

ALBANY WATER BOARD  
ALBANY MUNICIPAL WATER  
FINANCE AUTHORITY

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2007

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# Albany Water Board

## Albany Municipal Water Finance Authority

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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

Joseph T. Montimurro, CHAIR  
Gardner D. Lerner, VICE CHAIR  
Fowler J. Riddick, TREASURER  
Patricia Shultis, SECRETARY  
Michael A. Nardolillo  
Jerry Spicer

### Management's Discussion and Analysis 2007

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, 2007. Management has prepared the combined financial statements and related 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, 2007 showed signs of improvement. The Board and Authority, working together with the City, increased system revenues and decreased operating expenses. As a result, the Board and Authority realized an operating gain for the first time in several years.

**Required Financial Statements:** The combined financial statements of the Board and Authority are prepared under generally accepted accounting principles and contain three combined 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, 2007 and 2006. A description of these combined statements follows:

- The Combined Balance Sheets include all assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The combined balance sheets present the financial position of the Board and Authority at December 31, the end of its fiscal year.
- The Combined Statements of Revenues, Expenses, and Changes in Fund Balance 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 reporting period. 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 2007 increased by approximately \$4,958,000 (or by 21%), principally due to an increase in the System's rate structure. Operating revenue was slightly higher than budget. Beginning February 1, 2007, the System rate structure was increased by approximately 9% for substantially all users. In addition, subsequent to year-end, beginning March 1, 2008, rates were increased in amounts ranging from 6% to 20% for substantially all users.

**Operating Expenses:** Operating expenses for 2007 decreased by approximately \$1,635,000 (or by 7.50%), reflecting decreased costs in many areas of the System's operations. On the water side, 2007 costs were slightly lower than 2006. On the sewer side, costs totaled over \$8.5 million, which was \$960,000 (10%) less than the previous year and almost \$690,000 under budget. Approximately two-thirds of the under budget amount is due to a lower than expected county sewer bill. Taxes paid to municipalities decreased by \$179,000 (8.7%). It is likely that these decreases are the result of a one time adjustment, and we expect future bills will reflect an increase. Unexpended vehicle and equipment budgets and unfilled vacant positions also contributed to the cost savings.

**Other Revenue and Expense Items:** Depreciation and amortization expenses increased from 2006 to 2007 principally reflecting increased expenses associated with the Board and Authority's ongoing capital plan. Interest expense increased by \$222,000, a reflection of lower interest rates received through an interest subsidy at Environmental Facilities Corporation.

**Assets:** Capital assets increased from December 31, 2006 to December 31, 2007 as the Board and Authority committed approximately \$700,000 to capital projects in 2007. In 2006, the commitment related to capital projects approximated \$2.7 million. Cash and investments decreased from 2006 to 2007 by approximately \$333,000 as construction fund borrowings under the 2003 bond refunding continued to be expended for capital projects and other uses. Receivables, principally billed receivables, increased by approximately \$470,000 (or 4%).

**Liabilities:** During July 2003, the Authority took advantage of the low interest rate environment, and issued \$70,350,000 of Revenue Bonds for the purpose of providing the Authority with the funds required to refund its then outstanding (higher interest rate) Revenue Bonds, to fund the costs of certain future improvements to the System and to fund certain reserve accounts. As a result of payments during 2007, total bond debt decreased by \$916,000 from December 31, 2006 to 2007. Obligations due to the City decreased by approximately \$2,447,000 from December 31, 2006 to December 31, 2007. Operating expenses were under budget approximately the same amount, resulting in excess cash available for transfer to the City.

**Looking Ahead:** In late 2004, the Board completed a multi-year \$5 million meter project under which substantially all system users received new electronic radio-read meters. The revenue impact of this project, parts of which were realized in both 2005 and 2004, was fully realized by the end of 2005. In addition, the Board initiated a rate increase, approximating 14.5% for all system users beginning in January 2006. In February 2007, the Board implemented a rate increase ranging from 10% to 40% for all system users. In March 2008, the Board increased rates approximately 6% for most users. Increased revenue and decreased expenses resulted in an operating gain for 2007.

