

**Albany Water Board and
Albany Municipal Water Finance Authority**
(A Component Unit of the City of Albany, New York)

Combined Financial Report

December 31, 2015 and 2014

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Independent Auditor's Report

Members of the Boards
Albany Water Board and Albany Municipal
Water Finance Authority
Albany, New York

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Albany Water Board and the Albany Municipal Water Finance Authority, a component unit of the City of Albany, New York, which comprise the combined statements of net position as of December 31, 2015 and 2014, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Albany Water Board and the Albany Municipal Water Finance Authority as of December 31, 2015 and 2014, and the combined 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 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 June 28, 2016, on our consideration of the Albany Water Board's and the Albany Municipal Water Finance Authority's internal control over financial reporting and our tests of their 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's and the Albany Municipal Water Finance Authority's internal control over financial reporting and compliance.

SaxBST LLP

Albany, New York
June 28, 2016

**Albany Water Board and
Albany Municipal Water Finance Authority**
(A Component Unit of the City of Albany, New York)

Management's Discussion and Analysis
December 31, 2015 and 2014

The following Management's Discussion and Analysis (MD&A) of the Albany Water Board (AWB) and the Albany Municipal Water Finance Authority (AMWFA) (collectively the System), a component unit of the City of Albany (City) present a brief narrative of the System's financial performance for the years ended December 31, 2015 and 2014. 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.

Two five-member Boards govern the AWB and the AMWFA. The Boards have adopted policies and procedures as required under the Public Authorities Accountability Act ("PAAA") of 2005 and the Public Authorities Reform Act ("PARA") of 2009, enhancing transparency and embracing best governance practices.

The AWB Finance Committee meets on a quarterly basis to provide enhanced project and transactional analysis. On a monthly basis, the AWB meets to discuss infrastructure needs, project activity, and progress. The AWB meets monthly, and the AMWFA meets quarterly to discuss financial position. In addition, the AWB Audit Committee and the AMWFA Board meet with the independent auditors to discuss relevant issues and concerns.

In summary, positive operational and financial results were achieved during each of the years ended December 31, 2015 and 2014. The System, 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 System are prepared under accounting principles generally accepted in the United States of America (U.S. GAAP) and contain three statements that provide information on the System's financial position and results of operations as of and for the years ended December 31, 2015 and 2014. 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 statements of net position present the financial position of the System at December 31, 2015 and 2014, at the end of its fiscal years.
- The combined statements of revenues, expenses, and changes in net position report all of the years' 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.

**Albany Water Board and
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Management's Discussion and Analysis
December 31, 2015 and 2014

The following comparative condensed financial statements (amounts in millions) and other selected information provide key financial data and indicators for management, monitoring, and planning.

	2015	2014	Percentage Change 2015-2014	2013	Percentage Change 2014-2013
NET OPERATING REVENUES	\$ 38.6	\$ 38.2	1.0	\$ 35.3	8.2
OPERATING EXPENSES					
Operation and maintenance of water system	9.6	10.0	(4.0)	10.0	-
Operation and maintenance of sewer system	9.2	9.3	(1.1)	8.9	4.5
Depreciation expense	3.1	3.2	(3.1)	3.1	3.2
Administration and general	4.5	4.6	(2.2)	4.9	(6.1)
Total operating expenses	26.4	27.1	(2.6)	26.9	0.7
Operating income	12.2	11.1	9.9	8.4	32.1
Non-operating items	(1.6)	(1.5)	6.7	(1.9)	(21.1)
CHANGE IN NET POSITION	10.6	9.6	10.4	6.5	47.7
NET POSITION, <i>beginning of year</i>	24.3	14.6		8.1	
NET POSITION, <i>end of year</i>	<u>\$ 34.9</u>	<u>\$ 24.3</u>		<u>\$ 14.6</u>	

Operating Revenues: Operating revenues for 2015 increased by approximately \$362,000 (or by 1%), due to an increase in water usage. Operating revenues for 2014 increased by approximately \$2,901,000 (or by 8.2%), also due to an increase in water usage. Operating revenues exceeded budgeted revenues in each year. In September 2012, the System rate structure was increased by approximately 4% for substantially all users.

