

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER
FINANCE AUTHORITY
(A Discretely Presented Component Unit
of the City of Albany, New York)

Financial Statements and
Independent Auditors' Report

December 31, 2023

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Albany Water Board and Albany Municipal Water Finance Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Albany Water Board and Albany Municipal Water Finance Authority (the System), a discretely presented component unit of the City of Albany, New York, as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of December 31, 2023, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 11 to the financial statements, restatements of the prior year financial statements were made during the year ended December 31, 2023. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 10, 2024

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Management's Discussion and Analysis

December 31, 2023

The Albany Water Board and Albany Municipal Water Finance Authority (the System) is a not-for-profit public benefit corporation that reliably provides quality, affordable water that fosters economic vitality and enhanced quality of life for the City of Albany, New York (the City) and area communities who request service. The System is a discretely presented component unit of the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the System include the Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position, the Statement of Cash Flows, and related notes to financial statements. The Statement of Net Position provides information about the nature and the amounts of investments and resources (assets), and the obligations to the System's creditors (liabilities), with the difference between these reported as net position.

The Statement of Revenue, Expenses and Changes in Net Position shows how the System's net position changed during the year. It accounts for all the year's revenue and expenses, measures the financial results of the System's operations for the year and can be used to determine how the System has funded its costs.

The Statement of Cash Flows provides information about the System's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities.

The notes to financial statements contain information that is essential to the understanding of the financial statements, such as the System's accounting methods and policies.

Management provides the following discussion and analysis of the System's financial position and activities. This overview is provided for the year ended December 31, 2023. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

FINANCIAL HIGHLIGHTS

The System's financial statements are prepared on the accrual basis of accounting promulgated by the Governmental Accounting Standards Board. The System is a single-purpose entity and revenue is recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

- The assets of the System exceeded its liabilities at the close of 2023 and 2022 by \$70,529,860 and \$69,551,576, respectively, (net position).

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

- The System made corrections of errors to certain December 31, 2022 balances.
- Operating revenue increased \$2,677,849 from 2022 to 2023. The increase is due to rate increases.

Summary of Operations and Change in Net Position

	<u>2023</u>	<u>2022*</u>
Operating revenue	\$ 37,272,318	34,549,469
Operating expenses	(36,945,416)	(35,364,171)
Operating income (loss)	326,902	(814,702)
Nonoperating expenses, net	(207,954)	(1,213,768)
Other additions, net	<u>859,336</u>	<u>6,641,062</u>
Change in net position	\$ <u><u>978,284</u></u>	<u><u>4,612,652</u></u>

*2022 balances were not restated for the Statement of Revenue, Expenses and Changes in Net Position, as it could not be ascertained which period the errors originated from.

Financial Position Summary

Net position is an indication of the System's financial strength. The System's net position as of December 31, 2023 and 2022 is \$70,529,860 and \$69,551,576, respectively. A summary of the System's financial position is shown below.

	<u>2023</u>	<u>2022*</u>
Assets:		
Current assets	\$ 42,587,656	47,577,453
Capital assets	132,835,170	117,615,184
Funds held by Trustee	<u>7,251,887</u>	<u>17,249,570</u>
Total assets	<u><u>182,674,713</u></u>	<u><u>182,442,207</u></u>
Liabilities:		
Current liabilities, including current portion of long-term	20,891,990	23,335,799
Long-term liabilities	<u>91,252,863</u>	<u>89,248,203</u>
Total liabilities	<u><u>112,144,853</u></u>	<u><u>112,584,002</u></u>
Deferred Inflows of Resources	<u>-</u>	<u>306,629</u>

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

	<u>2023</u>	<u>2022*</u>
Net Position:		
Net investment in capital assets	\$ 39,381,575	30,126,390
Unrestricted	<u>31,148,285</u>	<u>39,425,186</u>
Total net position	<u>\$ 70,529,860</u>	<u>69,551,576</u>

*Restated for corrections of errors.

Total assets increased from December 31, 2022 to 2023 by \$232,506 due to capital asset additions offset by depreciation expense as well as spending down the funds held by trustee.

Total liabilities decreased by \$439,149 in 2023 due primarily to timing in cash disbursements for accounts payable.

Revenue

Water sales for 2023 and 2022 were projected based on average historical usage. The 2023 water sales, which include the residential, large commercial and water district classes, were \$2,677,849 more than those of 2022.

Interest income increased \$347,835 due to higher interest rates. Capital grants decreased \$574,696 due to less grants received from the New York State Environmental Facilities Corporation (EFC).

Operating Expenses

The following is a breakdown of the System's total operating expenses:

	<u>2023</u>	<u>2022*</u>
Operating expenses:		
Maintenance and operation of water system	\$ 12,082,932	11,646,030
Maintenance and operating of sewer system	9,077,341	9,072,798
Administrative and general	6,396,157	6,251,586
Administrative fee, City of Albany	894,000	961,000
Depreciation and amortization	<u>8,494,986</u>	<u>7,432,757</u>
Total operating expenses	<u>\$ 36,945,416</u>	<u>35,364,171</u>

*2022 balances were not restated for the Statement of Revenue, Expenses and Change in Net Position, as it could not be ascertained which period the errors originated from.

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Management's Discussion and Analysis, Continued

Total operating expenses increased \$1,581,245 from 2022. The largest increase was depreciation and amortization of \$1,062,229 due to an increase in capital assets being depreciated. Other areas increased due to an increase in the cost of good and service.

Nonoperating Revenue (Expenses)

The System's nonoperating revenue (expenses) is composed of the following:

	<u>2023</u>	<u>2022</u>
Nonoperating revenue (expenses):		
Interest expense	\$ (1,047,581)	(1,083,626)
Interest income	624,916	277,081
Realized and unrealized gain (loss) on investments, net	<u>214,711</u>	<u>(407,163)</u>
Total nonoperating revenue (expenses), net	\$ <u>(207,954)</u>	<u>(1,213,708)</u>

Interest income and realized/unrealized gains increased in 2023 due to an increase in interest rates.

