

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY WATER AND SEWER SYSTEM

June 30, 2007 and 2006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Members of the Boards of
**New York City Municipal Water Finance Authority
and the New York City Water Board**

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows of the business-type activities 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, New York, as of and for the years ended June 30, 2007 and 2006. These financial statements, which collectively comprise the basic financial statements of the System, are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2007 and 2006, and the respective changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis ("MD&A") is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information comprising the MD&A and express no opinion on it.

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New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2007 and 2006. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board").

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the years 2007, 2006 and 2005.

	<u>2007</u>	<u>2006</u> (in thousands)	<u>2005</u>
Revenues			
Water supply and distribution	\$ 796,404	\$ 735,200	\$ 755,693
Sewer collection and treatment	1,238,612	1,143,424	1,043,575
Other operating revenues	<u>98,061</u>	<u>100,306</u>	<u>85,459</u>
Total operating revenues	2,133,077	1,978,930	1,884,727
Subsidy income	90,601	88,447	78,834
Investment income, net	<u>98,132</u>	<u>105,239</u>	<u>97,362</u>
Total revenues	<u>2,321,810</u>	<u>2,172,616</u>	<u>2,060,923</u>
Expenses			
Operations and maintenance	1,147,157	1,056,379	944,919
Bad debt expense	226,028	87,222	114,702
Administration and general	35,493	26,727	23,168
Depreciation and amortization	579,860	500,161	515,325
Loss on retirement of fixed assets	23,257	7,046	7,971
Interest expense	<u>771,656</u>	<u>731,563</u>	<u>668,675</u>
Total expenses	<u>2,783,451</u>	<u>2,409,098</u>	<u>2,274,760</u>
Net loss before capital contributions (distributions)	(461,641)	(236,482)	(213,837)
Capital (distributions) contributions, net	<u>(20,776)</u>	<u>(19,241)</u>	<u>(185,242)</u>
Change in net assets	(482,417)	(255,723)	(399,079)
Net assets - beginning	<u>2,899,381</u>	<u>3,155,104</u>	<u>3,554,183</u>
Net assets - ending	<u>\$2,416,964</u>	<u>\$2,899,381</u>	<u>\$3,155,104</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating Revenue

2007 - 2006

Total operating revenues increased by 8%, principally from a rate increase of 9.4%.

2006 - 2005

Total operating revenues increased by 5%, principally resulting from a rate increase of 3%.

The following summarizes other operating revenues (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Upstate water fees	\$42,197	\$ 42,693	\$27,290
Late payment fees	43,286	45,519	47,810
Connection fees and permits	<u>12,578</u>	<u>12,094</u>	<u>10,359</u>
Total other operating revenues	<u>\$98,061</u>	<u>\$100,306</u>	<u>\$85,459</u>

2007 - 2006

Other operating revenues have remained relatively level for 2007.

Investment income decreased by \$7 million or 7% primarily due to reduced average balances in escrow accounts, less unrealized gains on investments and swap payments.

2006 - 2005

The System collected \$15 million of upstate water fees that had been in dispute for several years. These payments resulted in an increase in other fee revenue of nearly 17% or \$15 million.

Investment income increased by \$8 million. Average investment balances in construction and revenue and debt service funds increase from 2005. Interest rates earned on investments also increased.

Operating Expenses

2007 - 2006

Total operations and maintenance expense increased by \$91 million or 9%. Key components of the changes are the rental payment to the City increased by \$13 million and judgments and claims increased by \$23 million. All other operations and maintenance costs increased by \$47 million or 6%.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Bad debt expense increased by \$139 million. The System has not collected past-due receivables.

Interest expense increased by \$40 million or 5% because total debt of the System has increased by \$1.9 billion or 12%.

In 2007, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received capital grants from other sources of \$12 million.

2006 - 2005

Total operations and maintenance expense increased by \$111 million or 12%. The rental payment to the City for debt service increased by \$10 million. Payments for watershed improvements increased by \$21 million. All other operations and maintenance costs increased by \$80 million or 10%.

Bad debt expense decreased by \$28 million. Receivable balances decreased, as the System collected on past-due amounts.

Interest expense increased by \$63 million or 9%. Total debt of the System increased by 9% and interest expense also increased by about the same percentage.

In 2006, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received capital grants from other sources of \$14 million.

