implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, which was effective for financial statements for periods beginning after December 15, 2012. This statement clarifies which financial statement items should be presented as assets and liabilities, which should be reclassified as deferred outflows and deferred inflows, and which items should be treated as current period expenditures (outflows) or current period inflows. Other assets of approximately \$1,200,000, consisting of bond issuance and insurance costs were previously amortized over the respective terms of the bonds prior to the implementation of this standard. This standard categorizes these other assets as current outflows (expenditures) and the costs of these other assets are now expensed in the period incurred rather than being recorded as assets within the combined statement of net position. The Board received funds from the Town of Guilderland and a related commitment to sell water to Guilderland at a below market rate under a 1998 inter-municipality agreement. The amount of unrecognized revenue was previously recorded on the combined statement of net position as deferred revenue. This new standard now categorizes this unrecognized revenue of approximately \$484,000 as a deferred inflow of resources, which is reported separately on the combined statement of net position. Deferred inflows of resources are defined as acquisitions of net assets by the government that are applicable to future reporting periods. The amounts have a negative effect on net position, similar to liabilities.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 3 – CAPITAL ASSETS

Capital assets, including additions, deletions, and related transfers comprise the following:

	<u>December 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Water supply, distribution, and collection systems	\$ 25,726,845	\$ -	\$ -	\$ 25,726,845
Water and sewer system capital improvements, equipment, furniture and fixtures, and vehicles	65,480,931	2,349,100	(28,320)	67,801,711
Six Mile Waterworks (Rensselaer Lake) ground lease	7,210,000	-	-	7,210,000
Construction in progress	<u>365,854</u>	<u>379,473</u>	<u>(365,854)</u>	<u>379,473</u>
	98,783,630	2,728,573	(394,174)	101,118,029
Less: accumulated depreciation	<u>65,007,393</u>	<u>3,105,177</u>	<u>-</u>	<u>68,112,570</u>
Total	<u>\$ 33,776,237</u>	<u>\$ (376,604)</u>	<u>\$ (394,174)</u>	<u>\$ 33,005,459</u>

In December 2002, the Board and the City entered into a fifty-year ground lease under which the City conveyed to the Board a leasehold interest in certain real property, including Six Mile Waterworks (Rensselaer Lake), an emergency facility. The total cost of this lease, including certain related financing costs, was recorded as a capital asset.

Total depreciation expense was \$3,105,177 and \$3,064,975 for the years ended December 31, 2013 and 2012, respectively.

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Guidelines issued by New York State Office of the State Comptroller (OSC) establish the criteria for permissible investments by the Board and Authority. Additionally, the Board and Authority have combined investment policies which incorporate provisions of the Bond Resolutions and OSC's guidelines.

Under these policies, the Board and Authority may invest in obligations of the U.S. Government and its agencies, obligations of the State of New York, certificates of deposit (issued by a New York State commercial bank), and repurchase agreements (which are collateralized by obligations of the federal government).

Investments are stated at fair market value. Generally, it is the Board and Authority's policy to purchase U.S. Government agency obligations with the intent of holding them until they mature. All such obligations are registered and held by the Board or Authority's custodian in the Board or Authority's name.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The December 31, 2013 and 2012 cash, cash equivalents, and investments comprise the following:

<u>December 31, 2013</u>	<u>Cost</u>	<u>Market</u>
Non-interest bearing accounts		
Cash accounts	\$ 12,633,428	\$ 12,633,428
Interest bearing and money market accounts		
U.S. Treasury Fund money market	<u>537,593</u>	<u>537,593</u>
	<u>13,171,021</u>	<u>13,171,021</u>
Investments in debt securities		
U.S. Certificate of Indebtedness SLGS, due 10/01/19	10,984	10,982
U.S. Certificate of Indebtedness SLGS, due 08/15/26	48,724	48,724
U.S. Certificate of Indebtedness SLGS, due 07/25/25	44,632	44,632
U.S. Certificate of Indebtedness SLGS, due 01/15/28	152,789	152,789
Federal National Mortgage Association, due 05/14/14	4,102,836	4,203,907
Discover Bank Certificate of Deposit, due 06/11/14	<u>225,000</u>	<u>224,876</u>
	<u>4,584,965</u>	<u>4,685,910</u>
Total	<u>\$ 17,755,986</u>	<u>\$ 17,856,931</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