Although facing increased financial obligations, the Board is committed to controlling costs and investigating new potential revenue sources including new and expanded sales to neighboring municipalities. The possibility exists that a new ethanol plant, to be located at the Port of Albany, will generate in excess of \$2 million in water sales annually beginning some time in 2010. At the same time, the Authority is facing increased debt service payments beginning in 2009. A continued commitment to control costs and fully realize revenue should position the Board and Authority to enhance its financial position in 2008 and in the future. As important, despite the financial challenges, the Board and Authority actions ensure system users will have access to a clean, safe, plentiful, and low cost water supply for many generations. In 2007, Albany Water won first prize as the best tasting drinking water in New York State, and also continues to receive accolades from the National League of Cities and others, as one of the most technologically advanced water systems in New York State.

*Questions about this report may be directed to the Board and Authority at 518-434-5300 or at 35 Erie Boulevard, Albany, New York 12204.*

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

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**Independent Auditors' Report**

We have audited the accompanying combined balance sheet of Albany Water Board and Albany Municipal Water Finance Authority (a component reporting unit of the City of Albany) as of December 31, 2007, and the related combined statements of revenues, expenses, and changes in fund balance, and cash flows for the year then ended. These combined financial statements are the responsibility of the Board and Authority. Our responsibility is to express an opinion on the combined financial statements based on our audit. The combined financial statements as of December 31, 2006, were audited by other accountants whose report dated October 1, 2007 expressed an unqualified opinion on those combined statements.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of Albany Water Board and Albany Municipal Water Finance Authority as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 on our consideration of the Board and Authority's internal control over financial reporting and on 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages one through three is not a required part of the basic combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Albany, New York  
September 12, 2008

*Teal Becker & Chiaramonte CPAs P.C.*

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**COMBINED BALANCE SHEETS**  
**December 31, 2007 and 2006**

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Capital Assets, at cost, net of accumulated depreciation	<u>\$ 37,147,556</u>	<u>\$40,496,529</u>
Cash and Investments		
Cash and cash equivalents	1,766,378	1,060,288
Investments	<u>6,578,980</u>	<u>7,618,395</u>
Total cash and investments	<u>8,345,358</u>	<u>8,678,683</u>
Receivables (Net)		
Billed	8,171,874	7,893,672
Unbilled	4,994,067	4,798,878
Accrued interest	<u>2,295</u>	<u>5,732</u>
Total receivables	<u>13,168,236</u>	<u>12,698,282</u>
Prepaid Expenses	<u>757,041</u>	<u>834,376</u>
Construction Deposits	<u>1,942,983</u>	<u>1,942,983</u>
Other Assets	<u>1,794,224</u>	<u>1,733,570</u>
<b>Total Assets</b>	<b><u>\$ 63,155,398</u></b>	<b><u>\$66,384,423</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Bonds and notes payable	\$ 73,255,084	\$74,580,912
Accrued expenses	2,332,712	2,373,691
Obligations to the City of Albany	9,571,413	12,018,379
Deferred revenue	<u>1,084,383</u>	<u>1,184,384</u>
Total liabilities	<u>86,243,592</u>	<u>90,157,366</u>
Fund Balance (Deficiency)		
Invested in capital assets, net of related debt	(36,107,528)	(34,084,383)
Unrestricted fund balance	<u>13,019,334</u>	<u>10,311,440</u>
Total fund balance (deficiency)	<u>(23,088,194)</u>	<u>(23,772,943)</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 63,155,398</u></b>	<b><u>\$66,384,423</u></b>