CAPITAL ASSETS

At the end of 2023 and 2022, the System had \$132,835,170 and \$117,615,184, respectively, invested in a broad range of capital assets (see table below).

	<u>2023</u>	<u>2022*</u>
Land	\$ 19,680	19,680
Water supply, distribution and collection systems	57,089,860	44,419,253
Water and sewer system, capital improvement, equipment, furniture and fixtures, and vehicles	182,331,641	171,287,276
Right-to-use property rights	4,468,333	4,468,333
Right-to-use equipment	276,565	276,565
Accumulated depreciation/amortization	<u>(111,350,909)</u>	<u>(102,855,923)</u>
	\$ <u>132,835,170</u>	<u>117,615,184</u>

*Restated for corrections of errors.

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

DEBT ADMINISTRATION

As of December 31, 2023 and 2022, the System has bonds, notes and an intermunicipal agreement (IMA) outstanding totaling, \$88,347,417 and \$86,427,906, respectively.

	Outstanding as of December <u>2023</u>	Outstanding as of December <u>2022</u>	Principal Due <u>2024</u>
<u>Authority Bond Series</u>			
General revenue bonds	\$ 30,295,000	31,230,000	935,000
EFC revenue bonds	24,314,549	12,878,639	855,259
EFC notes	31,423,282	39,897,218	-
IMA agreement	<u>2,314,586</u>	<u>2,422,049</u>	<u>109,452</u>
Total	\$ <u>88,347,417</u>	<u>86,427,906</u>	<u>1,899,711</u>

All EFC notes are considered long-term as there are no set repayment terms.

ECONOMIC FACTORS AND NEXT YEAR'S GOALS

The Albany Water Board (the Board) and the Albany Municipal Water Finance Authority (the Authority) are governed by five and seven member boards, respectively. The Boards have adopted certain policies as required under the Public Authorities Accountability Act ("PAAA") of 2005 and the Public Authorities Reform Act ("PARA") of 2009, enhancing transparency and embracing best governance practices.

The Board's Finance Committee meets on a quarterly basis to provide enhanced project and transactional analysis. On a monthly basis, the Board meets to discuss infrastructure needs, project activity and progress, approves contracts, considers rate adjustments, and financial performance. The Authority meets quarterly to discuss the System's financial position, borrowing needs, and to ensure the System's rate structure is adequate to ensure compliance with applicable covenants. In addition, the Board's Audit Committee and the Authority, independently meet with the external auditors to discuss the results of the annual independent audit, and relevant issues.

In summary, the year ended December 31, 2023, reflected generally positive operational and financial results while recognizing significant revenue and expense pressure with continued rising costs and anticipated capital project needs.

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Management's Discussion and Analysis, Continued

Accomplishments

In 2023, the System continued to invest in both its capital assets and maintenance initiatives including:

- Approaching completion of the new Beaver Creek Clean River Project Satellite Treatment Facility.
- Continued the Lead Service Replacement Program: published an online lead inventory, \$300,000 in homeowner grants, 400+ lead service replacements.
- Completed 5-year update to our Emergency Response Plan.
- Lined over 12,000 linear feet (2.3 miles) of sewer system.
- Cleaned over 350,000 linear feet (66 miles) of sewer system.
- Performed leak detection on over 450 blocks, 275,000 feet (52 miles) of water distribution system.
- Inspected and tested over 600 fire hydrants.
- Compliant with all MS4 permit requirements (catch basin cleaning, facility audits, ORIs, Community Education).
- Completed large-scale treatment plant improvements for consistently providing superior quality drinking water.
- Completed Northern Boulevard and Marlborough Court Pump station upgrades and installations.
- Completed construction of new office and garages at Alcove Reservoir.
- Completed replacement of ultraviolet light disinfection reactors at the Loudonville Reservoir.
- Deployed electric vehicles in our water metering and engineering units.
- "Spring to Spigot" video released, highlighting a drop of water's journey through the Albany Water system from the source-waters near Alcove Reservoir into the City, and the drop's treatment and re-release into the water cycle.
- Implemented Hemlock bio-control release control of Hemlock Woolly Adelgid on Alcove Reservoir forestlands in collaboration with Cornell University and Capital Region PRISM.
- Completed a third-party audit of forest carbon inventory on Albany Water Board forestlands.
- Compliance with the United States Department of Environmental Protection Agency Region 2 Audit of our water treatment facility operations.

Technology

During 2023, the System continued to work on specific projects aimed at technologically advancing our treatment processes throughout the Water Treatment and Wastewater Collections divisions. These projects not only create efficiency in our process and task load but also optimize chemical use and power consumption. In addition, through comprehensive capital project planning, we are able to attach many of the larger control systems upgrades and perform large scale control systemic transitions to our larger capital construction projects. Strategically planning and implementing projects through this methodology saves time and money as control system transition requires focused coordination to execute.

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

Current initiatives include:

- Ignition upgrades to the Vision platform and then to Perspective.
- Above Ground Vault and Control System rebuild at Albany High School (Opti).
- New Control Panel Build and Installation at Harriman Pump Station (Plant PAX)
- Purchase and begin installation of new UV Reactors at Loudonville Reservoir.
- Begin new Control System Upgrades at Loudonville Reservoir and Transition to Plant PAX.
- Turn up of SCADA Sodium Permanganate at the Alcove Reservoir.
- Installation of Process Control Panel #1 at Feura Bush and Transition from Wonderware to Plant PAX SCADA.

Capital Projects and Infrastructure

During 2023, the System added over \$23 million in depreciable capital assets to the System.

A major component of those capital expenditures is from the Long-Term Control Plan (LTCP). The mission of the LTCP is to improve water quality of the Hudson River and meet water quality standards. The LTCP is administered by six communities, the cities of Albany, Troy, Cohoes, Rensselaer, Watervliet and the Village of Green Island, as well as two County Sewer Districts. The total combined investment from these communities is estimated to be \$130 million, consisting of more than 65 projects, of which, the System is responsible for 58.68% of total costs.