Operating Expenses: Operating expenses for 2015 decreased by approximately \$650,000 (or by 2.6%). Increased costs in several areas of the System's operations were offset to a large extent by a decrease in bad debt (administrative and general) expense. On the water side, total costs approximated \$9,654,000, slightly less than costs incurred in 2014, principally due to lower payroll and payroll related costs. On the sewer side, total costs approximated \$9,147,000, approximately \$162,000 in excess of similar costs in 2014. Decreases in payroll, payroll related costs, and outside consultants were offset by increased costs associated with the County Sewer Contract, the System's largest line item cost at approximately \$6,141,000, which increased by approximately \$226,000 (or about 3.8%).

Operating expenses for 2014 increased by approximately \$138,000 (or less than 1%). On the water side, total costs approximated \$9,973,000, slightly less than costs incurred in 2013. On the sewer side, total costs approximated \$9,309,000, approximately \$395,000 in excess of similar costs in 2013. Sewer services, principally reflecting sewer repairs and maintenance, exceeded the prior year by approximately \$295,000. Costs associated with the County Sewer Contract, the System's largest line item cost at approximately \$5,915,000, increased by approximately \$32,000 (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: Interest expense declined by approximately \$88,000 in 2015 and \$263,000 in 2014 as the System began amortizing its 2011A revenue bonds.

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Management's Discussion and Analysis
December 31, 2015 and 2014

	2015	2014	Percentage Change 2015-2014	2013	Percentage Change 2014-2013
Current and restricted assets	\$ 48.2	\$ 42.0	14.8	\$ 37.0	13.5
Capital assets, net	32.8	32.9	(0.3)	33.4	(1.5)
Total assets	81.0	74.9	8.1	70.4	6.4
Current liabilities	8.0	7.6	5.3	8.0	(5.0)
Noncurrent liabilities	37.8	42.7	(11.5)	47.3	(9.7)
Total liabilities	45.8	50.3	(8.9)	55.3	(9.0)
Deferred inflows	0.3	0.4	(25.0)	0.5	(20.0)
Net position					
Net investment in capital assets	(4.6)	(9.3)	(50.5)	(12.8)	(27.3)
Other	-	-	-	0.4	(100.0)
Unrestricted	39.5	33.5	17.9	27.0	24.1
Total net position	\$ 34.9	\$ 24.2	44.2	\$ 14.6	65.8

Assets: Capital assets decreased from December 31, 2013 to December 31, 2014 by approximately \$429,000 and from December 31, 2014 to December 31, 2015, by approximately \$194,000 as depreciation expense was greater than capital asset additions in each year. Capital additions to the System approximated \$2.9 million and \$2.8 million during 2015 and 2014, respectively. Cash and investments increased from 2013 to 2014 and from 2014 to 2015 by approximately \$3.5 million and \$5.5 million, respectively, as a result of positive cash flow.

Liabilities: During June 2011, the System took advantage of the low interest rate environment, and issued \$52,120,000 of Revenue Bonds for the purpose of providing the System 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 2015 and 2014, the System's total bond debt declined by approximately \$4,355,000 and \$4,210,000, respectively. During 2016 (and in each of the next five years), an additional \$4,420,000 to \$3,255,000 is scheduled to be paid in debt reduction payments.

Debt Coverage Ratio: Under the Bond Resolution, the System is required to maintain rates such that, in each year, revenues (net of operating expenses) are at least 115% of total annual debt service. The System was in compliance with the required ratio during 2015 and 2014.