A summary of the System's assets, liabilities and net assets follows:

	<u>2007</u>	<u>2006</u> (in thousands)	<u>2005</u>
Current assets	\$ 2,075,754	\$ 1,954,277	\$ 2,436,222
Deferred bond and financing expenses	134,673	130,728	125,582
Capital assets	<u>18,435,696</u>	<u>17,155,603</u>	<u>16,008,960</u>
Total assets	<u>20,646,123</u>	<u>19,240,608</u>	<u>18,570,764</u>
Long-term liabilities	16,691,440	15,306,834	13,955,495
Current liabilities	<u>1,537,719</u>	<u>1,034,393</u>	<u>1,460,165</u>
Total liabilities	<u>18,229,159</u>	<u>16,341,227</u>	<u>15,415,660</u>
Net assets			
Invested in capital assets, net of related debt	2,130,364	2,556,766	2,803,031
Restricted for debt service	161,661	171,859	152,544
Restricted for operations and maintenance	175,161	157,806	145,693
Unrestricted (deficit)	<u>(50,222)</u>	<u>12,950</u>	<u>53,836</u>
Total net assets	<u>2,416,964</u>	<u>2,899,381</u>	<u>3,155,104</u>
Total liabilities and net assets	<u>\$20,646,123</u>	<u>\$19,240,608</u>	<u>\$18,570,764</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2007 - 2006

Current assets increased by \$122 million or 6%. This increase was due to construction funds on deposit at June 30, 2007.

Total liabilities increased by \$1.9 billion, which was due to the increase in long-term debt payable.

2006 - 2005

Current assets decreased by \$482 million. This decrease was due primarily to escrow deposits, which decreased by \$363 million as bonds were paid off by the escrow amounts.

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Such amounts are detailed as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(in thousands)	
Utility plant construction	\$ <u>4,766,145</u>	\$ <u>4,546,209</u>	\$ <u>4,010,861</u>
Buildings	23,493	22,266	22,071
Equipment	629,384	472,034	424,673
Water supply and wastewater treatment systems	12,127,873	10,886,477	10,152,707
Water distribution and sewage collection systems	<u>8,014,647</u>	<u>7,844,126</u>	<u>7,579,881</u>
Total utility plant in service	<u>20,795,397</u>	<u>19,224,903</u>	<u>18,179,332</u>
Less accumulated depreciation	<u>7,125,846</u>	<u>6,615,509</u>	<u>6,181,233</u>
Total, net utility plant in service	<u>13,669,551</u>	<u>12,609,394</u>	<u>11,998,099</u>
Total capital assets	<u>\$18,435,696</u>	<u>\$17,155,603</u>	<u>\$16,008,960</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The net increase in the System's capital assets during fiscal year 2007 was \$1,280 million or 8%. Net capital asset additions for 2007 were \$1,790 million.

The net increase in the System's capital assets during fiscal year 2006 was \$1,147 million or 7%. Net capital asset additions for 2006 were \$1,581 million.

The capital assets of the System are detailed in footnotes 2-d and 3 of the notes to the accompanying financial statements.

Debt Administration

The Authority issues debt to pay for the capital improvements to the System and certain related costs. The debt program of the Authority includes commercial paper and long-term debt of the Authority and subsidized bonds issued through the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program is the main source of financing to reimburse the City for payments made for water and sewer projects. The Authority then issues long-term debt of its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher coupon debt.

At June 30, 2007, the total outstanding debt of the System was \$18.1 billion, of which \$800 million was commercial paper. The remaining \$17.3 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2039. The total outstanding long-term debt at June 30, 2007 was as follows:

<u>Issue date</u>	<u>(In thousands)</u>
2007	\$ 2,214,873
2006	2,588,192
2005	2,790,956
2004	1,669,095
2003	2,770,818
2002 and prior	<u>5,237,250</u>
Total long-term debt	<u>\$17,271,184</u>

In the summary above, bonds retired through refundings in 2007 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the 2007 amount.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

In fiscal year 2007, the Authority issued \$1,527,745,000 water and sewer revenue bonds directly to the public, including \$411,860,000 of refunding bonds and \$1,115,885,000 in new money financing. The Authority also issued \$693,364,670 of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, \$518,427,784 of which were issued for new money purposes and \$174,936,886 refunded outstanding debt. The new money bond proceeds provided long-term financing of commercial paper notes which had previously financed capital improvements to New York City's Water and Sewer System.