In 2023, the System invested approximately \$10 million into the Long-Term Control Plan. Of which, approximately \$6 million is the responsibility of the System and the remaining \$4 million is the responsibility of the other participating communities. Conversely, Albany is responsible for approximately 59% of costs for LTCP incurred by the other communities. As of December 31, 2023, Albany is in a net position of owing approximately \$2.9 million, due to other municipalities less due from other municipalities, to the other communities.

The most significant drivers of this spending is the result of construction on major projects scheduled as part of the LTCP. In 2021, the System broke ground on the Beaver Creek Clean River Project Satellite Treatment Facility. Construction for this project is expected to be completed in early to middle of 2024. The purpose of this project is to treat up to 100 million gallons per day of combined sewage by screening and disinfection, thus improving the overall quality of the Hudson River. The total project is estimated to cost \$55 million. The project is broken up into 5 phases that are mostly complete through Phase 4. The project began with Phase 1, the Third Avenue connection to County interceptor, Phase 2, the new screens at South Wastewater Treatment Facility, Phase 2a, Phase 3, the diversion tunnel to the satellite treatment facility, Phase 4, the tunnel to Third Avenue from the satellite treatment facility, and Phase 5, the construction of the satellite treatment facility, began in 2021 and currently in progress nearing completion in 2024.

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

Since 2014, the System has invested over \$142 million in improvements to our infrastructure. In 2023, the Albany Water Board made over \$23 million in capital improvements to all facets of our water and sewer systems. These projects were financed through the New York State Drinking Water Revolving Fund, including \$1.1 million in grant funds.

Major Maintenance Activities

In addition to the large investment in capital projects and infrastructure, the System was actively performing preventative maintenance on existing System infrastructure and assets. Such preventative maintenance activities assist with reducing water and sewer main breaks or other disruptions to the System.

These types of activities are now performed annually and have been made a part of the System's Asset Management Plan.

The Community

In terms of public health, the System implemented a lead service line replacement grant program. This was the next step in the System's "Get the Lead Out" plan, which aims to replace all lead service lines in residential homes by 2035. The grant program assists residential property owners who replace either half or full lead water line with either a \$1,000 reimbursement for half service replacement and \$2,000 reimbursement for full service replacement.

The Albany Water Board is committed to replacing every lead water service in the City of Albany. The System will continue to expand our public education and outreach to customers emphasizing lead in drinking water.

Sustainability

Sustainability is a Core Value of the Albany Water Board and the Department of Water & Water Supply, and the System take our responsibility as stewards of the City's water resources very seriously. In 2023, the System continued to benefit from a permanent Conservation Easement with The Mohawk Hudson Land Conservancy to ensure long-term conservation of our valuable watershed properties.

Looking Ahead

The System is focused on managing a balanced budget for 2024, continuing to improve the water and sewer infrastructure, controlling operating expenses, and minimizing the impact of future system rate structure changes on City residents.

ALBANY WATER BOARD AND
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Management's Discussion and Analysis, Continued

To this end, over the past 28 years, the System has expended over \$187 million to fund capital projects. The System also continues to seek potential water sales to other municipalities and new commercial customers.

The System continues to make investments in sustainability, water quality, and source protection. Major initiatives in progress for 2024 include:

- Meet all required compliance dates for the LTCP Order on Consent, including completion of the Beaver Creek Clean River Project.
- Replace 1,000 lead water service lines and promote Lead Water Service Replacement Grant Program.
- Continued improvements to the combined sewer and stormwater systems to reduce overflows to the Hudson River.
- Complete the Tide gate replacement project.
- Expand the Preventive Maintenance Cleaning of Sewer Lines to over 400,000 feet (75 miles) of sewer; and Camera Inspection of sewers to over 65,000+ feet (12 miles) of sewer.
- Expand leak detection program to include real-time fixed location leak detection monitors. Perform traditional leak detection program with data loggers on over 500 blocks, 270,000+ (50 miles) feet of water distribution system.
- Test and inspect over 600 fire hydrants.
- Continue to invest and expand procurement in alternative fuel vehicles to reduce carbon emissions.
- Implement an Inventory Management Solution that interfaces with Utility Cloud.
- Explore opportunities for new inter-municipal sales and wholesale water sales.
- Collaborate with Capitalize Albany to market City of Albany with our abundant and high-quality water supply.

The System will continue to make investments in technology in order to ensure the System is operating effectively. The System is beginning process to establish inventory and asset control systems to adequately track, value, and assess System needs. This will enhance transparency and provide tools for making better financial decisions going forward.

Effective January 1, 2024, the System raised water and sewer rates by 10%. This is an effort to maintain adequate cash flow while embarking on large infrastructure projects that improve the quality of life in the City of Albany. This is the sixth consecutive year of rate increases, with 2023 seeing a 5% rate increase. As the System continues to make investments in the City's aging sewer infrastructure as part of the LTCP, the total cost to operate and maintain the System will continue to increase. The Board and the Authority will continue to monitor these costs and assess the need for further rate increases in 2025 and beyond.

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Management's Discussion and Analysis, Continued

All of these actions, along with an ongoing commitment to maintain an adequate security environment, underscore the Board and Authority's commitment to improving System's infrastructure through major capital expenditure spending in future years. Working in concert with the City, the System remains committed to its primary mission: to ensure System users have access to a clean, safe, plentiful, and low cost water supply for many generations.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Chief Executive Officer, Albany Water Board and Albany Municipal Water Finance Authority, 10 Enterprise Drive, Albany, New York, 12204 or call (518) 434-5300.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)
Statement of Net Position
December 31, 2023

<u>Assets</u>	
Current assets:	
Cash and equivalents	\$ 12,261,193
Investments	17,829,631
Accounts receivable, net	9,158,232
Due from other municipalities	2,478,565
Prepaid expenses	<u>860,035</u>
Total current assets	<u>42,587,656</u>
Noncurrent assets:	
Capital assets	132,835,170
Cash and equivalents - held by trustee	<u>7,251,887</u>
Total noncurrent assets	<u>140,087,057</u>
Total assets	<u>182,674,713</u>

See accompanying notes to financial statements.