Looking Ahead: The System is focused on managing a balanced budget for 2016, 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 System began allocating \$2 million annually to fund a reserve for major unbudgeted capital projects - while still committing over \$3 million annually to fund current capital projects. To this end, over the past 25 years, the System has expended over \$75 million to fund capital projects. The System continues 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 System to continue an increasing investment in needed infrastructure capital expenditures in future years. Working in concert with the City, the System remains committed to its primary mission: to ensure system users have access to a clean, safe, plentiful, and low cost water supply for many generations.

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The challenges for the future are many: budgetary pressures, an aging infrastructure, the requirement of funding over \$50 million in the Hudson River Combined Sewer Overflow Project, and the County sewer contract. Looking ahead, the System remains 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 System at 518-434-5300 or at 10 North Enterprise Drive, Albany, New York 12204.

**Albany Water Board and
Albany Municipal Water Finance Authority**

(A Component Unit of the City of Albany, New York)

Combined Statements of Net Position

ASSETS	December 31,	
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,978,777	\$ 11,144,572
Cash and cash equivalents, restricted	955,742	748,361
Investments	14,507,753	5,006,999
Investments, restricted	4,454,863	4,458,691
Receivables, net	10,676,631	10,362,029
Due from City	9,636,233	9,276,571
Prepaid expenses	993,763	1,011,018
Total current assets	48,203,762	42,008,241
CAPITAL ASSETS, AT COST, NET OF ACCUMULATED DEPRECIATION		
	32,791,141	32,985,265
Total assets	80,994,903	74,993,506
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	1,062,667	1,031,021
Revenue bonds payable, current installments	4,505,000	4,325,000
Accrued expenses	2,427,755	2,356,456
Total current liabilities	7,995,422	7,712,477
LONG-TERM LIABILITIES		
Revenue bonds payable, less current installments	33,050,000	37,585,000
Premium on revenue bonds, net	4,787,017	5,060,561
Total long-term liabilities	37,837,017	42,645,561
Total liabilities	45,832,439	50,358,038
DEFERRED INFLOWS OF RESOURCES		
Sales of future revenues	284,384	384,384
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net investment in capital assets	(4,631,706)	(9,269,318)
Unrestricted	39,509,786	33,520,402
Total net position	\$ 34,878,080	\$ 24,251,084

See accompanying Notes to Financial Statements.

**Albany Water Board and
Albany Municipal Water Finance Authority**

(A Component Unit of the City of Albany, New York)

Combined Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2015	2014
NET OPERATING REVENUES	\$ 38,577,580	\$ 38,215,354
OPERATING EXPENSES		
Operation and maintenance of water system		
Water supply, power and pumping	1,002,029	1,184,642
Water purification	2,274,515	2,380,014
Water transmission and distribution	4,454,778	4,438,768
Taxes paid to municipalities	1,922,748	1,969,305
Operation and maintenance of sewer system		
Sewer services	2,640,339	2,846,284
Albany County sewer contract	6,141,315	5,914,930
Sewer pumping stations	365,630	548,056
Depreciation	3,141,019	3,205,005
Administration and general	4,452,611	4,560,623
Total operating expenses	<u>26,394,984</u>	<u>27,047,627</u>
Operating income	<u>12,182,596</u>	<u>11,167,727</u>
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(1,814,467)	(1,902,486)
Gain on sale of assets	15,435	150,425
Interest income	260,992	232,255
Realized loss on sale of investments	(4,787)	-
Unrealized loss on investments	(12,773)	(10,720)
	<u>(1,555,600)</u>	<u>(1,530,526)</u>
CHANGE IN NET POSITION	10,626,996	9,637,201
NET POSITION, <i>beginning of year</i>	<u>24,251,084</u>	<u>14,613,883</u>
NET POSITION, <i>end of year</i>	<u>\$ 34,878,080</u>	<u>\$ 24,251,084</u>

See accompanying Notes to Financial Statements.

