New York City Water Board

Fiscal Year 2016 Investment Report

October 14, 2016

I. Investment Guidelines (Schedule 1)

II. Explanation of Investment Guidelines

The New York City Water Board (the "Board") originally adopted Investment Guidelines on May 2, 1986, with subsequent amendments of October 24, 1990 and February 14, 1997. The Investment Guidelines specify the policies and procedures relating to the investment, monitoring and reporting of funds of the Board. For purposes of the Investment Guidelines, funds of the Board are all monies and other financial resources available for investment by the Board on its own behalf or on behalf of any other entity or individual. All such monies shall be invested at all times to the fullest extent practicable, and in accordance with the requirements and restrictions set forth in the Investment Guidelines.

III. Results of the Annual Independent Audit of Investments (Schedule 2)

IV. Investment Income of Record of the Board (Schedule 3)

SCHEDULE 1

New York City Water Board
Investment Guidelines

Adopted May 2, 1986
Amended October 24, 1990
Amended February 14, 1997

I. Purpose

A. Adoption. These Guidelines were originally adopted by the New York City Water Board (the "Board") as of May 2, 1986, and amended October 24, 1990, pursuant to Section 2925 of the Public Authorities Law of the State of New York.

B. Scope. These Guidelines specify the policies and procedures relating to the investment, monitoring and reporting of funds of the Board, on and after February 14, 1997. For purposes of these Guidelines, funds of the Board are all monies and other financial resources available for investment by the Board on its own behalf or on behalf of any other entity or individual. All such monies shall be invested at all times to the fullest extent practicable and in accordance with the requirements and restrictions set forth in these Guidelines.

C. Review and Amendment. These Guidelines shall be reviewed and approved by the Board annually and may be amended by the Board from time to time.

II. Permitted Obligations

Monies held in any funds or accounts established by the Board shall be invested in:

A. Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to any Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America; or

B. Any Repurchase Agreement which is fully collateralized by any one or more of the securities described above, provided, however, that any such repurchase agreement shall:

1. Not be for a period in excess 90 days,
2. Provide that the Water Board (or agent of the Water Board, which agent shall not be the seller) shall take physical possession of such collateral or the Water Board shall be named the record owner thereof in the Federal Reserve Bank of New York, and

3. Be entered into between the Water Board, and either
    a. a bank or trust company organized under the laws of the State or the United States which is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation, having capital of not less than $50,000,000 or
    b. a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and included in the then current "List of Government Securities Dealers Reporting to the Federal Reserve Bank of New York" (the "Primary Dealer List"); or

C. Deposit accounts with banks or trust companies which have their principal place of business within the State of New York (the "State") and are designated as deposit banks by the Banking Commission of The City of New York (the "City"). To the extent such deposits in deposit accounts with banks or trust companies are not insured by the Federal Deposit Insurance Corporation, such deposits shall be continuously and fully secured by direct obligations of the City, the State or the United States of America, or obligations the principal of and interest on which are guaranteed by the State or the United States of America, of a market value at least equal at all times to the amount of such deposits.

III. Conditions of Investment

A. Maturities. All investments shall mature no later than such times as shall be necessary to provide monies needed for payments to be made from any such fund or account.

B. Payment for Securities. Payment for investments shall be made only upon receipt of the securities purchased. In the case of book entry form securities, payment may be made only when the custodian's account at the Federal Reserve Bank is credited for the purchased securities.

C. Concentration Guidelines. Except for amounts invested in obligations of the United States of America pursuant to clauses (1 and 2) of Part II of these Investment Guidelines, no more than 51% of the total for all accounts invested may be placed with a single institution, provided, however, that deposits aggregating less than 10% of the total for all funds invested, including funds invested in obligations of the United States of America and Repurchase Agreements may be placed with a single institution.

D. Custodial Arrangements.

1. All securities held by the Board's custodial bank (in bearer or book-entry form) are held solely as agent to the Board on behalf of the various accounts involved. Securities positions at the custodial bank will be audited by both internal and external auditors, including auditors of the Office of the Comptroller of The City of New York (the "Comptroller"). Payment for purchase shall not be released until the purchased securities are received by the custodial bank.

2. The custodial bank will, upon instructions of the Comptroller, release to the Treasurer of the Board all purchased securities including those subject to repurchase.

3. Collateral securities shall not be held by the institution having a depository relationship with the Board.

E. Standards and Qualifications. The following are standards for the qualifications of brokers, agents, dealers, investment advisors and custodians:

1. Brokers, Agents and Dealers:
   a. In Government Securities: Any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and included in the then current Primary Dealer List.

   b. In Municipal Securities: Any broker, agent or dealer registered with the Municipal Securities Rulemaking Board.

2. Investment Advisors: any bank or trust company organized under the laws of any state of the United States of America or any national banking association, and any firm or person which is registered with the Securities Exchange Commission under the Investment Advisors Act of 1940.

3. Custodians: any bank or trust company organized under the laws of any state of the United States of America or any national banking association which qualifies as a Depository under Section 512 of the General Revenue Bond Resolution of the New York City Municipal Water Finance Authority adopted on November 14, 1985.

F. Contracts. Written contracts with respect to deposit accounts are not standard business practice and shall not be required. However, the Board shall in the case of Repurchase Agreements, implement written contracts with the permitted dealers.

G. Repurchase Agreements. Notwithstanding any other provision of these Investment Guidelines, Repurchase Agreements for Federally Guaranteed Securities shall be considered a purchase of securities by the Board, and a contract by the dealer to repurchase the securities from the Board, and shall be subject to the following restrictions:

1. The securities must be in bearer or book-entry form so that possession is perfected immediately to fully secure investment.