<u>December 31, 2012</u>	<u>Cost</u>	<u>Market</u>
Non-interest bearing accounts		
Cash accounts	\$ 4,798,626	\$ 4,798,626
Interest bearing and money market accounts		
U.S. Treasury Fund money market	<u>325,896</u>	<u>325,896</u>
	<u>5,124,522</u>	<u>5,124,522</u>
Investments in debt securities		
U.S. Certificate of Indebtedness SLGS, due 10/01/19	10,984	10,982
U.S. Certificate of Indebtedness SLGS, due 08/15/26	48,724	48,724
U.S. Certificate of Indebtedness SLGS, due 07/25/25	44,632	44,632
U.S. Certificate of Indebtedness SLGS, due 01/15/28	152,789	152,789
Federal Home Loan Mortgage Bank, due 05/15/13	4,102,836	4,203,612
Federal Farm Credit Bank, due 02/22/13	20,022	20,022
Federal Home Loan Mortgage Bank, due 05/29/13	<u>203,056</u>	<u>202,860</u>
	<u>4,583,043</u>	<u>4,683,621</u>
Total	<u>\$ 9,707,565</u>	<u>\$ 9,808,143</u>

NOTE 5 – BONDS AND NOTES PAYABLE

Revenue Bonds

During June 2011, in order to take advantage of a low interest rate environment, the Authority issued \$52,120,000 of Series 2011 A Water and Sewer System Revenue Bonds for the purpose of providing the Authority with the funds required to refund (higher interest rate) all of the 2003 A and Series 2003 B Revenue Bonds.

The net uses of the bond proceeds were as follows:

<u>Uses</u>	<u>2011-A</u>
Deposit to Escrow Fund to refund the outstanding 2003 Revenue Bonds	\$ 52,840,223
Deposit to Debt Service Reserve Fund	4,102,957
Costs of issuance	1,194,785
Less: Original issue premium, net of discounts	<u>(6,017,965)</u>
Total	<u>\$ 52,120,000</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012

NOTE 5 – BONDS AND NOTES PAYABLE (Continued)

Revenue Bonds (Continued)

The Series 2011 A Revenue Bonds comprise both Serial and Term Bonds, with varying rates and maturities, as follows:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amounts</u> <u>(In Thousands)</u>
Serial Bonds/Series A	2.00% to 5.00%	2012 to 2022	\$ 42,440
Term Bonds/Series A	5.00%	2023 to 2033	<u>9,680</u>
Total			<u>\$ 52,120</u>

Interest on both the Serial and Term Bonds is payable semi-annually. Principal payments under the Series A Serial Bonds began in 2012 (with \$3,845,000 in maturities) and end in 2033 (with \$1,135,000 in maturities). The Series A Term Bonds require sinking fund installments, beginning in the year 2023, through the year 2033, of amounts ranging from \$665,000 to \$1,135,000, annually. The Term Bonds are callable at the option of the Authority, in whole or in part, beginning December 2023, at a redemption price of par, plus accrued interest.

Under the financing agreement, the Board granted a security interest and mortgage in the System to the Authority. The Revenue Bonds are direct obligations of the Authority, secured by a pledge of revenues and funds established under the Bond Resolutions.

State Revolving Fund Notes

During 2003, the 1996, 1997, and 1998 EFC pooled borrowing notes were refunded; resulting in two new EFC pooled borrowing notes: 2003-C and 2003-D. During 2010, the 1999 EFC pooled borrowing note was refunded, resulting in one new EFC pooled borrowing note: 2010-C. This 2010-C EFC note outstanding at December 31, 2013 requires serial installments, with interest rates (without regard to the SRF subsidy) ranging from .87% to 3.38% for 2010-C, all based on dates of maturity. Final maturity dates extend through 2019. Interest is payable semi-annually. The SRF notes, similar to EFC's bonds, are callable depending on redemption dates and amounts redeemed.