**Albany Water Board and
Albany Municipal Water Finance Authority**

(A Component Unit of the City of Albany, New York)

Combined Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	\$ 41,306,186	\$ 38,082,127
Cash payments to suppliers for goods and services	(26,328,024)	(25,152,448)
	14,978,162	12,929,679
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,946,895)	(2,775,940)
Net proceeds from sales of capital assets	15,435	150,425
Payments to City of Albany and other Government Agencies	(359,662)	(649,186)
Principal payments on bonds and notes	(4,355,000)	(4,210,000)
Interest expense	(2,036,960)	(2,164,821)
	(9,683,082)	(9,649,522)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of investments	(10,273,592)	(4,779,780)
Proceeds from sales and maturities of investments	759,106	(10,720)
Interest earned on investments	260,992	232,255
	(9,253,494)	(4,558,245)
Net decrease in cash and cash equivalents	(3,958,414)	(1,278,088)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	11,892,933	13,171,021
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 7,934,519	\$ 11,892,933
RECONCILIATION OF OPERATING INCOME TO NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 12,182,596	\$ 11,167,727
Adjustments to reconcile operating income to net cash and cash equivalents provided (used) by operating activities		
Depreciation	3,141,019	3,205,005
Changes in		
Receivables, net	(314,602)	(828,887)
Prepaid expenses and deposits	17,255	(14,609)
Accounts payable, accrued expenses and other	(48,106)	(599,557)
Total adjustments	2,795,566	1,761,952
	\$ 14,978,162	\$ 12,929,679

See accompanying Notes to Financial Statements.

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

The City of Albany Water and Sewer System (System) provides water supply and distribution, and the collection and disposal of sewage, principally for the City of Albany (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 (Board) and Albany Municipal Water Finance Authority (Authority). The System is a component reporting unit of the City and, as such, is included in the City'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 whom are appointed by the Governor of New York State and five members of whom are appointed by the Mayor of the City.

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, are charged to the Board (by the City) on an annual basis. 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.

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 (Note 10), 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.

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

b. Basis of Accounting and Presentation of Financial Statements

The accompanying combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Activities of both the Board and the Authority are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenue recorded when earned and expenses recorded at the time liabilities are incurred.

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.

The principal revenues of the Board and Authority 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, 2015. Approximately 80% of the customer base is comprised 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 are based on billing rates imposed by the Board, which were last increased in September 2012. Approximately 20% of operating revenues is derived from the System's 50 largest customers, which also include certain inter-municipality agreements.

c. 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 (Note 6) have been established with the trustee to assure the Board's and Authority's compliance with the Bond Resolutions.

d. Cash, Cash Equivalents, and Investments

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid investments with original maturities of three months or less when purchased. All cash deposits and repurchase agreements are fully collateralized or covered by federal deposit insurance.

Investments principally consist of obligations of the United States and its agencies and certificates of deposit. Investments are carried at fair value based principally on quoted prices in active markets.

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

e. *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. In November 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 resident 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.

The Board maintains an allowance for doubtful accounts to reflect potentially uncollectible receivables that may not be subject to the City's or County's collection procedures. The allowance for doubtful accounts, which is reflected as a contra-receivable for financial reporting purposes, approximated \$170,000 and \$3,300,000 at December 31, 2015 and 2014, respectively.

f. *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 useful 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, fixtures and vehicles	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.

g. *Net Position*

Net position is classified as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances.
- *Restricted net position* has externally placed constraints on use.
- *Unrestricted net position* consists of assets and liabilities that do not meet the definition of "restricted net position" or "net investment in capital assets."

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

h. Restrictions on Cash and Cash Equivalents 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.

i. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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 (Note 10).

j. 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.

k. Income Taxes

The Board and Authority are both exempt from federal, state, and local income taxes.

l. Estimates and Assumptions

The preparation of combined financial statements 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.

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

m. New Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. This statement addresses an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of the statement are to be adopted simultaneously with Statement No. 68.

The adoption of these standards did not significantly impact the System's financial statements

n. Reclassifications

Certain reclassifications were made to the prior year amounts in order to conform to the current year presentation.

o. Subsequent Events

The Board and the Authority have evaluated subsequent events for potential recognition or disclosure through June 28, 2016, the date the combined financial statements were available to be issued.