2. The securities must be 100% Federally Guaranteed securities.

3. In order to secure the repurchase of the securities, margin is required as follows:

Maturity of Margin Securities	Original Margin Percentage (Margin calculations include accrued interest, if any, of underlying securities)
3 years or less	1.00% of all Term* Specific Repurchase Agreements
Over 3 years	2.00% for Term* Specific Repurchase Agreements with Maturity 30 days or less
	3.00% for Term* Specific Repurchase Agreements with Maturity over 30 days.

* Term Repurchase Agreements are those with maturities exceeding one (1) business day. Margin percentages apply to the repurchase price, i.e. maturity value of the Repurchase Agreement.

4. The need for additional margin for term Repurchase Agreements will be evaluated at least weekly or more frequently if market volatility indicates a need.

5. Repurchase Agreements must be purchased by the Board only from dealers who 1) are on the Federal Reserve Primary Dealer List, or 2) meet minimum capital requirements as determined by the Comptroller's Office (currently $50,000,000) and 3) have signed the Master Repurchase Agreement of the Comptroller of the City of New York.

IV. Authorization of Investment of Funds

The Board hereby authorizes the Comptroller to invest funds of the Board in accordance with these guidelines, as requested by the Executive Director, Treasurer or Deputy Treasurer.

V. Reports

A. Quarterly. The Executive Director shall prepare and deliver to the Board once for each quarter of the Board's fiscal year a report setting forth a summary of all investments made during that quarter, the inventory of existing instruments and the selection of banks, trust companies, investment bankers, brokers, agents, dealers, custodians, investment advisors and auditors used by the Board in making or holding investments during such quarter.

B. Annually.

1. Audit Report. The Board's independent accountants shall prepare an annual audit report of the Board's investment for each fiscal year of the Board and submit such report to the Board at the time the annual audit of the financial reports and books and records is made.

2. Investment Report. Annually, the Executive Director shall prepare and the Board shall review and approve an Investment Report, covering the fiscal year of the Board, which shall include:

   a. The Investment Guidelines;

   b. An explanation of the guidelines and any amendments made during the fiscal year;

   c. The independent audit report required by Subsection (1) above;

   d. The investment income record of the Board for the fiscal year; and

   e. A list of fees, commissions or other charges paid to each bank, trust company, investment banker, broker, agent, dealer and advisor rendering investment associated services to the Board during the fiscal year.

3. The Investment Report shall be submitted to the New York State Department of Audit and Control, and to the Mayor and Comptroller of the City of New York. Copies of the annual reports shall be made available to the public upon reasonable request.

VI. Applicability

These guidelines shall govern all investments initiated by the Board on and after February 14, 1997 and shall not apply to any investments initiated by the Board prior to that date. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.

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MARKS PANETH
ACCOUNTANTS & ADVISORS

Independent Auditors' Report

To the Members of the Joint Audit Committee of the
New York City Municipal Water Finance Authority and
New York City Water Board

We have audited, in accordance with auditing standards generally accepted in the United States of America, the combining financial statements of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of The City of New York, as of and for the year ended June 30, 2016 and have issued our report thereon dated October 20, 2016.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply, in all material respects, with the terms, covenants, provisions or conditions of the System's Resolutions and Investment Guidelines, which is the responsibility of the System's management, insofar as they relate to financial and accounting matters. However, the objective of our audit of the combining financial statements was not to provide an opinion on overall compliance with the System's Resolutions and Investment Guidelines referred to above. Accordingly, we do not express such an opinion.

This report is intended solely for the information of the System's Joint Audit Committee, Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties, unless permission is granted.

Marks Paneth LLP

October 20, 2016
New York, NY

SCHEDULE 3

New York City Water Board
Annual Investment Report
For the Fiscal Year ended June 30, 2016

Earned Investment Income for FY 2016	**$6,777,581.75**
Assets	**Fair Value on 6/30**
Cash	
Operation and Maintenance (O&M) Reserve Fund	$1,197,738.97
Local Water Fund Collection Account	12,508,282.09
Local Water Fund Investment Account	0.00
Refund Account	340,010.08
Expense Fund	357,737.09
General Account	0.00
Cash	**$14,403,768.23**
Cash Equivalents and Investments	
O&M Reserve Fund	
U.S. Treasury Bills	$0.00
U.S. Treasury Notes	130,222,302.35
Cash Equivalents and Investments	**$130,222,302.35**
Interest Receivable	
O&M Reserve Fund, U.S. Treasury Notes	$75,483.55
Receivable for Investments Sold	
O&M Reserve Fund	$118,951,785.42
Total Assets	**$263,653,339.55**

		Maturities	
Cash Equivalents and Investments by Security Type	**Fair Value on 6/30**	**Less Than One Year**	**One Year Or More**
O&M Reserve Fund*			
U.S. Treasury Bills	$0.00	$0.00	$0.00
U.S. Treasury Notes	130,222,302.35	0.00	130,222,302.35
Total Cash Equivalents and Investments by Security Type	$130,222,302.35	$0.00	$130,222,302.35

Pursuant to the Investment Guidelines, the New York City Water Board (the “Board”) has authorized the Comptroller of the City of New York to invest funds of the Board as requested by an authorized Board officer.

* Pursuant to the Financing Agreement, on June 30 of each fiscal year, the Board is required to have a reserve of two months of the budgeted O&M amount for the ensuing fiscal year, and the Board is required to pay the City one month's budgeted O&M on the first business day of the new fiscal year.