

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER
FINANCE AUTHORITY

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009

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Albany Water Board

Albany Municipal Water Finance Authority

35 Erie Boulevard
Albany, New York 12207
(518) 434-5300

Board Members

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

Authority Members

Gardner D. Lerner, CHAIR
Gardner D. Lerner, VICE CHAIR
Michael Hall, TREASURER
Patricia Shultis, SECRETARY
Michael A. Nardolillo
Jerry Spicer

Management's Discussion and Analysis 2009

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, 2009. 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, 2009 showed continued improvement. The Board and Authority were able to complete several capital projects within budget, while continuing to pay down debt to the City, which has now been eliminated.

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, 2009 and 2008. 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 2009 decreased by approximately \$2,800,000 (or by 8%). Operating revenue was approximately \$640,000 higher than budget. Beginning February 1, 2009, the system rate structure was increased by 7.5% for all users.

Operating Expenses: Operating expenses for 2009 decreased by approximately \$265,000 (or by 1.4%), reflecting decreased costs in many areas of the system's operations. On the water side, 2009 costs were virtually unchanged from 2008. Cost saving measures in the supply, power, and pumping department were used to offset increases in purification, transmission, and taxes. On the sewer side, costs totaled almost \$8 million, which was virtually unchanged from the previous year and approximately \$1,548,000 under budget. Roughly 25% of the under budget amount is due to a lower than expected county sewer bill. Additionally, cost savings were achieved in the contractual services budget code due to many repairs and maintenance being completed by our staff. Taxes paid to municipalities increased by \$50,000 (2.8%). Unexpended vehicle and equipment budgets and unfilled vacant positions also contributed to the cost savings.

Other Revenue and Expense Items: Depreciation and amortization expenses decreased from 2008 to 2009 as some assets related to the acquisition of the system from the city approximately twenty years ago have reached full depreciation. Interest expense decreased by \$324,000, namely due to a mid-year pay off of the Capital Appreciation Bonds.

Assets: Capital assets increased from 2008 to 2009 as the Board and Authority committed approximately \$2.1 million to capital projects in 2009. Cash and investments increased from 2008 to 2009 by approximately \$1,363,000, namely due to increased December collections. Billed receivables increased approximately \$514,000, while unbilled receivables increased about \$127,000. These increases are due primarily to the February, 2009 rate increase. The City owed the Water Board approximately \$627,000 at the end of 2009 due primarily to the November roll of delinquent taxes.

The Board maintains an allowance for doubtful accounts to reflect potentially uncollectible receivables that may not be subject to the City or County's collection procedures. During 2009, the Board increased the allowance to reflect uncertainties associated with property valuations and certain other factors which have been impacted by the current economic environment. The allowance for doubtful accounts, which is reflected as a contra-receivable for financial reporting purposes, for the years ending December 31, 2009 and 2008 was \$3,996,000 and \$600,000, respectively.

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 2009, total bond debt decreased by \$3,598,000 from December 31, 2008 to 2009. Obligations due to the City were eliminated during 2009.

Looking Ahead: A series of rate increases over the past several years have helped the Board close the gap between revenues and expenses, and allowed them to repay funds advanced by the City. In February 2007, the Board implemented a rate increase ranging from 10% to 40% for all system users. In March 2008 and in February 2009, the Board increased rates approximately 6% and 7.5%, respectively, for most users. An additional increase is expected in 2010.

Although facing increased financial obligations, the Board is committed to controlling costs and investigating new potential sources of revenue, including expanded sales of water to neighboring communities. The Board is actively involved in negotiations with the Town of Bethlehem, which would increase our commercial water sales. In addition, proposed expansion of the School of Nanotechnology promises substantial increased water sales as well. As a means of controlling rising energy costs, we are investigating ways to operate more efficiently, providing energy cost savings and reducing our carbon footprint.

The Board also has instituted an aggressive program to reduce flooding in streets, yards, and basements during high precipitation events. In addition to a backwater valve grant program, the Board also is moving ahead with construction on a number of projects designed to reduce flooding, including groundwater recharge basins, expanded underground storage, and better utilization of current storage structures by re-piping.

The Board is continuing to move ahead with Federal water quality requirements at the Loudonville Reservoir, which also will provide increased volumes of purified drinking water in the event of a failure of our main line into the City.