Note 2 - Receivables, Net

Receivables, net consist of the following:

	December 31,	
	2015	2014
Billed	\$ 4,195,219	\$ 6,927,185
Unbilled	6,654,977	6,751,617
	<u>10,850,196</u>	<u>13,678,802</u>
Allowance for doubtful accounts	(173,565)	(3,316,773)
Receivables, net	<u>\$ 10,676,631</u>	<u>\$ 10,362,029</u>

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Cash, Cash Equivalents, and Investments

Guidelines issued by the 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 the 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 value. Generally, it is the Board's 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's or Authority's custodian in the Board's or Authority's name.

The December 31, 2015 and 2014 cash, cash equivalents, and investments comprise the following:

December 31, 2015	Cost	Fair Value
Non-interest bearing accounts		
Cash accounts	\$ 6,978,777	\$ 6,978,777
Interest bearing and money market accounts		
U.S. Treasury Fund money market	955,742	955,742
	<u>7,934,519</u>	<u>7,934,519</u>
Investments in debt securities		
U.S. Treasury Notes and Securities	8,769,055	8,757,730
Government Agency Notes	5,158,281	5,253,676
Certificates of Deposit	4,948,461	4,951,210
	<u>18,875,797</u>	<u>18,962,616</u>
Total	<u>\$ 26,810,316</u>	<u>\$ 26,897,135</u>
December 31, 2014	Cost	Fair Value
Non-interest bearing accounts		
Cash accounts	\$ 11,140,491	\$ 11,140,491
Interest bearing and money market accounts		
U.S. Treasury Fund money market	748,361	748,361
Other	4,081	4,081
	<u>11,892,933</u>	<u>11,892,933</u>
Investments in debt securities		
U.S. Treasury Notes and Securities	1,627,508	1,630,067
Government Agency Notes	4,101,972	4,201,571
Certificates of Deposit	3,636,618	3,634,052
	<u>9,366,098</u>	<u>9,465,690</u>
Total	<u>\$ 21,259,031</u>	<u>\$ 21,358,623</u>

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 4 - Capital Assets

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

	December 31, 2014	Additions	Deletions	December 31, 2015
Water supply, distribution, and collection systems	\$ 25,726,845	\$ -	\$ -	\$ 25,726,845
Water and sewer system capital improvements, equipment, furniture and fixtures, and vehicles	70,900,383	1,518,539	(164,602)	72,254,320
Six Mile Waterworks (Rensselaer Lake) ground lease	7,210,000	-	-	7,210,000
Construction in progress	123,452	2,105,121	(676,765)	1,551,808
	<u>103,960,680</u>	<u>3,623,660</u>	<u>(841,367)</u>	<u>106,742,973</u>
Less accumulated depreciation	<u>(70,975,415)</u>	<u>(3,141,019)</u>	<u>164,602</u>	<u>(73,951,832)</u>
Total	<u>\$ 32,985,265</u>	<u>\$ 482,641</u>	<u>\$ (676,765)</u>	<u>\$ 32,791,141</u>

	December 31, 2013	Additions	Deletions	December 31, 2014
Water supply, distribution, and collection systems	\$ 25,726,845	\$ -	\$ -	\$ 25,726,845
Water and sewer system capital improvements, equipment, furniture and fixtures, and vehicles	68,181,183	3,061,361	(342,161)	70,900,383
Six Mile Waterworks (Rensselaer Lake) ground lease	7,210,000	-	-	7,210,000
Construction in progress	408,872	123,450	(408,870)	123,452
	<u>101,526,900</u>	<u>3,184,811</u>	<u>(751,031)</u>	<u>103,960,680</u>
Less accumulated depreciation	<u>(68,112,570)</u>	<u>(3,205,006)</u>	<u>342,161</u>	<u>(70,975,415)</u>
Total	<u>\$ 33,414,330</u>	<u>\$ (20,195)</u>	<u>\$ (408,870)</u>	<u>\$ 32,985,265</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 \$3,141,019 and \$3,205,005 for the years ended December 31, 2015 and 2014, respectively.