During 2012, the 2003-C and 2003-D EFC pooled borrowing notes were refunded and re-issued, resulting in one new EFC pooled borrowing note: 2012-B. This EFC note outstanding at December 31, 2013 requires serial installments, with interest rates of approximately 4% for 2012-B, all based on dates of maturity. Final maturity dates extend through 2028. Interest is payable semi-annually.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012

NOTE 5 – BONDS AND NOTES PAYABLE (Continued)

Bonds and notes payable balances and activity for the year are summarized below:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds and notes payable	\$ 50,215,000	\$ -	\$ 4,095,000	\$ 46,120,000	\$ 4,185,000
Unaccreted original issue premium	<u>5,607,649</u>	<u>-</u>	<u>273,544</u>	<u>5,334,105</u>	<u>273,544</u>
Net Bonds And Notes Payable	<u>\$ 55,822,649</u>	<u>\$ -</u>	<u>\$ 4,368,544</u>	<u>\$ 51,454,105</u>	<u>\$ 4,458,544</u>

Principal repayment requirements, as of December 31, 2013, on all outstanding bonds and notes are as follows:

<u>Year Ending December 31</u>	<u>2012-B EFC Bonds</u>	<u>2011 Series A Bonds</u>	<u>2010-C EFC Bonds</u>	<u>Total</u>
2014	\$ 65,000	\$ 4,115,000	\$ 5,000	\$ 4,185,000
2015	90,000	4,245,000	15,000	4,350,000
2016	100,000	4,420,000	15,000	4,535,000
2017	100,000	3,940,000	15,000	4,055,000
2018	100,000	3,220,000	15,000	3,335,000
2019 - 2023	580,000	15,340,000	25,000	15,945,000
2024 - 2028	700,000	3,880,000	-	4,580,000
2029 - 2033	<u>-</u>	<u>5,135,000</u>	<u>-</u>	<u>5,135,000</u>
Totals	1,735,000	44,295,000	90,000	46,120,000
Plus: unaccreted original issue premium	<u>-</u>	<u>5,334,105</u>	<u>-</u>	<u>5,334,105</u>
Net Bonds And Notes Payable	<u>\$ 1,735,000</u>	<u>\$ 49,629,105</u>	<u>\$ 90,000</u>	<u>\$ 51,454,105</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012

NOTE 5 – BONDS AND NOTES PAYABLE (Continued)

Interest repayment requirements as of December 31, 2013, on all outstanding bonds and notes are as follows:

2014	\$	2,152,342
2015		2,022,169
2016		1,802,415
2017		1,578,142
2018		1,417,600
2019 - 2023		4,461,204
2024 - 2028		1,932,635
2029 - 2033		<u>799,250</u>
Total	\$	<u>16,165,757</u>

Interest expense was \$2,038,151 and \$2,225,502 for the years ended December 31, 2013 and 2012, respectively.

NOTE 6 – RESTRICTIONS ON CASH AND INVESTMENTS

Substantially all the cash, cash equivalents, and investments of the Authority are held by a trustee in accordance with the provisions of the Bond Resolutions and/or the Financing Agreement. A schedule by fund and account follows:

	<u>December 31, 2013</u>			<u>December 31,</u>
	<u>Cash and Cash</u>	<u>Investments</u>	<u>Total</u>	<u>2012</u>
	<u>Equivalents</u>			<u>Total</u>
Authority Funds				
1999 Debt Service Reserve Fund (B)	\$ 24,945	\$ 10,982	\$ 35,927	\$ 35,584
2003-C and 2012-B EFC Debt				
Service Reserve Fund (B)	97,736	246,145	343,881	339,197
2011 A Debt Service Reserve Fund (B)	408,810	4,203,907	4,612,717	4,408,067
2011 A Debt Service Fund (A)	2,534	224,876	227,410	224,367
Other Funds	<u>3,570</u>	<u>-</u>	<u>3,570</u>	<u>2,302</u>
Total Authority Funds	<u>537,595</u>	<u>4,685,910</u>	<u>5,223,505</u>	<u>5,009,517</u>
Board Funds				
Ongoing Projects Account (C)	6,023,250		6,023,250	4,018,069
Lockbox and Other Accounts	<u>6,610,176</u>	<u>-</u>	<u>6,610,176</u>	<u>780,557</u>
Total Board Funds	<u>12,633,426</u>	<u>-</u>	<u>12,633,426</u>	<u>4,798,626</u>
Total	<u>\$ 13,171,021</u>	<u>\$ 4,685,910</u>	<u>\$ 17,856,931</u>	<u>\$ 9,808,143</u>

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 6 – RESTRICTIONS ON CASH AND INVESTMENTS (Continued)

A) Debt Service Funds: These accounts, which are held by a trustee, provide for the monthly funding of semi-annual debt service payments. The revenues from the Board are utilized to fund these accounts on a priority basis.