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

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, 2009 and 2008, and the related combined statements of revenues, expenses, and changes in fund balance, and cash flows for the years 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 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 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 audits provide 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, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010 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
June 10, 2010

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED BALANCE SHEETS
December 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Capital Assets, at cost, net of accumulated depreciation	<u>\$ 34,912,322</u>	<u>\$ 36,230,922</u>
Cash and Investments		
Cash and cash equivalents	4,708,370	3,155,765
Investments	<u>6,425,508</u>	<u>6,615,430</u>
Total cash and investments	<u>11,133,878</u>	<u>9,771,195</u>
Receivables (Net)		
Billed	9,782,845	9,269,105
Unbilled	6,092,634	5,965,794
Allowance for Adjustments	(3,996,000)	(600,000)
Due from City	627,292	-
Accrued interest	<u>71</u>	<u>135</u>
Total receivables	<u>12,506,842</u>	<u>14,635,034</u>
Prepaid Expenses	<u>752,082</u>	<u>747,755</u>
Other Assets	<u>1,623,840</u>	<u>1,711,552</u>
	<u>\$ 60,928,964</u>	<u>\$ 63,096,458</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Bonds and notes payable	\$ 68,619,925	\$ 72,217,926
Accrued expenses	2,311,840	2,427,431
Obligations to the City of Albany and Other Gov't Agencies	255,714	2,062,955
Deferred revenue	<u>884,386</u>	<u>984,384</u>
Total liabilities	<u>72,071,865</u>	<u>77,692,696</u>
Fund Balance (Deficiency)		
Invested in capital assets, net of related debt	(33,707,600)	(36,231,207)
Reserve for encumbrances	122,399	-
Unrestricted fund balance	<u>22,442,300</u>	<u>21,634,969</u>
Total fund balance (deficiency)	<u>(11,142,901)</u>	<u>(14,596,238)</u>
	<u>\$ 60,928,964</u>	<u>\$ 63,096,458</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Net Operating Revenues	\$ 31,540,593	\$ 34,373,830
Operating Expenses		
<i>Operation and maintenance of water system:</i>		
Water supply, power and pumping	923,211	1,274,663
Water purification	2,211,631	2,156,025
Water transmission and distribution	3,336,561	3,052,392
Taxes paid to municipalities	1,803,691	1,753,934
<i>Operation and maintenance of sewer system:</i>		
Sewer services	1,726,425	1,435,549
Albany County sewer contract	5,931,193	6,063,304
Sewer pumping stations	441,921	492,750
<i>Administration and general</i>	<u>2,183,222</u>	<u>2,593,755</u>
Total operating expenses	<u>18,557,855</u>	<u>18,822,372</u>
Operating Income, before depreciation and amortization	12,982,738	15,551,458
Depreciation and amortization	<u>(3,219,217)</u>	<u>(3,747,348)</u>
Operating Income	9,763,521	11,804,110
Bad debt expense	(3,396,000)	-
Interest expense	(3,320,798)	(3,644,526)
Interest income	280,505	332,372
Net increase in the fair value of investments	<u>126,109</u>	<u>-</u>
Increase in Fund Balance	3,453,337	8,491,956
Fund Balance (Deficiency), beginning of year	<u>(14,596,238)</u>	<u>(23,088,194)</u>
Fund Balance (Deficiency), End of Year	<u>\$ (11,142,901)</u>	<u>\$ (14,596,238)</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 30,800,015	\$ 32,804,874
Cash payments to suppliers for goods and services	(18,657,774)	(18,321,427)
Net cash provided by operating activities	<u>12,142,241</u>	<u>14,483,447</u>
Cash Flows From Noncapital Financing Activities		
Interest income	280,569	334,532
Interest expense	(3,320,798)	(3,644,526)
Net cash used in noncapital financing activities	<u>(3,040,229)</u>	<u>(3,309,994)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,832,905)	(1,202,000)
Net advances from (payments to) City of Albany and Other Gov't Agencies	(2,434,533)	(7,508,458)
Principal payments on bonds and notes	(3,598,001)	(1,037,158)
Net cash used in capital and related financing activities	<u>(7,865,439)</u>	<u>(9,747,616)</u>
Cash Flows From Investing Activities		
Net (purchases) proceeds from the sale of investments	316,031	(36,450)
Net cash provided by (used in) investing activities	<u>316,031</u>	<u>(36,450)</u>
Net increase in cash and cash equivalents	1,552,604	1,389,387
Cash and cash equivalents, beginning of year	<u>3,155,765</u>	<u>1,766,378</u>
Cash and Cash Equivalents, End Of Year	<u>\$ 4,708,369</u>	<u>\$ 3,155,765</u>
Reconciliation of Operating Income to Net Cash Provided By (Used By) Operating Activities		
Operating income	\$ 9,763,521	\$ 11,804,110
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,151,505	3,679,636
Amortization	67,712	67,712
Changes in:		
Receivables	(640,579)	(1,468,958)
Prepaid expenses	(4,327)	9,286
Construction deposits	-	381,980
Accrued expenses and deferred revenue	(215,591)	(5,281)
Other Assets	20,000	14,962
Total adjustments	<u>2,378,720</u>	<u>2,679,337</u>
Net cash provided by operating activities	<u>\$ 12,142,241</u>	<u>\$ 14,483,447</u>