In fiscal year 2007, the Authority continued to take advantage of historically low interest costs on fixed-rate borrowing by issuing predominantly fixed-rate bonds on the long end of the curve. In fiscal 2007, the Authority sold seven fixed-rate and one variable-rate demand bond issues. The First Resolution Fiscal 2007 Series A bonds and the Second Resolution Fiscal 2007 Series AA, BB, CC and DD bonds were sold directly to public. The Second Resolution Fiscal 2007 Series 1, 2 and 3 were issued to EFC to secure bonds issued by EFC on behalf on the Authority.

On October 25, 2006, the Authority closed its first transaction of fiscal year 2007. The Second Resolution Fiscal 2007 Series AA and Series BB were sold at a par amount of \$199,910,000 and \$134,360,000, respectively. The Fiscal 2007 Series AA was comprised of three term bonds maturing in 2037. Proceeds from the sale of these bonds were used to defease a portion of the Authority's commercial paper Series 6 notes and to pay costs of issuance. The Fiscal 2007 Series BB refunded on a current basis \$29,045,000 of the Fiscal 1996 Series C bonds and \$105,045,000 of the Fiscal 1997 Series A bonds. The Fiscal 2007 Series BB were issued as serial bonds.

On November 30, 2006, the Authority closed on its variable-rate demand bonds. The Fiscal 2007 Series CC were sold in two sub-series at a total par amount of \$210,500,000. Both sub-series were offered in the daily reset mode. Two different remarketers were chosen to remarket these bonds. Proceeds from the sale were used to defease all of the Authority's commercial paper Series 1 and a portion of Series 5 Lot A notes, to fund a portion of the Authority's capital program and to pay certain costs of issuance.

On March 27, 2007, the Authority closed on its first transaction with EFC in fiscal year 2007. The Fiscal 2007 Series 1 and Series 2 bonds were issued to EFC in the respective amounts of \$228,112,917 and \$290,314,867. Proceeds of these borrowings were used to defease all of the Authority's commercial paper Series 5 and 7 and a portion of commercial paper Series 1 notes. Proceeds were also used to fund a portion of the Authority's capital program and to pay the costs of issuance of the bonds. Both series were comprised of serial bonds in years 2007 through 2036.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

On March 29, 2007, in common plan of finance with the Fiscal 2007 Series 1 and Series 2 bonds, the Authority issued the Fiscal 2007 Series A bonds directly to the public. The bonds were sold at a par amount of \$587,975,000. Proceeds from the sale were used to refund all of the then outstanding Fiscal 1998 Series B bonds and a portion of the Fiscal 2002 Series A bonds, defease a portion of the Authority's commercial paper Series 1 notes and all of commercial paper Series 6 notes, pay certain costs of issuance and fund a portion of the debt service reserve fund. This issue consisted of four term bonds maturing in years 2030, 2033, 2037 and 2039. The 2039 maturity was insured by Financial Security Assurance Inc.

On May 15, 2007, \$174,936,886 of Fiscal 2007 Series 3 bonds was issued to EFC to partially refund the Authority's Fiscal 1998 Series 3 bonds. The Fiscal 2007 Series 3 bonds extended the maturity date to 30 years from the original issuance date of the refunded bonds and paid certain costs of issuance.

On May 31, 2007, the Authority sold \$395,000,000 of the Fiscal 2007 Series DD bonds. Proceeds from the sale were applied to defease all of the Authority's commercial paper Series 1 and 6 notes, to fund a portion of the Authority's capital program and pay costs of issuance. The issue included term bonds that mature in years 2035, 2036, 2038 and 2036.

The total of bonds and notes payable are detailed in footnote numbers 7 and 8 of the notes to the financial statements.

Economic Factors and Next Year's Rates

Rates are adopted each year by the Board in May for the following fiscal year. A rate increase of 9.4% for fiscal 2007 became effective July 1, 2006 based on projected revenues and costs.