(B) Debt Service Reserve Funds: These accounts, which are held by a trustee, were originally funded with deposits from the proceeds of various bond issues in amounts approximating the maximum annual debt service payments. In accordance with the Bond Resolution (or, as applicable, the SRF note agreements), these funds may only be applied to debt service payments to the extent other funds are not available.

(C) Ongoing Projects Account: This account, which is held by a bank and provides for the annual funding of emergencies and future projects approved under the annual budget of approximately \$2,000,000 each year, was originally funded with approximately \$2,000,000.

NOTE 7 – ACCRUED EXPENSES

Accrued expenses for the years ended December 31 comprise the following:

	<u>2013</u>	<u>2012</u>
Albany County Sewer Contract obligation (Note 11)	\$ 1,918,924	\$ 1,958,381
Accrued interest on Authority bonds	185,023	238,008
Accrued interest rebate (Note 11)	<u>126,370</u>	<u>-</u>
Total	<u>\$ 2,230,317</u>	<u>\$ 2,196,389</u>

NOTE 8 – OBLIGATIONS TO THE CITY OF ALBANY AND OTHER GOVERNMENT AGENCIES

Obligations from the City of Albany or other Government agencies for the years ended December 31 comprise the following:

	<u>2013</u>	<u>2012</u>
Receivables From The City Of Albany	<u>\$ 5,891,025</u>	<u>\$ 9,823,099</u>

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 9 – RETIREMENT PLAN

Plan Description

The System, through the City, contributes to the Employees' Retirement System (ERS), a plan administered by the New York State and Local Retirement System. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. ERS issues a financial report which includes financial statements and other information for ERS which is available to the public.

Funding Requirements

The System, through the City, is required to contribute annually to ERS based on a percentage of payrolls. The percentage of payroll varies according to the employees' date of hire, include normal, administrative, and supplemental pension contributions, and prior service costs. At December 31, 2013, substantially all full-time System employees were covered by the ERS.

NOTE 10 – OPERATING LEASE

The Board and Authority lease a truck under an operating lease expiring in 2014. Minimum future rental payments under the noncancelable operating lease having initial terms in excess of one year as of December 31, 2013 are as follows:

2014	\$	<u>110,400</u>
------	----	----------------

Rental expense under the operating lease for the year ended December 31, 2013 was \$110,400.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation

The System is a party to various legal actions normally associated with water and sewer utility operations, the aggregate effect of which is not expected to be material to the future financial condition of the System.

Sales of Future Revenue

During 1998, the Board entered into an inter-municipality agreement with the Town of Guilderland which provides for a commitment to sell water to the Town through the year 2018. Under the agreement, the Town advanced the Board \$2.3 million, of which \$2.0 million was provided to induce the Board to enter into the agreement providing for the sale of water at below market rates over a 20-year period. The Board has recorded these funds as deferred inflows of resources, which is being amortized into revenue over the 20-year term of the agreement.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

Rebate on Interest Earnings

In accordance with the Tax Reform Act of 1986, the Board and Authority are required to rebate to the Federal government the net interest earned on certain restricted funds under the bond issues, in excess of the interest expense on the bonds. Rebate calculations have been completed through 2013 and, in this regard, a rebate obligation has been identified in the amount of \$126,370 and included within interest expense on the combined statements of revenues, expenses and changes in net position and within accrued expenses on the combined statements of net position. Any future amounts to be rebated are not expected to be material in relation to the System's investment income.

Albany County Sewer Contract

The City, along with certain other municipalities, entered into an agreement with the Albany County Sewer District (the District) which was subsequently assumed by the Board. The District maintains and operates the County sewer system and waste treatment plants. Under the agreement, the District bills the Board its share of the debt service on County sewer obligations and related operating expenses. The Board is liable for its allocable share of debt service whether or not the City's sewer system remains connected to the County system.

Rate Covenants

Under the Bond Resolution (see Note 1), the Board has agreed to establish rates sufficient in each year so that budgeted revenues are at least equal to 115% of the sum of budgeted annual aggregate debt service and System operating expenses. The Board has also agreed that operating revenues collected for each fiscal year be at least equal to 100% of operating and authority expenses and 100% of the amount necessary to pay the required deposits for debt service reserve and other funds from revenue sources.