ALBANY WATER BOARD AND
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Statement of Net Position, Continued

Liabilities

Current liabilities:

Accounts payable	\$ 6,173,644
Accrued expenses	2,633,627
Due to City of Albany	433,570
Due to other municipalities	5,400,417
Line of credit	4,050,000
Bonds and capital notes, current	1,899,711
Leases payable, current	55,285
Premium bonds, current	<u>245,736</u>

Total current liabilities	<u>20,891,990</u>
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Noncurrent liabilities:

Bonds and capital notes, net of current portion	86,447,706
Leases payable, net of current portion	152,461
Premium on bonds, net of current portion	<u>4,652,696</u>

Total noncurrent liabilities	<u>91,252,863</u>
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Total liabilities	<u>112,144,853</u>
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Net Position

Net investment in capital assets	39,381,575
Unrestricted	<u>31,148,285</u>

Total net position	<u><u>\$ 70,529,860</u></u>
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See accompanying notes to financial statements.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)
Statement of Revenue, Expenses and Changes in Net Position
Year ended December 31, 2023

Net operating revenue	<u>\$ 37,272,318</u>
Operating expenses:	
Maintenance and operation of water system:	
Water supply, power and pumping	1,816,883
Water purification	3,562,715
Water transmission and distribution	5,032,340
Taxes paid to municipalities	1,670,994
Maintenance and operation of sewer system:	
Sewer services	1,470,474
Albany County sewer contract	7,006,675
Sewer pumping stations	600,192
Depreciation	8,299,347
Amortization	195,639
Administration and general	6,396,157
Administrative fee, City of Albany	<u>894,000</u>
Total operating expenses	<u>36,945,416</u>
Total operating income	<u>326,902</u>
Nonoperating revenue (expenses):	
Interest expense	(1,047,581)
Interest income	624,916
Unrealized gain on investments	<u>214,711</u>
Total nonoperating revenue (expenses)	<u>(207,954)</u>
Other additions and deductions:	
LTCP capital contributions to/from other municipalities, net	(748,466)
Capital grants	<u>1,607,802</u>
Total other additions and deductions	<u>859,336</u>
Change in net position	<u>978,284</u>
Net position at beginning of year, before restatement	96,240,711
Correction of errors (note 11)	<u>(26,689,135)</u>
Net position at beginning of year, as restated	<u>69,551,576</u>
Net position at end of year	<u><u>\$ 70,529,860</u></u>

See accompanying notes to financial statements.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)
Statement of Cash Flows
Year ended December 31, 2023

Cash flows from operating activities:	
Received from customers	\$ 38,888,345
Payments to City	(13,552,891)
Payments to suppliers	<u>(16,867,998)</u>
Net cash provided by operating activities	<u>8,467,456</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(23,714,972)
Proceeds from the issuance of long-term debt	15,006,020
Principal payments on bonds and notes	(13,086,509)
Cash from other municipalities	4,550,265
Payments on leases	(54,840)
Bond premium amortization	(245,736)
Interest paid	(1,047,581)
Receipt of LTCP capital contributions	(748,466)
Receipt of capital grant funds	<u>1,607,802</u>
Net cash used in capital and related financing activities	<u>(17,734,017)</u>
Cash flows from investing activities:	
Purchase of investments	(4,301,200)
Unrealized gain on investments	214,711
Interest income	<u>624,916</u>
Net cash used in investing activities	<u>(3,461,573)</u>
Change in cash and equivalents	(12,728,134)
Cash and equivalents at beginning of year	<u>32,241,214</u>
Cash and equivalents at end of year	<u><u>\$ 19,513,080</u></u>

See accompanying notes to financial statements.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)
Statement of Cash Flows, Continued

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 326,902
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	8,299,347
Amortization expense	195,639
Changes in:	
Accounts receivable, net	1,815,141
Prepaid expenses	161,741
Leases receivable	107,515
Accounts payable	(3,135,198)
Accrued expenses	157,110
Due to City of Albany	845,888
Deferred inflows of resources - leases	(106,629)
Deferred inflows of resources - sales	<u>(200,000)</u>
Net cash provided by operating activities	<u>\$ 8,467,456</u>

See accompanying notes to financial statements.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements

December 31, 2023

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The financial statements of the Albany Water Board and Albany Municipal Water Finance Authority (the System) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The System provides water supply and distribution, and the collection and disposal of sewage, primarily for the City of Albany, New York (the City). The System 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 unit of the City and, as such, is included in the City's financial statements.

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

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

The Board is a party to an operating agreement with the City whereby the City provides the Board with certain management 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 operational, maintenance, payroll, and payroll related costs of the Board.

The City, the Board, and the Authority are parties to a financing agreement which, in 1988, 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 requires the Board to provide for the monthly transfer of revenue to the Authority for debt service payments, and stipulates other administrative requirements for the Board, Authority, and City. The financing agreement also requires the Board to prepare an annual budget for the funding of debt service costs of the Authority and the operation and maintenance costs of the System.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement Focus and Basis of Accounting

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The activities of the System are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, revenue, and expenses are accounted for through a single enterprise fund with revenue recorded when earned and expenses recorded at the time liabilities are incurred.

(c) Basis of Presentation

GASB requires the classification of net position into three categories defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted net position - This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - This component consists of net position that does not meet the definition of “net investment in capital assets” or “restricted.”

When both restricted and unrestricted resources are available for use, it is the System’s policy to use restricted resources first, and then unrestricted resources as they are needed.