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

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 amount of \$50,000 in 2009 and \$275,000 in 2008. 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

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

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

believed to be significant relative to the total operations of the System.

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 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.

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, 2009 or 2008.

Unrestricted: This component of fund balance consists of fund balance that does not meet the

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

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

definition of “restricted” or “invested in capital assets, net of related debt.”

Basis of Accounting

The accompanying combined 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	3-10 Years

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

Investments

As further described in Note 3, investments principally consist of obligations of the United States and its agencies, and are carried at fair market value.

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, 2009 reflects billed receivables net of an allowance for potentially uncollectible accounts in the amount of \$3,996,000. 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, 2009 and 2008

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

Allowance For Doubtful Accounts

The Board maintains an allowance for doubtful accounts to reflect potentially uncollectible receivables that may not be subject to the City or County's collection procedures. During 2009, the Board increased the allowance to reflect uncertainties associated with property valuations and certain other factors which have been impacted by the current economic environment. The allowance for doubtful accounts, which is reflected as a contra-receivable for financial reporting purposes, for the years ending December 31, 2009 and 2008 was \$3,996,000 and \$600,000, respectively.

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 6, 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 10, 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.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

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

Operating Revenues

Net operating revenues include all water and sewer user charges billed to customers, including penalties relating to late payments, service income, and connection and repair charges. The System had approximately 29,000 water and sewer customer accounts at December 31, 2009. 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 2009 (see Note 10). Approximately 20% of operating revenues are derived from the System's 40 largest customers, which also include certain inter-municipality agreements.

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.

Risks and Uncertainties

The Board and the Authority invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined balance sheet.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 2 – CAPITAL ASSETS

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

	December 31 2008	Additions	Deletions	December 31 2009
Water supply, distribution and collection systems	\$ 22,170,389	\$ 3,556,456	\$ -	\$ 25,726,845
Water and sewer system capital improvements, equipment, furniture and fixtures	58,246,901	-	(860,064)	57,386,837
Six Mile Waterworks (Rensselaer Lake) ground lease	7,210,000	-	-	7,210,000
Construction in progress	1,125,527	17,838	(881,325)	262,040
	88,752,817	3,574,294	(1,741,389)	90,585,722
Less accumulated depreciation	52,521,895	3,151,505	-	55,673,400
	<u>\$ 36,230,922</u>	<u>\$ 422,789</u>	<u>\$ (1,741,389)</u>	<u>\$ 34,912,322</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), 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 \$3,151,505 and \$3,679,636 for the years ended December 31, 2009 and 2008, respectively.

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 OSC's guidelines.