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND BALANCE**  
**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues (Net)</b>	<b>\$ 27,873,780</b>	<b>\$ 22,915,769</b>
<b>Operating Expenses</b>		
<i>Operation and maintenance of water system:</i>		
Water supply, power and pumping	1,669,887	1,720,501
Water purification	2,091,780	2,063,138
Water transmission and distribution	3,219,993	3,393,666
Taxes paid to municipalities	1,887,902	2,067,105
<i>Operation and maintenance of sewer system:</i>		
Sewer services	1,856,979	2,933,668
Albany County sewer contract	6,034,726	5,874,612
Sewer pumping stations	619,822	662,534
<i>Administration and general</i>	<u>2,798,077</u>	<u>3,099,061</u>
Total operating expenses	<u>20,179,166</u>	<u>21,814,285</u>
<b>Operating Income, before depreciation and amortization</b>	<b>7,694,614</b>	<b>1,101,484</b>
Depreciation and amortization	<u>(4,121,768)</u>	<u>(3,994,282)</u>
<b>Operating Gain (Loss)</b>	<b>3,572,846</b>	<b>(2,892,798)</b>
Interest expense	<u>(3,380,205)</u>	<u>(3,158,337)</u>
Interest income	<u>492,108</u>	<u>533,622</u>
<b>Increase (Decrease) in Fund Balance</b>	<b>684,749</b>	<b>(5,517,513)</b>
<b>Fund Balance (Deficiency), Beginning Of Year</b>	<u><b>(23,772,943)</b></u>	<u><b>(18,255,430)</b></u>
<b>Fund Balance (Deficiency), End Of Year</b>	<u><u><b>\$ (23,088,194)</b></u></u>	<u><u><b>\$ (23,772,943)</b></u></u>

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 28,303,826	\$ 21,960,914
Cash payments to suppliers for goods and services	<u>(21,142,809)</u>	<u>(21,826,304)</u>
Net cash provided by operating activities	<u>7,161,017</u>	<u>134,610</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Interest income	492,108	533,622
Interest expense	<u>(3,380,205)</u>	<u>(3,158,337)</u>
Net cash used in noncapital financing activities	<u>(2,888,097)</u>	<u>(2,624,715)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	705,082	(2,747,464)
Net advances from (payments to) City of Albany	<u>(2,446,966)</u>	<u>5,782,905</u>
Principal payments on bonds and notes	<u>(916,966)</u>	<u>(933,803)</u>
Net cash (used in) provided by capital and related financing activities	<u>(2,658,850)</u>	<u>2,101,638</u>
<b>Cash Flows From Investing Activities</b>		
Net (purchases) proceeds from the sale of investments	<u>(907,980)</u>	<u>250,139</u>
Net cash (used in) provided by investing activities	<u>(907,980)</u>	<u>250,139</u>
<b>Net increase (decrease) in cash</b>	<u>706,090</u>	<u>(138,328)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,060,288</u>	<u>1,198,616</u>
<b>Cash And Cash Equivalents, End Of Year</b>	<u>\$ 1,766,378</u>	<u>\$ 1,060,288</u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used By) Operating Activities</b>		
Operating gain (loss)	<u>\$ 3,572,846</u>	<u>\$ (2,892,798)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,054,056	3,926,570
Amortization	67,712	67,712
Changes in:		
Receivables	(469,954)	(854,855)
Prepaid expenses	77,336	41,896
Construction deposits	-	913
Accrued expenses	<u>(140,979)</u>	<u>(154,828)</u>
Total adjustments	<u>3,588,171</u>	<u>3,027,408</u>
Net Cash Provided By Operating Activities	<u>\$ 7,161,017</u>	<u>\$ 134,610</u>

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

**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 two Water and Sewer System General Revenue Bond Resolutions: the 1988 General Revenue Bond Resolution and, in 2003, the Second 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 5) 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 amounts of \$275,000 and \$300,000 in 2007 and 2006, respectively. 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, 2007 and 2006**

**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 the 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, established standards for external reporting for all state and local government entities, which includes a balance sheet, statement of revenues, expenses and changes in fund balance, and a statement of cash flows. Statement No. 34 also requires the classification of fund balance into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

***Invested in capital assets, net of related debt:*** This component of 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, 2007 or 2006.

***Unrestricted:*** This component of fund balance consists of fund balance that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**ALBANY WATER BOARD  
ALBANY MUNICIPAL WATER FINANCE AUTHORITY  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

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

**Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles 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 balance sheet 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:

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	5-10 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**

As further described in Note 3, investments principally consist of obligations of the United States and its agencies, and are carried at amortized cost, which approximates market.