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 5 - Bonds and Notes Payable

Bonds and notes payable balances and activity for the years ended December 31, 2015 and 2014, are summarized below:

	December 31, 2014	Additions	Reductions	December 31, 2015	Due Within One Year
General revenue bonds					
Series 2011A	\$ 40,180,000	\$ -	\$ 4,245,000	\$ 35,935,000	\$ 4,420,000
EFC revenue bonds					
Series 2003-C	45,000	-	45,000	-	-
Series 2010-C	85,000	-	15,000	70,000	15,000
Series 2012-B	1,600,000	-	50,000	1,550,000	70,000
Bonds payable	<u>41,910,000</u>	<u>-</u>	<u>4,355,000</u>	<u>37,555,000</u>	<u>\$ 4,505,000</u>
Unamortized bond premium	5,060,561	-	273,544	4,787,017	
Bonds payable, net	<u>\$ 46,970,561</u>	<u>\$ -</u>	<u>\$ 4,628,544</u>	<u>\$ 42,342,017</u>	
	December 31, 2013	Additions	Reductions	December 31, 2014	Due Within One Year
General revenue bonds					
Series 2011A	\$ 44,295,000	\$ -	\$ 4,115,000	\$ 40,180,000	\$ 4,245,000
EFC revenue bonds					
Series 2003-C	90,000	-	45,000	45,000	45,000
Series 2010-C	90,000	-	5,000	85,000	15,000
Series 2012-B	1,645,000	-	45,000	1,600,000	20,000
Bonds payable	<u>46,120,000</u>	<u>-</u>	<u>4,210,000</u>	<u>41,910,000</u>	<u>\$ 4,325,000</u>
Unamortized bond premium	5,334,105	-	273,544	5,060,561	
Bonds payable, net	<u>\$ 51,454,105</u>	<u>\$ -</u>	<u>\$ 4,483,544</u>	<u>\$ 46,970,561</u>	

Future principal payments required on all outstanding revenue bonds are as follows:

Year Ending December 31	Series 2011A	EFC Revenue Bonds		Total
		2010-C	2012-B	
2016	\$ 4,420,000	\$ 15,000	\$ 70,000	\$ 4,505,000
2017	3,940,000	15,000	100,000	4,055,000
2018	3,220,000	15,000	100,000	3,335,000
2019	3,350,000	25,000	100,000	3,475,000
2020	3,515,000	-	110,000	3,625,000
2021-2025	9,915,000	-	660,000	10,575,000
2026-2030	4,320,000	-	410,000	4,730,000
2031-2033	<u>3,255,000</u>	<u>-</u>	<u>-</u>	<u>3,255,000</u>
Net bonds and notes payable	<u>\$ 35,935,000</u>	<u>\$ 70,000</u>	<u>\$ 1,550,000</u>	<u>\$ 37,555,000</u>

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 5 - Bonds and Notes Payable - Continued

Future interest payments required on all outstanding revenue bonds are as follows:

Year Ending December 31	Series 2011A	EFC Revenue Bonds		Total
		2010-C	2012-B	
2016	\$ 1,757,350	\$ 2,184	\$ 93,987	\$ 1,853,521
2017	1,536,350	1,774	88,484	1,626,608
2018	1,378,750	1,322	82,897	1,462,969
2019	1,217,750	846	77,234	1,295,830
2020	1,050,250	-	71,331	1,121,581
2021-2025	2,916,000	-	249,135	3,165,135
2026-2030	1,487,250	-	43,534	1,530,784
2031-2033	330,500	-	-	330,500
Totals	<u>\$ 11,674,200</u>	<u>\$ 6,126</u>	<u>\$ 706,602</u>	<u>\$ 12,386,928</u>

Interest expense was \$1,814,467 and \$1,902,486 for the years ended December 31, 2015 and 2014, respectively.

a. Revenue Bonds

During June 2011, 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 previously outstanding 2003 A and Series 2003 B Revenue Bonds.