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

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

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The December 31, 2009 and 2008 cash, cash equivalents, and investments are comprised of the following:

<u>December 31, 2009</u>	<u>Cost</u>	<u>Market</u>
Non-interest bearing accounts		
Cash accounts	\$ 3,042,550	\$ 3,042,550
Interest bearing and money market accounts		
U.S. Treasury Fund money market	<u>1,665,820</u>	<u>1,665,820</u>
	<u>4,708,370</u>	<u>4,708,370</u>
Investments in debt securities		
Financial Guaranty Ins. Co.	1	-
US Certificate of Indebtedness SLGS due 10/15/19	39,751	39,751
Financial Guaranty Ins. Co.	1	-
Federal National Mortgage Association due 06/01/10	57,952	57,965
US Certificate of Indebtedness SLGS due 07/01/16	44,632	44,632
US Certificate of Indebtedness SLGS due 01/15/19	152,789	152,789
Federal Home Loan Bank Discount Note due 05/14/10	5,110,021	5,235,905
Federal National Mortgage Association due 06/01/10	25,978	25,984
Federal National Mortgage Association due 06/01/10	165,861	165,902
Federal National Mortgage Association due 06/01/10	702,413	702,580
	<u>6,299,399</u>	<u>6,425,508</u>
	<u>\$ 11,007,769</u>	<u>\$ 11,133,878</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

December 31, 2008	Cost	Market
Non-interest bearing accounts		
Cash accounts	\$ 1,754,728	\$ 1,754,728
Interest bearing and money market accounts		
U.S. Treasury Fund money market	1,401,037	1,401,037
	<u>3,155,765</u>	<u>3,155,765</u>
Investments in debt securities		
Federal National Mortgage Association due 5/20/09	331,707	331,668
Financial Guaranty Ins. Co.	1	-
Federal National Mortgage Association due 5/20/09	633,440	633,366
US Certificate of Indebtedness SLGS due 10/15/19	39,751	39,751
Financial Guaranty Ins. Co.	1	-
Federal National Mortgage Association due 5/20/09	56,950	56,943
US Certificate of Indebtedness SLGS due 07/01/16	44,631	44,632
US Certificate of Indebtedness SLGS due 01/15/19	152,789	152,789
Federal Home Mortgage Corp. due 03/05/09	835,742	830,180
Federal Home Loan Bank Discount Note due 3/05/09	4,266,642	4,342,566
Federal National Mortgage Association due 5/20/09	21,981	21,978
Federal National Mortgage Association due 5/20/09	165,853	165,834
Federal National Mortgage Association due 5/20/09	65,942	65,934
	<u>6,615,430</u>	<u>6,685,641</u>
	<u>\$ 9,771,195</u>	<u>\$ 9,841,406</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.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

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:

<u>Uses</u>	<u>Amounts</u> <u>(In Thousands)</u>		
	<u>2003-A</u>	<u>2003-B</u>	<u>Total</u>
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	<u>(2,396)</u>	<u>(41)</u>	<u>(2,437)</u>
	<u>\$ 46,745</u>	<u>\$ 23,605</u>	<u>\$ 70,350</u>

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

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amounts</u> <u>(In Thousands)</u>
Serial Bonds/Series A	2.5% 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
			<u>\$ 70,350</u>

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

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

Revenue Bonds *(Continued)*

Interest on both the Serial and Term Bonds is payable semi-annually. 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) were paid in full during 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.

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, 2009 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.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 4 – BONDS AND NOTES PAYABLE (Continued)

State Revolving Fund Notes (Continued)

Principal repayment requirements, as of December 31, 2009, on all outstanding bonds and notes follow:

Year Ending December 31	2003 Series A Bonds	2003 Series B Bonds	1999 EFC Bonds	2003-C EFC Bonds	2003-D EFC Bonds	Total
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	3,405,000	620,000	20,000	65,000	20,000	4,130,000
2014	3,550,000	645,000	20,000	70,000	20,000	4,305,000
2015 - 2019	16,385,000	3,655,000	140,000	390,000	100,000	20,670,000
2020 - 2024	9,455,000	3,590,000	-	490,000	120,000	13,655,000
2025 - 2029	-	-	-	470,000	100,000	570,000
2030 - 2033	-	12,815,000	-	-	-	12,815,000
Totals	41,725,000	23,065,000	240,000	1,680,000	405,000	67,115,000
Plus unaccrued original issue premium	1,504,925	-	-	-	-	1,504,925
Net bonds and notes payable	<u>\$ 43,229,925</u>	<u>\$ 23,065,000</u>	<u>\$ 240,000</u>	<u>\$ 1,680,000</u>	<u>\$ 405,000</u>	<u>\$ 68,619,925</u>