(d) Bond Resolutions

The System has entered into six water and sewer system general revenue bond resolutions: the 1988 general revenue bond resolution, the 2003 second general revenue bond resolution, the 2011 third general revenue bond resolution, the 2012 fourth general revenue bond resolution, the 2020 fifth general revenue bond resolution, and the 2021 sixth general revenue bond resolution. These resolutions provide that the System pledge, for the payment of the bonds, all System revenue, 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 System's rights and interests relative to the collection of revenue and the payment of debt service to an authorized trustee.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Cash and Equivalents

For purposes of presenting the statement of cash flows, the System considers all highly liquid short-term investments with an original maturity of three months or less from date of purchase to be cash or cash equivalents.

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the assets or liabilities; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The System assess the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Accounts Receivable

Accounts receivable consists of fees for services for water charges due from individuals, businesses, and other governments. Accounts receivable are carried on the balance sheet at net realizable value. The System has elected to record bad debts using the direct write-off method. GAAP requires the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

(h) Capital Assets

Capital assets are recorded at cost. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives or lease term if shorter:

	<u>Lives</u>
Buildings	20 - 40 years
Improvements	5 - 50 years
Furniture and equipment	3 - 10 years
Right-to-use assets	3 - 30 years

(i) Accrued Unbilled Revenue

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management using historical trends.

(j) Revenue Recognition

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings.

(k) Operating and Nonoperating Revenue and Expenses

Operating revenue consists of water revenue and other related revenue. The System defines nonoperating revenue as interest earnings on investment assets and realized and unrealized gains or losses on sales of investments. Non-operating expenses are defined as interest expense and other costs related to issuance of long-term debt and gains and losses on disposals of capital assets.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) Employee Benefits

Certain employee benefit plans are provided by the City for System employees. Pursuant to collective bargaining agreements, they may accumulate 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 and Local Employees' Retirement System, a multi-employer defined benefit pension plan. Under the operation agreement, all employee benefits are recorded in the financial statements at the time they are incurred. Substantially all System employees may become eligible for post-retirement health care benefits. The cost of providing the post-retirement health care benefits are paid by the City and are not charged to the System under the operations agreement. The City recognizes in its financial statements the long-term liabilities of such employee benefits.

(m) Unamortized Bond Premium

Bond premium related to the issuance of debt obligations is amortized over the term of the respective bond issues.

(n) Subsequent Events

The System has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(o) Accounting Standards Issued But Not Yet Implemented

GASB has issued the following pronouncements which will be implemented in the years required. The effects of the implementation of these pronouncements are not known at this time.

Statement No. 99 - Omnibus 2022. Effective for various periods through fiscal years beginning after June 15, 2023.

Statement No. 102 - Certain Risk Disclosures. Effective for fiscal years beginning after June 15, 2024.

Statement No. 103 - Financial Reporting Model Improvements. Effective for fiscal years beginning after June 15, 2025.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(2) Deposits With Financial Institutions and Investments

The guidelines established by the System permit the investment of funds held by the System, and funds held in trust for the System, to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State, or in general obligations of its political subdivisions; obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposit issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The System's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificates of deposit, United States Government obligations and repurchase agreements.

The System's investment policy requires its deposits and investments, not controlled by the Trustee, to be 100% collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State. Collateral must be delivered to the System or an authorized custodial bank. In addition, the System's investment policy includes the following provisions for credit risk and custodial credit risk (as defined below):

- Custodial credit risk - For cash deposits or investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.
- Credit risk - For cash deposits or investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Total deposits of cash and equivalents and related collateral, included in cash and equivalents, not controlled by the Trustee, is as follows as of December 31, 2023:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 11,545,867	11,545,867
Time deposits	<u>715,326</u>	<u>715,326</u>
Total cash and investments	\$ <u>12,261,193</u>	<u>12,261,193</u>
Insured cash - FDIC		\$ 500,000
Uninsured - collateralized with securities held by pledging financial institution		<u>11,761,193</u>
Total insured and collateralized cash and equivalents		\$ <u>12,261,193</u>

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(2) Deposits With Financial Institutions and Investments, Continued

All investments are held with Wilmington Trust and are considered level 1 investments. The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(3) Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

	Balance at <u>January 1, 2023*</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>December 31, 2023</u>
Capital assets not being depreciated/amortized - land	\$ 19,680	-	-	19,680
Capital assets being depreciated/amortized:				
Water supply, distribution and collection systems	44,419,253	12,670,607	-	57,089,860
Water and sewer system, capital improvements, equipment, furniture and fixtures, and vehicles	171,287,276	11,044,365	-	182,331,641
Right-to-use property rights	4,468,333	-	-	4,468,333
Right-to-use equipment	276,565	-	-	276,565
Total capital assets being depreciated/ amortized	<u>220,451,427</u>	<u>23,714,972</u>	-	<u>244,166,399</u>
Less accumulated depreciation/amortization:				
Water supply, distribution and collection systems	25,652,016	86,792	-	25,738,808
Water and sewer system, capital improvements, equipment, furniture and fixtures, and vehicles	76,909,957	8,212,555	-	85,122,512
Right-to-use property rights	279,270	139,635	-	418,905
Right-to-use equipment	14,680	56,004	-	70,684
Total accumulated depreciation/amortization	<u>102,855,923</u>	<u>8,494,986</u>	-	<u>111,350,909</u>
Total capital assets being depreciated/ amortization, net	<u>117,595,504</u>	<u>15,219,986</u>	-	<u>132,815,490</u>
Capital assets, net	<u>\$117,615,184</u>	<u>15,219,986</u>	-	<u>132,835,170</u>

*Restated for correction of errors.