Request for Information

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Raymond Orlando, Manager of Public Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, New York 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

New York City Water and Sewer System

BALANCE SHEETS

June 30, 2007
(in thousands)

Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Utility plant in service, less accumulated depreciation of \$7,125,846	\$13,669,551	\$ -	\$ -	\$13,669,551
Utility plant construction	<u>4,766,145</u>	<u>-</u>	<u>-</u>	<u>4,766,145</u>
Total capital assets	<u>18,435,696</u>	<u>-</u>	<u>-</u>	<u>18,435,696</u>
Current assets				
Cash and cash equivalents	104,932	1,070,154	-	1,175,086
Investments	83,406	350,944	-	434,350
Accrued interest receivable	145	2,969	-	3,114
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$213,840	278,176	-	-	278,176
Unbilled	169,310	-	-	169,310
Receivable from the City	<u>15,718</u>	<u>-</u>	<u>-</u>	<u>15,718</u>
Total current assets	<u>651,687</u>	<u>1,424,067</u>	<u>-</u>	<u>2,075,754</u>
Revenue requirement due from the Board	-	9,479,193	(9,479,193)	-
Long-term deferred bond and financing expenses	<u>-</u>	<u>134,673</u>	<u>-</u>	<u>134,673</u>
Total assets	<u>\$19,087,383</u>	<u>\$11,037,933</u>	<u>\$(9,479,193)</u>	<u>\$20,646,123</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2007
(in thousands)

Liabilities and Net Assets	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$17,060,213	\$ -	\$17,060,213
Net discount on bonds and notes payable	-	(13,838)	-	(13,838)
Deferred bond refunding costs	-	(354,935)	-	(354,935)
Revenue requirement payable to the Authority	<u>9,479,193</u>	<u>-</u>	<u>(9,479,193)</u>	<u>-</u>
Total long-term liabilities	<u>9,479,193</u>	<u>16,691,440</u>	<u>(9,479,193)</u>	<u>16,691,440</u>
Current liabilities				
Accounts payable and accrued expenses	34,110	43,397	-	77,507
Revenues received in advance	73,727	-	-	73,727
Current portion of bonds and notes payable	-	1,010,971	-	1,010,971
Payable to the City	-	361,860	-	361,860
Refunds payable to customers	<u>13,654</u>	<u>-</u>	<u>-</u>	<u>13,654</u>
Total current liabilities	<u>121,491</u>	<u>1,416,228</u>	<u>-</u>	<u>1,537,719</u>
Total liabilities	<u>9,600,684</u>	<u>18,107,668</u>	<u>(9,479,193)</u>	<u>18,229,159</u>
Net assets				
Invested in capital assets, net of related debt	18,435,696	(16,305,332)	-	2,130,364
Restricted for debt service	-	161,661	-	161,661
Restricted for operations and maintenance	175,161	-	-	175,161
Unrestricted (deficit)	<u>(9,124,158)</u>	<u>9,073,936</u>	<u>-</u>	<u>(50,222)</u>
Total net assets (deficit)	<u>9,486,699</u>	<u>(7,069,735)</u>	<u>-</u>	<u>2,416,964</u>
Total liabilities and net assets	<u>\$19,087,383</u>	<u>\$11,037,933</u>	<u>\$(9,479,193)</u>	<u>\$20,646,123</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS

June 30, 2006
(in thousands)

Assets	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
Utility plant in service, less accumulated depreciation of \$6,615,509	\$12,609,394	\$ -	\$ -	\$12,609,394
Utility plant construction	4,546,209	-	-	4,546,209
Total capital assets	17,155,603	-	-	17,155,603
Current assets				
Cash and cash equivalents	87,723	879,236	-	966,959
Investments	78,753	433,725	-	512,478
Accrued interest receivable	611	2,228	-	2,839
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$143,696	308,165	-	-	308,165
Unbilled	155,330	-	-	155,330
Receivable from the City	8,506	-	-	8,506
Total current assets	639,088	1,315,189	-	1,954,277
Revenue requirement due from the Board	-	8,376,317	(8,376,317)	-
Long-term deferred bond and financing expenses	-	130,728	-	130,728
Total assets	\$17,794,691	\$9,822,234	\$(8,376,317)	\$19,240,608

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2006
(in thousands)