Interest repayment requirements as of December 31, 2009, on all outstanding bonds and notes are as follows:

2010	\$ 3,371,641
2011	3,221,072
2012	3,040,206
2013	2,849,742
2014	2,649,314
2015-2019	9,999,096
2020-2024	5,267,413
2025-2029	3,281,566
2030-2033	<u>2,563,000</u>
Total	<u>\$ 36,243,050</u>

Interest expense was \$3,320,798 and \$3,644,526 for the years ended December 31, 2009 and 2008, respectively, inclusive of increases to Capital Appreciation Bond interest accruals of approximately \$-0- and \$12,900 in 2009 and 2008, respectively.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 5 – RESTRICTIONS ON CASH AND INVESTMENTS

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

	December 31, 2009			December 31,
	Cash and Cash Equivalents	Investments	Total	2008 Total
Authority Funds				
1993 Debt Service Fund (A)	\$ 420	\$ -	\$ 420	\$ 331,781
1993 Debt Service Reserve Fund (B)	-	-	-	634,215
1993 Bond Redemption Fund	38,659	-	38,659	38,652
1999 Debt Service Reserve Fund (B)	22,811	39,751	62,562	60,540
2000 Construction Fund (C)	16,084	-	16,084	16,065
2003 Debt Service Fund (A)	1,200	702,580	703,780	66,877
2003-C EFC Debt Service Reserve Fund (B)	1,517,470	-	1,517,470	1,263,898
2003-C EFC Debt Service Reserve Fund (B)	358	25,984	26,342	22,179
2003-C EFC Debt Service Fund (A)	64	57,965	58,029	57,902
2003 A Debt Service Fund (A)	366	165,902	166,268	165,932
2003 A/B Debt Service Reserve Funds (B)	-	5,235,905	5,235,905	5,102,384
Other Funds	68,388	197,421	265,809	256,040
Total Authority Funds	<u>1,665,820</u>	<u>6,425,508</u>	<u>8,091,328</u>	<u>8,016,465</u>
Board Funds				
Operation and Maintenance Reserve Fund	-	-	-	-
Lockbox and other accounts	3,042,550	-	3,042,550	1,754,730
	<u>\$ 4,708,370</u>	<u>\$ 6,425,508</u>	<u>\$ 11,133,878</u>	<u>\$ 9,771,195</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) 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.

ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 6 – 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, 2009 and 2008.

NOTE 7 – ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	December 31,	
	2009	2008
Albany County Sewer Contract obligation (Note 11)	\$ 1,986,079	\$ 2,088,828
Accrued interest on Authority bonds	325,761	338,603
	<u>\$ 2,311,840</u>	<u>\$ 2,427,431</u>

NOTE 8 – OBLIGATIONS TO THE CITY OF ALBANY AND OTHER GOV'T AGENCIES

Obligations to or from the City of Albany or other Government agencies are comprised of the following:

	2009	2008
(Payables)/receivables with the City of Albany	\$ 627,292	\$ (2,062,955)
Construction related contract costs and other payables/receivables	<u>(255,714)</u>	<u>-</u>
Totals	<u>\$ 371,578</u>	<u>\$ (2,062,955)</u>

Obligations to the City of Albany include approximately \$1,384,000 and \$1,291,000 of costs paid by the City subsequent to each year-end at December 31, 2009 and 2008, respectively.

**ALBANY WATER BOARD
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 9 – RETIREMENT PLAN

Plan Description

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

Funding Requirements

The System, through the City, is required to contribute annually to ERS based on a percentage of payrolls. The rates, which vary according to the employees' date of hire, include normal, administrative, and supplemental pension contributions and prior service costs. At December 31, 2009, substantially all full-time System employees were covered by the ERS.

NOTE 10 – 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 2008 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
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 10 – 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 \$7,300,000 at December 31, 2009. This Fund Balance Deficiency in part relates to approximately \$55,700,000 in accumulated depreciation. In 2006, 2007, 2008, and 2009, 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 2009 year, the computed debt coverage ratio approximated 142%.

**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, 2009, and have issued our report thereon dated June xx, 2010. 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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis.

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

Albany Water Board
Albany Municipal Water Finance Authority
Page Two

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.

Albany, New York
June 10, 2010