(4) Right-to-Use Assets

The System leases property rights and equipment. At December 31, 2023 the System has a lease payable of \$207,746 for the equipment. The property rights were fully paid at the inception of the lease. The right-to-use assets are being amortized on the straight-line method throughout the life of the leases.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(4) Right-to-Use Assets, Continued

The following is the amortization schedule of the leases payable:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 55,285	3,754	59,039
2025	52,813	2,638	55,451
2026	53,906	1,545	55,451
2027	<u>45,742</u>	<u>449</u>	<u>46,191</u>
	\$ <u>207,746</u>	<u>8,386</u>	<u>216,132</u>

(5) Long-Term Liabilities

Long-term liability balances and activity for the year ended December 31, 2023 was as follows:

	<u>Balance at</u> <u>January 1, 2023*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>December 31, 2023</u>	<u>Due within</u> <u>one year</u>
General revenue bonds:					
Series 2021-A	\$ 20,520,000	-	-	20,520,000	-
Series 2021-B	<u>10,710,000</u>	<u>-</u>	<u>935,000</u>	<u>9,775,000</u>	<u>935,000</u>
Total general revenue bonds	<u>31,230,000</u>	<u>-</u>	<u>935,000</u>	<u>30,295,000</u>	<u>935,000</u>
EFC revenue bonds:					
Series 2012-B	790,000	-	790,000	-	-
Series 2020-B	545,000	-	15,000	530,000	15,000
Series 2021	7,283,061	-	208,061	7,075,000	200,000
Series 2022-A	4,260,578	-	146,918	4,113,660	146,918
Series 2023	<u>-</u>	<u>12,899,015</u>	<u>303,126</u>	<u>12,595,889</u>	<u>493,341</u>
Total EFC revenue bonds	<u>12,878,639</u>	<u>12,899,015</u>	<u>1,463,105</u>	<u>24,314,549</u>	<u>855,259</u>
EFC notes:					
Series 2017-A	4,781,786	-	4,781,786	-	-
Series 2018-A	4,155,970	-	4,155,970	-	-
Series 2018-B	1,162,750	1,988,358	-	3,151,108	-
Series 2020-C	6,327,646	118,647	-	6,446,293	-
Series 2020	<u>23,469,066</u>	<u>-</u>	<u>1,643,185</u>	<u>21,825,881</u>	<u>-</u>
Total EFC notes**	<u>39,897,218</u>	<u>2,107,005</u>	<u>10,580,941</u>	<u>31,423,282</u>	<u>-</u>
LTCP - IMA debt	<u>2,422,049</u>	<u>-</u>	<u>107,463</u>	<u>2,314,586</u>	<u>109,452</u>
Total bonds and notes payable	86,427,906	15,006,020	13,086,509	88,347,417	1,899,711
Unamortized bond premium	5,144,168	-	245,736	4,898,432	245,736
Lease obligations	<u>262,586</u>	<u>-</u>	<u>54,840</u>	<u>207,746</u>	<u>55,285</u>
Total long-term liabilities	<u>\$ 91,834,660</u>	<u>15,006,020</u>	<u>13,387,085</u>	<u>93,453,595</u>	<u>2,200,732</u>

*Restated for correction of errors.

**EFC notes are considered long-term as there are no repayment terms available.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(5) Long-Term Liabilities, Continued

(a) Revenue Bonds

During February 2021, the System issued \$20,520,000 of 2021A and \$12,790,000 of 2021B water and sewer system revenue bonds for the purpose of providing the System with the funds required to refund (higher interest rate) all of the previously outstanding 2011A Series Revenue Bonds and to provide financing for capital projects.

The 2021A and 2021B revenue bonds comprise both serial and term bonds, with varying rates and maturities as follows:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Totals Issued</u>
Revenue Bonds, Series 2021A obligations	4.00%	2034 - 2040	\$ 20,520,000
Revenue Refunding Bonds, Series 2021B	0.18% - 1.90%	2021 - 2033	<u>12,790,000</u>
			<u>\$ 33,310,000</u>

Interest on both the serial and term bonds is payable semi-annually. The Series A term bonds maturing December 1, 2045 require sinking fund installments, beginning in the year 2041, through the year 2045, of amounts ranging from \$1,140,000 to \$1,135,000, annually. The Series A term bonds maturing on December 1, 2050 require sinking fund installments, beginning in the year 2046, through the year 2050, of amounts ranging from \$1,385,000 to \$1,620,000. The term bonds are callable at the option of the System, in whole or in part, beginning December 2031, at a redemption price of par, plus accrued interest. Under the financing agreement, the Board granted a security interest and mortgage in the System to the Authority. The revenue bonds are direct obligations of the Authority, secured by a pledge of revenue and funds established under the bond resolutions.

(b) New York State Environmental Facilities Corporation (EFC) Revenue Bonds

During 2021, previously outstanding notes with the Environmental Facilities Corporation (EFC) were converted into long-term bonds. The 2021 EFC bond requires serial bond installment, with an interest rate of 6%. Final maturity dates extend through 2051. During 2022, previously outstanding notes with the EFC were converted into long-term bonds. The 2022 EFC bond requires serial bond installment, with an interest rate of 0%. Final maturity dates extend through 2051. During 2023, previously outstanding notes with EFC were converted into long-term bonds. The 2023 EFC bond requires serial bond installment. Final maturity dates extend through 2053.

The System receives a subsidy credit towards its annual debt service cost from, and is charged an annual administrative fee by the EFC.

ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
(A Discretely Presented Component Unit of the City of Albany, New York)

Notes to Financial Statements, Continued

(5) Long-Term Liabilities, Continued

(c) New York State Environmental Facilities Corporation (EFC) Notes

The System issued three second resolution series 2018 notes, and two second resolution series 2020 notes for the purpose of providing interim funding for the System's share of capital costs, net of related grant and other funding for the Albany Pool - Long-Term Control Plan (LTCP) (2018-B, 2020), other Board capital projects (2018-A and C, and 2020-C). The 2018 and 2020 notes were purchased by EFC, pursuant to project finance agreements with the System. The proceeds from the notes are held by EFC and drawn upon by the System after eligible costs are incurred. The 2018 and 2020 notes provide for a zero rate of interest (except for \$2.9 million of 2018-B notes which have an interest rate of 1.73% and \$6.7 million of 2020-C notes which have an interest rate of 1.02%) and require annual principal reduction payments beginning two years after the first drawdown of funds equal to 2.667% of the total amount drawn on the two-year anniversary. The 2018 and 2020 notes are expected to be converted to long-term bonds at the time of maturity. The 2018 and 2020 notes are payable from and secured by a pledge of the System's revenue on parity with all other System bonds.