Liabilities and Net Assets	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$ 15,719,290	\$ -	\$15,719,290
Net discount on bonds and notes payable	-	(42,007)	-	(42,007)
Deferred bond refunding costs	-	(370,449)	-	(370,449)
Revenue requirement payable to the Authority	<u>8,376,317</u>	<u>-</u>	<u>(8,376,317)</u>	<u>-</u>
Total long-term liabilities	<u>8,376,317</u>	<u>15,306,834</u>	<u>(8,376,317)</u>	<u>15,306,834</u>
Current liabilities				
Accounts payable and accrued expenses	6,099	42,820	-	48,919
Revenues received in advance	78,480	-	-	78,480
Current portion of bonds and notes payable	-	566,061	-	566,061
Payable to the City	-	326,124	-	326,124
Refunds payable to customers	<u>14,809</u>	<u>-</u>	<u>-</u>	<u>14,809</u>
Total current liabilities	<u>99,388</u>	<u>935,005</u>	<u>-</u>	<u>1,034,393</u>
Total liabilities	<u>8,475,705</u>	<u>16,241,839</u>	<u>(8,376,317)</u>	<u>16,341,227</u>
Net assets				
Invested in capital assets, net of related debt	17,155,603	(14,598,837)	-	2,556,766
Restricted for debt service	-	171,859	-	171,859
Restricted for operations and maintenance	157,806	-	-	157,806
Unrestricted (deficit)	<u>(7,994,423)</u>	<u>8,007,373</u>	<u>-</u>	<u>12,950</u>
Total net assets (deficit)	<u>9,318,986</u>	<u>(6,419,605)</u>	<u>-</u>	<u>2,899,381</u>
Total liabilities and net assets	<u>\$17,794,691</u>	<u>\$ 9,822,234</u>	<u>\$(8,376,317)</u>	<u>\$19,240,608</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2007
(in thousands)

	<u>New York City</u>		<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	
Operating revenues			
Water supply and distribution	\$ 796,404	\$ -	\$ 796,404
Sewer collection and treatment	1,238,612	-	1,238,612
Other operating revenues	<u>98,061</u>	<u>-</u>	<u>98,061</u>
Total operating revenues	<u>2,133,077</u>	<u>-</u>	<u>2,133,077</u>
Operating expenses			
Operations and maintenance	1,147,157	-	1,147,157
Bad debt expense	226,028	-	226,028
Administration and general	<u>16,996</u>	<u>18,497</u>	<u>35,493</u>
Total operating expenses	<u>1,390,181</u>	<u>18,497</u>	<u>1,408,678</u>
Depreciation and amortization	<u>535,530</u>	<u>44,330</u>	<u>579,860</u>
Operating income (loss)	207,366	(62,827)	144,539
Nonoperating revenue (expense)			
Interest expense	-	(771,656)	(771,656)
Loss on retirement of fixed assets	(23,257)	-	(23,257)
Subsidy income	-	90,601	90,601
Investment income, net	<u>4,380</u>	<u>93,752</u>	<u>98,132</u>
Net income (loss) before capital contributions (distributions)	188,489	(650,130)	(461,641)
Capital distributions - net	<u>(20,776)</u>	<u>-</u>	<u>(20,776)</u>
Change in net assets	167,713	(650,130)	(482,417)
Net assets (deficit) at beginning of year	<u>9,318,986</u>	<u>(6,419,605)</u>	<u>2,899,381</u>
Net assets (deficit) at end of year	<u>\$9,486,699</u>	<u>\$(7,069,735)</u>	<u>\$2,416,964</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2006
(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Operating revenues			
Water supply and distribution	\$ 735,200	\$ -	\$ 735,200
Sewer collection and treatment	1,143,424	-	1,143,424
Other operating revenues	<u>100,306</u>	<u>-</u>	<u>100,306</u>
Total operating revenues	<u>1,978,930</u>	<u>-</u>	<u>1,978,930</u>
Operating expenses			
Operations and maintenance	1,056,379	-	1,056,379
Bad debt expense	87,222	-	87,222
Administration and general	<u>8,670</u>	<u>18,057</u>	<u>26,727</u>
Total operating expenses	<u>1,152,271</u>	<u>18,057</u>	<u>1,170,328</u>
Depreciation and amortization	<u>450,860</u>	<u>49,301</u>	<u>500,161</u>
Operating income (loss)	375,799	(67,358)	308,441
Nonoperating revenue (expense)			
Interest expense	-	(731,563)	(731,563)
Loss on retirement of fixed assets	(7,046)	-	(7,046)
Subsidy income	-	88,447	88,447
Investment income, net	<u>3,092</u>	<u>102,147</u>	<u>105,239</u>
Net income (loss) before capital contributions (distributions)	371,845	(608,327)	(236,482)
Capital distributions - net	<u>(19,241)</u>	<u>-</u>	<u>(19,241)</u>
Change in net assets	352,604	(608,327)	(255,723)
Net assets (deficit) at beginning of year	<u>8,966,382</u>	<u>(5,811,278)</u>	<u>3,155,104</u>
Net assets (deficit) at end of year	<u>\$9,318,986</u>	<u>\$(6,419,605)</u>	<u>\$2,899,381</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2007