**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. The combined balance sheet at December 31, 2007 reflects billed receivables net of an allowance for potentially uncollectible accounts in the amount of \$1,000,000. At December 31 of each year, substantially all 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 Albany County).

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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

**Restrictions on Cash and Investments**

As further described in Note 5, 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.

**Other Assets**

As further described in Note 7, other assets include bond issuance and insurance costs which are being amortized over the respective terms of the bonds. It is the policy of the Authority to utilize the bonds outstanding method of amortization (a method which does not materially differ from the effective yield method).

**Deferred Revenue**

As further described in Note 11, deferred revenue has been recorded to reflect the Board's receipt of 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.

**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, net of an allowance (applied in 2007 only) for potentially uncollectible accounts in the amount of \$1,000,000. The System had approximately 29,000 water and sewer customer accounts at December 31, 2007. 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, which are based on billing rates imposed by the Board, were last increased in February 2007 (and, subsequent to year-end, in March 2008) (see Note 11). Approximately 20% of operating revenues are derived from the System's 40 largest customers, which also include certain inter-municipality agreements.

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

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

**Income Taxes**

The Authority and the Board 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 conformity with generally accepted accounting principles requires estimates and assumptions that affect reported amounts. Actual results could differ from those estimates.

**Reclassifications**

Certain 2006 combined financial statement line items have been reclassified to conform with the current year presentation.

**NOTE 2 – CAPITAL ASSETS**

Capital assets, including additions, deletions, and related transfers, are comprised of the following:

	<u>December 31 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31 2007</u>
Water supply, distribution, and collection systems	\$ 22,170,389	\$ -	\$ -	\$ 22,170,389
Water and sewer system capital improvements, equipment, furniture, and fixtures	55,741,551	281,943	-	56,023,494
Six Mile Waterworks (Rensselaer Lake) ground lease	7,210,000	-	-	7,210,000
Construction in progress	<u>162,794</u>	<u>427,566</u>	<u>(4,426)</u>	<u>585,934</u>
	85,284,734	709,509	(4,426)	85,989,817
Less: accumulated depreciation	<u>44,788,205</u>	<u>4,054,056</u>	<u>-</u>	<u>48,842,261</u>
<b>Total</b>	<u>\$ 40,496,529</u>	<u>\$ (3,344,547)</u>	<u>\$ (4,426)</u>	<u>\$ 37,147,556</u>

The 1988 purchase of the System (from the City) and all related equipment, furniture, and fixtures were originally accounted for in the water supply, distribution, and collection system's category. Capital asset additions incurred subsequent to the original purchase of the System are classified as capital improvements.

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), a facility expected to be utilized by the Board as a supplemental source of water in future years. The total cost of this lease, including certain related financing costs, was recorded as a capital asset.

Total depreciation expense was \$4,054,056 and \$3,926,570 for the years ended December 31, 2007 and 2006, respectively.

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 3 – CASH AND 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 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 amortized cost which, inclusive of accrued interest income on discount notes, approximates market. 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.

The December 31, 2007 and 2006 cash and cash equivalents, and investments are comprised of the following:

December 31, 2007	Cost	Market
<b>Non-interest bearing accounts</b>		
Cash accounts	\$ 591,040	\$ 591,040
<b>Interest bearing and money market accounts</b>		
U.S. Treasury Fund money market	1,175,338	1,175,338
Total cash and cash equivalents	1,766,378	1,766,378
<b>Investments in debt securities</b>		
Federal National Mortgage Association due 3/12/08	274,233	274,785
Federal Home Loan Mortgage Corporation due 3/24/08	48,004	48,539
Financial Guaranty Ins. Co.	1	-
Federal National Mortgage Association due 3/12/08	617,769	619,008
US Certificate of Indebtedness SLGS due 10/15/19	39,751	39,751
Financial Guaranty Ins. Co.	1	-
Federal National Mortgage Association due 3/12/08	14,850	14,880
Federal National Mortgage Association due 3/12/08	55,441	55,552
U.S. Certificate of Indebtedness SLGS due 07/01/16	44,632	44,632
U.S. Certificate of Indebtedness SLGS due 01/15/19	152,789	152,789
Federal National Mortgage Association due 5/14/08	5,110,736	5,158,906
Federal National Mortgage Association due 3/12/08	161,372	161,696
Federal National Mortgage Association due 3/12/08	59,401	59,520
Total investments in debt securities	6,578,980	6,630,058
<b>Total</b>	<b>\$ 8,345,358</b>	<b>\$ 8,396,436</b>