(d) Long-Term Control Plan - Intermunicipal Agreement Debt

In 2018, the System entered into an Intermunicipal Agreement (IMA) with the long-term control plan communities to provide for prorate contributions to the debt service payments (principal and interest) of bonds issues by the Cities of Cohoes and Rensselaer to finance a portion of the LTCP. The System's share of the total debt service payments is 58.68%.

Future principal payments required on outstanding general revenue bonds, EFC revenue bonds, and IMA are as follows:

<u>Year ending</u>	<u>General Revenue Bonds</u>		<u>EFC Revenue Bonds</u>				<u>LTCP IMA</u>	<u>Total</u>
	<u>2021-A</u>	<u>2021-B</u>	<u>2020-B</u>	<u>2021</u>	<u>2022-A</u>	<u>2023</u>		
2024	\$ -	935,000	15,000	200,000	146,918	493,341	109,452	1,899,711
2025	-	940,000	15,000	200,000	146,831	526,326	109,452	1,937,609
2026	-	945,000	15,000	205,000	146,918	529,311	109,452	1,950,681
2027	-	955,000	15,000	205,000	146,918	462,196	113,859	1,897,973
2028	-	965,000	15,000	210,000	146,918	495,280	113,859	1,946,057
2029-2033	-	5,035,000	85,000	1,065,000	734,594	1,921,175	600,425	9,441,194
2034-2038	3,675,000	-	100,000	1,155,000	734,597	1,995,800	447,713	8,108,110
2039-2043	5,490,000	-	100,000	1,300,000	734,603	2,070,420	497,460	10,192,483
2044-2048	6,675,000	-	100,000	1,500,000	734,603	2,145,045	212,914	11,367,562
2049-2053	4,680,000	-	70,000	1,035,000	440,760	1,956,995	-	8,182,755
	<u>\$20,520,000</u>	<u>9,775,000</u>	<u>530,000</u>	<u>7,075,000</u>	<u>4,113,660</u>	<u>12,595,889</u>	<u>2,314,586</u>	<u>56,924,135</u>

ALBANY WATER BOARD AND
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Notes to Financial Statements, Continued

(5) Long-Term Liabilities, Continued

(d) Long-Term Control Plan - Intermunicipal Agreement Debt, Continued

Future interest payments required on outstanding general bonds, EFC revenue bonds and IMA are as follows:

<u>Year ending</u>	<u>General Revenue Bonds</u>		<u>EFC Revenue Bonds</u>				<u>LTCP IMA</u>	<u>Total</u>
	<u>2021-A</u>	<u>2021-B</u>	<u>2020-B</u>	<u>2021</u>	<u>2022-A</u>	<u>2023</u>		
2024	\$ 820,800	125,753	11,082	155,554	-	14,033	41,306	1,168,528
2025	820,800	121,545	11,038	154,734	-	10,293	39,924	1,158,334
2026	820,800	115,435	10,983	153,634	-	22,988	38,470	1,162,310
2027	820,800	107,875	10,913	152,240	-	15,237	36,851	1,143,916
2028	820,800	97,848	10,827	150,621	-	-	35,036	1,115,132
2029-2033	4,104,000	271,722	51,887	718,870	-	-	143,716	5,290,195
2034-2038	3,743,800	-	43,140	627,281	-	-	95,558	4,509,779
2039-2043	2,727,200	-	30,520	484,422	-	-	49,874	3,292,016
2044-2048	1,490,600	-	16,244	291,362	-	-	6,168	1,804,374
2049-2053	192,000	-	2,287	62,846	-	-	-	257,133
	<u>\$16,361,600</u>	<u>840,178</u>	<u>198,921</u>	<u>2,951,564</u>	<u>-</u>	<u>62,551</u>	<u>486,903</u>	<u>20,901,717</u>

(6) Line of Credit

In 2020, the System entered into a revolving line of credit with Bank of America. The revolving line of credit series has a principal balance not to exceed \$9,000,000. The facility will be used to supplement the cash flow under the Beaver Creek Clean River Project for timing differences in receipts from the Environmental Facilities Corporation and project expenses incurred.

As of December 31, 2023, the System had an outstanding balance of \$4,050,000. The line of credit had an interest rate of 4.57% as of December 31, 2023.

(7) Transactions with the City of Albany

Pursuant to the operating agreement, the City is entitled to water and sewer services without charge in exchange for providing the System with services described in the agreement. Certain indirect costs, including certain legal services and accounting and engineering support incurred by the City, are charged to the System on an annual basis. Indirect costs charged to the Board was \$894,000 for the year ended December 31, 2023, and have been classified as administrative fee, City of Albany, in the accompanying statement of revenue, expenses, and changes in net position.

ALBANY WATER BOARD AND
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Notes to Financial Statements, Continued

(8) Retirement Plan

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

(9) Commitments and Contingencies

Commitments and contingencies at December 31, 2023 are detailed as follows:

(a) Litigation

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

(b) Agreements with Other Governments

In 2018, the System entered into a new 10-year agreement with the Town of Guilderland (the Town). The agreement calls for the Board to provide the Town with 35 million gallons of water per month but shall be a minimum of 70 million gallon per year in aggregate at the prevailing residential rate. The Town is required to prepay in January of each year for the 70 million gallon minimum. Town usage in excess of 70 million gallons is billed to the Town at the prevailing residential rate.

In 2004, the System entered into a 20-year agreement with the Town of Bethlehem (Bethlehem). The agreement requires an annual minimum purchase each year, ranging from 250 million gallons to 500 million gallons. The initial rate of the agreement is \$2.42 per thousand gallons is subject to the same percentage increases as metered residential customers receive within the City limits.