.(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 1,917,152	\$ -	\$ 1,917,152
Payments for operations and maintenance	(1,071,086)	-	(1,071,086)
Payments for administration	<u>(10,291)</u>	<u>(18,169)</u>	<u>(28,460)</u>
Net cash provided by (used in) operating activities	<u>835,775</u>	<u>(18,169)</u>	<u>817,606</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,103,578	4,103,578
Acquisition and construction of capital assets	(20,000)	(1,865,902)	(1,885,902)
Payments by the Board to the Authority	(798,763)	798,763	-
Repayments of bonds, notes and other borrowings	-	(2,329,510)	(2,329,510)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(671,831)</u>	<u>(671,831)</u>
Net cash (used in) provided by capital and related financing activities	<u>(818,763)</u>	<u>35,098</u>	<u>(783,665)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	78,655	147,644	226,299
Purchases of investments	(83,303)	(67,339)	(150,642)
Interest on investments	<u>4,845</u>	<u>93,684</u>	<u>98,529</u>
Net cash provided by investing activities	<u>197</u>	<u>175,989</u>	<u>174,186</u>
Net increase in cash and cash equivalents	<u>17,209</u>	<u>190,918</u>	<u>208,127</u>
Cash and cash equivalents, beginning of year	<u>87,723</u>	<u>879,236</u>	<u>966,959</u>
Cash and cash equivalents, end of year	<u>\$ 104,932</u>	<u>\$ 1,070,154</u>	<u>\$ 1,175,086</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2007
(in thousands)

	<u>New York City</u>		
	<u>Water</u>	<u>Municipal</u>	
	<u>Board</u>	<u>Water</u>	
		<u>Finance</u>	<u>Total</u>
		<u>Authority</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 207,366	\$ (62,827)	\$ 144,539
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	535,530	44,330	579,860
Bad debt expense	226,028	-	226,028
Operations and maintenance expense paid with bond proceeds	61,983	-	61,983
Changes in net assets and liabilities			
Receivables, net	(210,020)	-	(210,020)
Receivable from the City	(7,212)	-	(7,212)
Accounts payable and accrued expenses	28,008	328	28,336
Revenues received in advance	(4,753)	-	(4,753)
Refunds payable to customers	<u>(1,155)</u>	<u>-</u>	<u>(1,155)</u>
Net cash provided by (used in) operating activities	<u>\$ 835,775</u>	<u>\$ (18,169)</u>	<u>\$ 817,606</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$(3,106) in 2007.
- Capital expenditures in the amount of \$361,860 had been incurred but not paid at June 30, 2007.
- The Board received capital assets of \$12,357 in 2007, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2006

(in thousands)