For the 2013 year, the minimum debt coverage ratio was reached. For the 2013 year, operating revenues collected were at least 100% of operating and authority expenses. For the 2013 year, operating revenues collected were at least 100% of required deposits made to the Debt Service Reserve Fund.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

To conform to the provisions of GASB described in Note 2 (GASB 65, *Items Previously Reported as Assets and Liabilities*), accounting changes were adopted and applied retroactively by restating the combined financial statements for all periods presented. To account for this change in accounting principle, the beginning unrestricted net position of \$31,245,097, as originally reported at December 31, 2012, has been decreased by \$1,222,126 to \$30,081,457.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 And 2012**

NOTE 13 – OTHER MATTERS

The City of Albany, by the Albany Water Board, entered into a Memorandum of Agreement (the Agreement) with various communities in June 2013. The Agreement is in support of the communities anticipated entry into an order consent with the New York State Department of Environmental Conservation to resolve claims made by NYSDEC. The claims relate to alleged violations by the communities of requirements under the Federal Clean Water Act and the communities individual state Pollutant Discharge Elimination System permits governing combined sewer overflows. The order on consent requires the communities to enter into an Inter-Municipal Agreement to facilitate the implementation of the Albany Pool CSO Long-Term Control Plan. The Albany Water Board paid \$408,871 in related costs during 2013 that are included in prepaid expenses on the combined statement of net position. In January 2014, another Memorandum of Agreement was signed between the Albany Water Board and the Capital District Regional Planning Commission. The Agreement summarized cost allocations, project implementation, and a resolution for initial funding support. The communities agreed to create a not-for-profit corporation necessary to carry out all actions necessary and appropriate for implementation of the combined sewer overflow Long-Term Control Plan in accordance with the Inter-Municipal Agreement. The total estimated project costs for legal support associated with creating a 501(c)(3) (operation bond counsel, and financial advisors) amounted to \$1,000,000. Total construction costs are estimated to be \$90,820,000 of which 58.68% (\$53,000,000) are the Albany Water Board and Albany Municipal Water Finance Authority's responsibility. The Albany Water Board was allocated to pay 58% of the total estimated costs or \$586,800, which was paid in March 2014.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 16, 2014, which is the date the combined financial statements were available to be issued.



**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**

To The Members
Albany Water Board
Albany Municipal Water Finance Authority
Albany, New York

Independent Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Albany Water Board and Albany Municipal Water Finance Authority, (a component reporting unit of the City of Albany), as of and for the year ended December 31, 2013, and the related notes to the combined financial statements, which collectively comprise the Albany Water Board and Albany Municipal Water Finance Authority's basic combined financial statements, and have issued our report thereon dated July 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Albany Water Board and Albany Municipal Water Finance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board and Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board and Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board and Authority's combined financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses, number 2013-1, to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Albany Water Board and Albany Municipal Water Finance Authority's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including Investment Guidelines for Public Authorities and the Albany Water Board and Albany Municipal Water Finance Authority's Investment Guidelines, noncompliance with which could have a direct and material effect on the determination of combined 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*.

We noted certain matters that we reported to management of the Albany Water Board and Albany Municipal Water Finance Authority, in a separate letter dated July 16, 2014.

Albany Water Board and Albany Municipal Water Finance Authority's Response to Findings

The Albany Water Board and Albany Municipal Water Finance Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Board and Authority's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Handwritten signature in cursive script: Paul Becker, CPA

Albany, New York
July 16, 2014

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013**

Significant Deficiency

2013-1 – Combined Financial Statement Preparation

Condition – The staff of the Albany Water Board and Albany Municipal Water Finance Authority is currently unable to produce a complete set of combined financial statements, including footnotes in accordance with accounting principles generally accepted in the United States of America.

Cause and Effect – Because the Albany Water Board and Albany Municipal Water Finance Authority and management do not have the expertise required to prepare a complete set of combined financial statements, the auditors were engaged to produce the combined financial statements and required footnotes, on the Board and Authority’s behalf, from the Board and Authority’s books and records.

Recommendation – Management should consider whether it is cost effective to hire someone who is qualified to prepare the combined financial statements.

Response to 2013-1

The Department’s CFO prepares a comprehensive financial report which is distributed monthly to both management and the members of the Board and Authority. These reports detail revenues, operating expenses, capital project costs, cash flows and other key financial metrics on both a year-over-year and budget-to-actual basis. While these financial reports may not conform with accounting principles generally accepted in the United States of America, they provide the users with timely and relevant monthly financial information to support their financial management and oversight functions. Separately, we note that the Department’s CFO (who was only hired in January 2014) is committed to preparing a complete set of year-end combined financial statements, including footnotes, for the 2014 year.