In 2017, the System entered into an Intermunicipal Water Supply Agreement with the Town of Colonie (Colonie). The agreement was made following the installation of a water interconnection between the Board and Colonie. Water traded between the entities is billed at a rate of a percentage of the cost to deliver water consumed by the supplying party.

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Notes to Financial Statements, Continued

(9) Commitments and Contingencies, Continued

(c) Albany County Sewer Contract

The City, along with certain other municipalities, entered into an agreement with the Albany County Water Purification 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 System its share of the debt service on County sewer obligations and related operating expenses. The System is liable for its allocable share of debt service whether or not the City's sewer system remains connected to the County system. In 2023, the System paid approximately \$7.0 million to the District.

(d) Rate Covenants

Under the bond resolution, the System has agreed to establish rates sufficient in each year so that budgeted revenue is at least equal to 115% of the sum of budgeted annual aggregate debt service. The Board has also agreed that operating revenue collected for each fiscal year be at least equal to 100% of operating and Authority expenses and 100% of the amount necessary to pay the required deposits for debt service reserve and other funds from revenue sources.

The minimum debt coverage ratio was achieved in 2023. Operating revenue collected was at least 100% of operating and Authority expenses in 2023. Operating revenue collected was at least 100% of required deposits made to the debt service reserve fund in 2023.

(10) Albany Pool - Long-Term Control Plan

The System, on behalf of the City of Albany, along with six other Capital Region municipalities, is a party to an agreement known as the Albany Pool - Long-Term Control Plan (LTCP). The LTCP project, which was developed under a consent order with the New York State Department of Environmental Conservation, is intended to address the combined sewer overflow discharges into the Hudson River and improve overall water quality. Construction projects associated with the LTCP began in 2015 and are expected to be completed by 2027. The Albany Pool Communities Corporation (Pool Communities Corporation) was established to provide a mechanism to jointly manage the development and implementation of LTCP projects, oversight of program consultants and administrators, and reconcile program finances. Each municipality is responsible for a share of the Pool Communities Corporation operating costs.

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Notes to Financial Statements, Continued

(10) Albany Pool - Long-Term Control Plan, Continued

Total expected project costs, for all communities under the program, are anticipated to total approximately \$100 million. Approximately 59% will be the funding responsibility of the System. The total allocation by participating municipality is as follows:

<u>Municipality</u>	<u>Allocation %</u>
Albany	58.68%
Troy	34.76%
Cohoes	2.74%
Rensselaer	2.13%
Watervliet	1.16%
Green Island	0.53%

Although the System contributes 58.68% of project costs to the other municipalities' projects, the System only capitalizes project costs that reside within the System's jurisdiction. Contributions from the other municipalities for the remaining 41.32% of LTCP project costs that reside within the System's jurisdiction will be recognized as capital contributions. Likewise, capital contributions to other municipalities for LTCP projects outside the jurisdiction of the System will be recognized as capital contributions (expenses) to the other municipalities. The System recognized a net expense of \$748,466 for the year ended December 31, 2023.

The capital contribution to and from municipalities have not yet been settled in cash and are carried as due from and due to other municipalities in the combined statements of net position. Amounts due to and from other municipalities at December 31, 2023 totaled \$2,478,565 and \$5,400,417, respectively.

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Notes to Financial Statements, Continued

(11) Correction of Errors

The System made corrections of errors to certain December 31, 2022 balances. The changes were as follows:

- (1) There was no record of previously reported construction-in-progress capital assets.
- (2) Accumulated depreciation of capital assets did not agree to the capital asset ledger.
- (3) Bonds and capital notes did not agree to EFC records.

The following is a summary of the correction of errors:

	December 31, 2022 <u>as restated</u>	December 31, 2022 <u>as previously restated</u>	<u>Change</u>
Construction-in-progress	\$ -	41,158,759	(41,158,759)
Accumulated depreciation	102,855,923	110,681,396	7,825,473
Bonds and capital notes	86,427,906	93,072,057	<u>6,644,151</u>
			\$ <u>(26,689,135)</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Albany Water Board and Albany Municipal Water Finance Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Albany Water Board and Albany Municipal Water Finance Authority (the System), a discretely presented component unit of the City of Albany, New York, as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated September 10, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we considered to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2023-002.

The System's Responses to Findings

Government Auditing Standards requires the auditor to perform certain limited procedures on the System's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The System's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York
September 10, 2024

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Schedule of Findings and Responses

December 31, 2023

(2023-001) Significant Audit Adjusting Journal Entries - Material Weakness

Criteria - Management is responsible for maintaining accounting records that are accurate and supported by documentation.

Condition - The accounting records did not have proper supporting documentation for several of the balance sheet accounts.

Cause - The System did not reconcile the year-end balance sheet accounts.

Effect of Condition - There were significant adjusting journal entries which were proposed and accepted by management to correct the financial reporting of the System.

Recommendation - We recommend that significant balance sheet accounts be reconciled at year-end and ensure that the accounts have proper supporting documentation.

View's of Responsible Officials and Planned Corrective Actions - Management will review balance sheet accounts for accuracy.

(2023-002) Annual Reporting to the New York State Authority Budget Office - Noncompliance

Criteria - The System did not have procedures in place to comply with the annual reporting requirement for the New York State Authority Budget Office's Public Authority Reporting Information System (PARIS) for the year ended December 31, 2023 which requires the annual submission 90 days following the fiscal year.

Condition - There were several unreconciled balance sheet accounts at year-end.

Cause - Employee turnover in the System's Chief Financial Officer position caused delays in providing the necessary information for audit purposes.

Effect of Condition - The delay in the audit process resulted in the System's failure to meet the PARIS submission deadline.

Recommendation - The System should put procedures in place to provide timely year-end information for audit purposes.

View's of Responsible Officials and Planned Corrective Actions - The System has hired a full-time Chief Financial Officer and plans to meet the PARIS deadline in subsequent years.

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Status of Prior Year Audit Findings
December 31, 2023

There were no audit findings in the prior year financial statements (December 31, 2022).