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

Type	Rate	Maturity	Total
Serial Bonds/Series A	2.00% to 5.00%	2012 to 2022	\$ 42,440,000
Term Bonds/Series A	5.00%	2023 to 2033	<u>9,680,000</u>
			<u>\$ 52,120,000</u>

Interest on both the Serial and Term Bonds is payable semi-annually. 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.

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 5 - Bonds and Notes Payable - Continued

b. Environmental Facilities Corporation (EFC) Revenue Bonds

During 2012, certain previously outstanding pooled borrowing notes were refunded and reissued, resulting in one new EFC pooled borrowing note: 2012 B. This EFC note requires serial installments, with an interest rate of approximately 4%. Final maturity dates extend through 2028. Interest is payable semi-annually. The 2010 C EFC note requires serial installments, with interest rates ranging from .87% to 3.38% for 2010 C. Final maturity dates extend through 2019. Interest is payable semi-annually.

The Authority receives a subsidy credit toward its annual debt service cost from, and is charged an annual administrative fee by, the New York State Environmental Facilities Corporation.

Note 6 - Restrictions on Cash, Cash Equivalents 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:

	December 31, 2015			December 31,
	Cash and Cash Equivalents	Investments	Total	2014 Total
Authority Funds				
1999 Debt Service Reserve Fund (b)	\$ 25,624	\$ 10,982	\$ 36,606	\$ 36,267
2003 C and 2012-B EFC Debt				
Service Reserve Fund (b)	106,726	246,145	352,871	348,376
2011 A Debt Service Reserve Fund (b)	816,766	4,197,736	5,014,502	4,815,570
2011 A Debt Service Fund (a)	4,326	-	4,326	3,891
Other Funds	2,300	-	2,300	2,948
Total Authority Funds	<u>955,742</u>	<u>4,454,863</u>	<u>5,410,605</u>	<u>5,207,052</u>
Board Funds				
Ongoing Projects Account (c)	2,051,345	14,507,753	16,559,098	11,040,334
Lockbox and Other Accounts	4,927,432	-	4,927,432	5,111,237
Total Board Funds	<u>6,978,777</u>	<u>14,507,753</u>	<u>21,486,530</u>	<u>16,151,571</u>
Total	<u>\$ 7,934,519</u>	<u>\$ 18,962,616</u>	<u>\$ 26,897,135</u>	<u>\$ 21,358,623</u>

- (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 provides for the funding of special, non-recurring capital projects as approved by the Board. The account is currently funded on an annual basis, pursuant to the Board's budget, in the amount of \$2,000,000.

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 7 - Accrued Expenses

Accrued expenses comprise the following:

	Years Ended December 31,	
	2015	2014
Albany County Sewer Contract obligation (Note 10)	\$ 2,054,102	\$ 2,033,854
Accrued interest on Authority bonds	147,921	165,711
Accrued interest rebate (Note 10)	225,732	156,891
Total	<u>\$ 2,427,755</u>	<u>\$ 2,356,456</u>

Note 8 - Transactions with the City of Albany

Amounts due from/to the City of Albany are as follows:

	Years Ended December 31,	
	2015	2014
Due from the City of Albany	\$ 15,662,996	\$ 15,046,101
Due to the City of Albany	<u>(6,026,763)</u>	<u>(5,769,530)</u>
Due from the City of Albany	<u>\$ 9,636,233</u>	<u>\$ 9,276,571</u>

Pursuant to the operation agreement, the City is entitled to water and sewer services without charge in exchange for providing the Board with services described in the agreement. Certain indirect costs, including certain legal services and accounting and engineering support incurred by the City, are charged to the Board on an annual basis. Indirect costs charged to the Board were \$750,000 during each of the years ended December 31, 2015 and 2014.