**ALBANY WATER BOARD**  
**ALBANY MUNICIPAL WATER FINANCE AUTHORITY**  
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**NOTE 3 – CASH AND CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

December 31, 2006	Cost	Market
<b>Non-interest bearing accounts</b>		
Cash accounts	\$ 216,427	\$ 216,427
<b>Interest bearing and money market accounts</b>		
U.S. Treasury Fund money market	843,861	843,861
Total cash and cash equivalents	<u>1,060,288</u>	<u>1,060,288</u>
<b>Investments in debt securities</b>		
Federal Farm Credit Bank due 06/01/07	307,306	308,385
Federal Farm Credit Bank due 06/01/07	585,344	587,400
Federal Farm Credit Bank due 06/01/07	52,681	52,866
Federal Farm Credit Bank due 06/01/07	102,435	102,795
Federal Farm Credit Bank due 06/01/07	267,307	268,246
Federal Farm Credit Bank due 06/01/07	153,165	153,703
Federal Home Loan Bank due 06/20/07	598,050	595,686
Federal Home Loan Mortgage Corporation due 08/21/07	121,747	121,955
Federal Home Loan Mortgage Corporation due 08/21/07	14,494	14,519
Federal Home Loan Mortgage Corporation due 08/21/07	68,663	68,721
Federal National Mortgage Association due 04/25/07	5,110,031	5,139,954
U.S. Certificate of Indebtedness SLGS due 07/01/16	44,632	44,632
U.S. Certificate of Indebtedness SLGS due 01/15/19	152,789	152,789
U.S. Certificate of Indebtedness SLGS due 10/15/19	39,751	39,751
Total investments in debt securities	<u>7,618,395</u>	<u>7,651,402</u>
<b>Total</b>	<u>\$ 8,678,683</u>	<u>\$ 8,711,690</u>

**NOTE 4 – BONDS AND NOTES PAYABLE**

**Revenue Bonds**

During February 1988, the Authority issued \$46,700,000 of Series 1988 Water and Sewer System Revenue Bonds for the purpose of financing the purchase of the System from the City, financing a portion of the cost of capital improvements to the System and to fund certain reserves. As more fully discussed below, the substantial portion of this bond series was refunded in 1993, with the balance refunded in 2000.

During February 1993, the Authority issued \$47,634,000 of Series 1993 Water and Sewer System Revenue Bonds for the purpose of providing the Authority with the funds required to refund a portion of the Series 1988 Revenue Bonds, to fund the costs of certain future improvements to the System, and to fund certain reserve accounts. The Series 1993 Revenue Bonds were comprised of Serial, Term, and Capital Appreciation Bonds, with varying rates and maturities.

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**NOTE 4 – BONDS AND NOTES PAYABLE (Continued)**

**Revenue Bonds (Continued)**

During February 2000, the Authority issued \$12,498,540 in Series 2000 Water and Sewer System Revenue Bonds for the purpose of providing the Authority with the funds required to refund the outstanding 1988 Series Revenue Bonds and to fund the cost of certain future improvements to the System. The Series 2000 Revenue Bonds were comprised of Serial, Term, and Capital Appreciation Bonds, with varying rates and maturities.