Note 9 - Retirement Plan

As noted in Note 1a, the System reimburses the City for all personnel costs, including the costs associated with the retirement system. All personnel who perform work for the System are employees of the City. Furthermore, the System does not make a direct contribution to the New York State Employee's Retirement System (ERS) but rather reimburses the City for a portion of their ERS costs as stipulated in the management agreement. As the System is considered a non-employer and does not make direct contributions to the ERS, they are not required to report a net pension liability or asset, or any related deferred inflows of resources or deferred outflows of resources.

The System is a member of the ERS and makes contributions on behalf of two AMWFA Board members who are eligible for compensation under New York State regulations. These contributions, and any resulting net pension liability, are immaterial to these financial statements.

Albany Water Board and Albany Municipal Water Finance Authority

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Notes to Combined Financial Statements December 31, 2015 and 2014

Note 10 - Commitments and Contingencies

a. 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.

b. 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 on the straight-line basis over the 20-year term of the agreement.

c. 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 and rebate obligations have been identified in the amount of \$225,732 and \$156,891 as of December 31, 2015 and 2014, respectively, and are included in accrued expenses on the combined statements of net position. Any change to the rebate amount is included within interest expense on the combined statements of revenues, expenses, and changes in net position. Amounts charged to interest for rebate revenue were \$68,841 and \$30,521 during 2015 and 2014, respectively. Any future amounts to be rebated are not expected to be material in relation to the System's investment income.

d. 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.

e. Rate Covenants

Under the Bond Resolution (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 2015 year, the minimum debt coverage ratio was reached. For the 2015 year, operating revenues collected were at least 100% of operating and authority expenses. For the 2015 year, operating revenues collected were at least 100% of required deposits made to the Debt Service Reserve Fund.

Albany Water Board and Albany Municipal Water Finance Authority

(A Component Unit of the City of Albany, New York)

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 11 - 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 subsequent entry into an order of consent with the New York State Department of Environmental Conservation (NYSDEC) 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 of consent requires the communities to enter into an Inter-Municipal Agreement to facilitate the implementation of the Albany Pool Combined Sewer Overflow Long-Term Control Plan.

In January 2014, another Memorandum of Agreement was signed between the Albany Water Board and the Capital District Regional Planning Commission. The Agreement summarizes cost allocations, project implementation, and a resolution for initial funding support. The communities agreed to create a not-for-profit corporation 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. The Albany Water Board was allocated to pay 58% of the total estimated costs, or \$586,800, which was paid in March 2014. Total construction costs are estimated to be \$90,820,000, of which 58.68% (\$53,000,000) are the Albany Water Board's and Albany Municipal Water Finance Authority's responsibility.

The Authority currently expects to fund its portion of allocable construction costs through the issuance of bonds. Costs expected to be incurred through 2017 approximate \$6.8 million. In February 2015, the Authority authorized the issuance of Series 2015-A bonds in the amount of \$7 million to fund the first tranche of those costs.

Note 12 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 establishes financial reporting standards for other postemployment benefits ("OPEB") plans for state and local governments. This standard replaces the requirements of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information. These requirements are effective for fiscal years beginning after June 15, 2017.

Management has not estimated the extent of the potential impact, if any, of these statements on the System's financial statements.

**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***

Members of the Boards
Albany Water Board and Albany Municipal
Water Finance Authority
Albany, New York

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 statement of net position of the Albany Water Board and the Albany Municipal Water Finance Authority (a component reporting unit of the City of Albany), as of December 31, 2015, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated June 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Albany Water Board's 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's and Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Albany Water Board's and the Albany Municipal Water Finance Authority's combined financial statements are free from material misstatement, we performed tests of their 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's and the Albany Municipal Water Finance Authority's Investment Guidelines, noncompliance 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*.

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's 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's and Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SaxBST LLP

Albany, New York
June 28, 2016