During July 2003, in order to take advantage of a low interest rate environment, the Authority issued \$70,350,000 of Series 2003 A and Series 2003 B Water and Sewer System Revenue Bonds for the purpose of providing the Authority with the funds required to refund the (higher interest rate) Series 1993 Revenue Bonds (excluding certain Capital Appreciation Bonds) and all of the Series 2000 Revenue Bonds; to fund the costs of certain future improvements to the System; and to fund certain reserve accounts. The net uses of the bond proceeds were as follows:

Uses	Amounts (In Thousands)		
	2003-A	2003-B	Total
Deposit to Escrow Fund to refund the outstanding 1993 and 2000 Revenue Bonds	\$ 51,307	\$ -	\$ 51,307
Deposit to Construction Fund for certain planned capital expenditures	-	19,995	19,995
Deposit to Debt Service Reserve Fund	3,396	1,715	5,111
Deposit to Capitalized Interest Fund	-	1,285	1,285
Costs of issuance and bond insurance	1,106	651	1,757
Less: Transfers from the Series 1993 and 2000 Debt Service Reserve and Other Funds	(6,668)	-	(6,668)
Less: Original issue premium	(2,396)	(41)	(2,437)
<b>Total</b>	<b>\$ 46,745</b>	<b>\$ 23,605</b>	<b>\$ 70,350</b>

The Series 2003 A and B Revenue Bonds are comprised of both Serial and Term Bonds, with varying rates and maturities, as follows:

Type	Rate	Maturity	Amounts (In Thousands)
Serial Bonds/Series A	2.5% to 5.25%	2004 to 2022	\$ 46,745
Serial Bonds/Series B	3.5% to 4.5%	2009 to 2019	7,200
Term Bonds/Series B	5.0% to 5.25%	2023 to 2033	16,405
<b>Total</b>			<b>\$ 70,350</b>

**ALBANY WATER BOARD**  
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**NOTE 4 – BONDS AND NOTES PAYABLE** (Continued)

**Revenue Bonds** (Continued)

Interest on both the Serial and Term Bonds is payable semiannually. Principal payments under the Series A Serial bonds began in 2004 (with \$300,000 in maturities) and end in 2022 (with \$3,500,000 in maturities). Principal payments under the Series B Serial Bonds begin in 2009 (with \$540,000 in maturities) and end in 2019 (with \$795,000 in maturities). The Series B Term Bonds require sinking fund installments, beginning in the year 2020, through the year 2033, of amounts ranging from \$830,000 to \$1,580,000, annually. The Term Bonds are callable at the option of the Authority, in whole or in part, beginning June 2008, at a redemption price of par, plus accrued interest.

In connection with the Authority's issuance of the Series 2003 Bonds, all outstanding Series 1993 Serial and Term bonds were refunded. The Series 1993 Capital Appreciation Bonds (CAB) remained outstanding, at interest rates ranging from 4.7% to 6.0%, and are being repaid in accordance with their original maturity schedule (which extends through 2009).

Under the financing agreement, the Board granted a security interest and mortgage in the System to the Authority. Additional security for the bonds was provided through the issuance of municipal bond insurance, insuring the timely payment of principal and interest on the bonds. The Revenue Bonds are direct obligations of the Authority, secured by a pledge of revenues and funds established under the Bond Resolutions. The Series 2003 Revenue Bonds, however, are issued under the Second General Revenue Bond Resolution (see Note 1) and, as such, are subordinate to the 1993 CAB Bonds.

**State Revolving Fund Notes**

During 1996, 1997, 1998, and 1999, the Authority participated in pooled borrowings under the New York State Water Pollution Control Revolving Fund (SRF), a program administrated by New York State Environmental Facilities Corporation (EFC). The SRF provides municipalities and other issuers similar to the Authority with funding, principally for sewer related projects, under a subsidized program funded by both the Federal government and the State of New York. Under the SRF program, EFC issues bonds which mirror the terms of notes issued by the Authority to EFC. Approximately one-half of the Authority's annual interest cost is subsidized by the SRF program.

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. The EFC notes outstanding at December 31, 2007 require serial installments, with interest rates (without regard to the SRF subsidy) ranging from 3.97% to 5.43% for 1999, from 2.60% to 6.31% for 2003-A, and from 2.15% to 5.95% for 2003-B, all based on dates of maturity. Final maturity dates extend through 2027. Interest is payable semiannually. The SRF notes, similar to EFC's bonds, are callable depending on redemption dates and amounts redeemed.

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**NOTE 4 – BONDS AND NOTES PAYABLE (Continued)**

**State Revolving Fund Notes (Continued)**

Principal repayment requirements, as of December 31, 2007, on all outstanding bonds and notes are as follows:

Year Ending December 31	1993 CAB Bonds	2003 Series A Bonds	2003 Series B Bonds	1999 EFC Bonds	2003-C EFC Bonds	2003-D EFC Bonds	Total
2008	\$ 215,843	\$ 600,000	\$ -	\$ 15,000	\$ 55,000	\$ 15,000	\$ 900,843
2009	200,455	2,320,000	540,000	20,000	60,000	15,000	3,155,455
2010	-	2,555,000	560,000	20,000	65,000	15,000	3,215,000
2011	-	3,115,000	580,000	20,000	65,000	15,000	3,795,000
2012	-	3,260,000	600,000	20,000	65,000	15,000	3,960,000
2013 and thereafter	-	32,795,000	21,325,000	180,000	1,485,000	360,000	56,145,000
Totals	416,298	44,645,000	23,605,000	275,000	1,795,000	435,000	71,171,298
Plus unaccreted original issue premium	-	1,772,105	-	-	-	-	1,772,105
Plus Capital Appreciation Bond interest accrual	311,681	-	-	-	-	-	311,681
<b>Net Bonds And Notes Payable</b>	<b>\$ 727,979</b>	<b>\$ 46,417,105</b>	<b>\$ 23,605,000</b>	<b>\$ 275,000</b>	<b>\$ 1,795,000</b>	<b>\$ 435,000</b>	<b>\$ 73,255,084</b>

Interest expense was \$3,380,205 and \$3,158,337 for the years ended December 31, 2007 and 2006, respectively, inclusive of increases to Capital Appreciation Bond interest accruals of approximately \$42,000 and \$74,600 in 2007 and 2006, respectively.

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**NOTE 5 – RESTRICTIONS ON CASH AND INVESTMENTS**

Substantially all the cash and 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, 2007			December 31,
	Cash and Cash Equivalents	Investments	Total	2006 Total
<b>Authority Funds</b>				
1993 Debt Service Fund (A)	\$ 761	\$ 322,239	\$ 323,000	\$ 307,396
1993 Debt Service Reserve Fund (B)	8	617,768	617,776	585,927
1993 Bond Redemption Fund	38,048	-	38,048	36,447
1999 Debt Service Reserve Fund (B)	18,473	39,751	58,224	55,484
1999 Construction Fund (C)	-	-	-	122,075
2000 Construction Fund (D)	792	14,850	15,642	14,887
2003 Debt Service Fund (A)	830	59,401	60,231	102,592
2003-C EFC Debt Service Reserve Fund (B)	994,306	-	994,306	706,505
2003-C EFC Debt Service Reserve Fund (B)	4,695	-	4,695	268,023
2003-C EFC Debt Service Fund (A)	-	55,441	55,441	52,681
2003 A Debt Service Fund (A)	183	161,373	161,556	153,339
2003 A/B Debt Service Reserve Funds (B)	-	5,110,736	5,110,736	5,110,031
2003 B Construction Fund (E)	68,256	-	68,256	667,135
Other Funds	48,986	197,421	246,407	279,734
Total Authority Funds	1,175,338	6,578,980	7,754,318	8,462,256
<b>Board Funds</b>				
Lockbox and other accounts	591,040	-	591,040	216,427
<b>Total</b>	<b>\$ 1,766,378</b>	<b>\$ 6,578,980</b>	<b>\$ 8,345,358</b>	<b>\$ 8,678,683</b>

**(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) 1999 Construction Fund:** This account, which is held by a trustee and provides for the funding of capital expenditures approved under the 1999 SRF Bond issue, was originally funded with approximately \$358,000.

**(D) 2000 Construction Fund:** This account, which is held by a trustee and provides for the funding of capital expenditures approved under the 2000 revenue bond issue, was originally funded with approximately \$3,000,000.

**(E) 2003 Construction Fund:** This account, which is held by a trustee and provides for the funding and reimbursement of capital expenditures approved under the 2003 revenue bond issue, was originally funded with approximately \$20,000,000. The December 31, 2007 balance in this fund will be utilized in 2008 to fund, in part, various system improvements and other capital projects.

**ALBANY WATER BOARD**  
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**NOTE 6 – CONSTRUCTION DEPOSITS**

In July 2001, the Board transferred approximately \$1,843,000 to the New York State Department of Transportation (NYSDOT) for use as a deposit on future construction. This deposit was required in connection with Phase II of the project undertaken to renovate the Pearl Street area of Albany, including water and sewer related renovations for which the Board had primary responsibility. As construction under the Project was completed, this deposit was expected to be used by NYSDOT to pay contractors and other project costs.

At December 31, 2007 and 2006, construction deposits were comprised of the Phase II (2001) deposit and certain accrued interest income which are pending final close-out by NYSDOT.

**NOTE 7 – OTHER ASSETS**

Other assets, which principally relate to capitalized financing costs incurred by the Authority in connection with its 2003 revenue bond issues, are comprised of underwriters discount, bond insurance, and other costs of issuance.

Amortization expense was \$67,712 in each of the years ended December 31, 2007 and 2006.

**NOTE 8 – ACCRUED EXPENSES**

Accrued expenses are comprised of the following:

	<b>December 31,</b>	
	<u>2007</u>	<u>2006</u>
Albany County Sewer Contract obligation (Note 11)	\$ 1,991,395	\$ 2,029,046
Accrued interest on Authority bonds	341,317	344,645
<b>Total</b>	<u>\$ 2,332,712</u>	<u>\$ 2,373,691</u>

**NOTE 9 – OBLIGATIONS TO THE CITY OF ALBANY**

Obligations to the City of Albany are comprised of the following:

	<u>2007</u>	<u>2006</u>
Construction Related Contract Costs And Other Payables	<u>\$ 9,571,413</u>	<u>\$12,018,379</u>

Obligations to the City of Albany include approximately \$917,000 and \$1,719,000 of costs paid by the City subsequent to each year-end at December 31, 2007 and 2006, respectively.

**ALBANY WATER BOARD**  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**  
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**NOTE 10 – 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 rates, which vary according to the employees' date of hire, include normal, administrative, and supplemental pension contributions and prior service costs. At December 31, 2007, substantially all full-time System employees were covered by the ERS.

**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.

**Deferred 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 twenty year period. The Board has recorded these funds as deferred revenue, which is being amortized into revenue over the 20 year term of the agreement.

**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 2006 and, in this regard, no rebate obligation has been identified. Any future amounts to be rebated are not expected to be material in relation to the System's investment income.

**ALBANY WATER BOARD  
ALBANY MUNICIPAL WATER FINANCE AUTHORITY  
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**NOTE 11 – COMMITMENTS AND CONTINGENCIES** *(Continued)*

**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.

**Fund Balance Deficiency**

The Board and Authority have a combined deficit or Fund Balance Deficiency of approximately \$23,100,000 at December 31, 2007. This Fund Balance Deficiency in part relates to approximately \$48,800,000 in accumulated depreciation. In 2006 and 2007 and subsequent to year end in 2008, the Board implemented various rate increases and other revenue enhancement and expense control actions to address the Fund Balance Deficiency.

**Rate Covenant**

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. For the 2007 year, the computed debt coverage ratio approximated 190%.



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**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

We have audited the accompanying combined financial statements of 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, 2007, and have issued our report thereon dated September 12, 2008. We conducted our audit 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.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance And Other Matters**

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

This report is intended solely for the information and use of the Members of Albany Water Board and Albany Municipal Water Finance Authority, the City of Albany, and the Office of the State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

*Teal Becker & Charamonte CPAs P.C.*

Albany, New York  
September 12, 2008