	<u>New York City</u>		<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	
Cash flows from operating activities			
Receipts from customers	\$1,866,240	\$ -	\$ 1,866,240
Payments for operations and maintenance	(966,661)	-	(966,661)
Payments for administration	<u>(9,081)</u>	<u>(17,961)</u>	<u>(27,042)</u>
Net cash provided by (used in) operating activities	<u>890,498</u>	<u>(17,961)</u>	<u>872,537</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,018,669	4,018,669
Acquisition and construction of capital assets	-	(1,652,636)	(1,652,636)
Payments by the Board to the Authority	(882,898)	882,898	-
Repayments of bonds, notes and other borrowings	-	(3,190,094)	(3,190,094)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(644,464)</u>	<u>(644,464)</u>
Net cash used in capital and related financing activities	<u>(882,898)</u>	<u>(585,627)</u>	<u>(1,468,525)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	52,334	418,596	470,930
Purchases of investments	(58,660)	(59,289)	(117,949)
Interest on investments	<u>2,783</u>	<u>108,130</u>	<u>110,913</u>
Net cash (used in) provided by investing activities	<u>(3,543)</u>	<u>467,437</u>	<u>463,894</u>
Net increase (decrease) in cash and cash equivalents	<u>4,057</u>	<u>(136,151)</u>	<u>(132,094)</u>
Cash and cash equivalents, beginning of year	<u>83,666</u>	<u>1,015,387</u>	<u>1,099,053</u>
Cash and cash equivalents, end of year	<u>\$ 87,723</u>	<u>\$ 879,236</u>	<u>\$ 966,959</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2006
(in thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 375,799	\$ (67,358)	\$ 308,441
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	450,860	49,301	500,161
Bad debt expense	87,222	-	87,222
Operations and maintenance expense paid with bond proceeds	66,833	-	66,833
Changes in net assets and liabilities			
Receivables, net	(116,768)	-	(116,768)
Receivable from the City	22,884	-	22,884
Other	-	(71)	(71)
Accounts payable and accrued expenses	(411)	167	(244)
Revenues received in advance	7,998	-	7,998
Refunds payable to customers	<u>(3,919)</u>	<u>-</u>	<u>(3,919)</u>
Net cash provided by (used in) operating activities	<u>\$ 890,498</u>	<u>\$ (17,961)</u>	<u>\$ 872,537</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$3,606 in 2006.
- Capital expenditures in the amount of \$326,124 had been incurred but not paid at June 30, 2006.
- The Board received capital assets of \$13,700 in 2006, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 - ORGANIZATION

The New York City Water and Sewer System (the "System") provides water supply and distribution, sewage collection, treatment, and disposal for The City of New York (the "City"). The System, as presented in the accompanying financial statements, began operations on July 1, 1985 and is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the "Act"), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York, as amended by Chapter 514 of the laws of 1984 of the State of New York. The Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act empowers the Authority to issue bonds or notes to finance the cost of capital improvements to the System, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Act empowers the Board to lease the System from the City and to fix and collect rates, fees, rents and other charges for the use of, or for services furnished, rendered, or made available by, the System, to produce cash sufficient to pay debt service on the Authority's bonds and to place the System on a self-sustaining basis.

The Financing Agreement (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment and related costs in the water and sewer system serving the City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the water and sewer system, and the rental payment to the City.

The physical operation and capital improvements of the System are performed by the City's Department of Environmental Protection subject to contractual agreements with the Authority and the Board.

In accordance with Statement No. 14, amended by Statements No. 34 and No. 39, of the Governmental Accounting Standards Board ("GASB"), the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 2 (continued)

Entities that Use Proprietary Funds,” provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

a. Investments and Cash Equivalents

Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. Investments with maturity periods of greater than one year are carried at market value. Investments with maturities less than one year are carried at cost which approximates fair value. For purposes of the statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

b. Restricted Assets

Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted by applicable bond indentures.

c. Bond Discount and Deferred Financing Expenses

Bond discount and bond issuance costs are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and bond issuance costs.

d. Utility Plant

Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board’s policy to capitalize assets over \$35,000. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	<u>Years</u>
Buildings	40 - 50
Water supply and wastewater treatment systems	15 - 50
Water distribution and sewage collection systems	15 - 75
Equipment	5 - 35

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 2 (continued)

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as utility plant.

e. Operating Revenues and Operating Expenses

Operating revenues consist of customer payments for services of the System. Revenues are based on billing rates imposed by the Board and upon customers' water and sewer usage. The System records estimated unbilled revenue at year-end. Operating expenses consist of administration, maintenance, repair and operations of the System, administration costs of the Board and the Authority, rental payments to the City, and bad debt expense.

f. Deferred Revenues

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned.

g. Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. Gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

h. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the 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.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 3 - UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Nondepreciable assets							
Utility construction	\$ 4,010,861	\$1,704,324	\$1,168,976	\$ 4,546,209	\$1,933,996	\$1,714,060	\$ 4,766,145
Depreciable assets							
Buildings	22,071	195	-	22,266	1,227	-	23,493
Equipment	424,673	49,430	2,069	472,034	162,341	4,991	629,384
Water supply and wastewater treatment systems	10,152,707	733,770	-	10,886,477	1,241,396	-	12,127,873
Water distribution and sewage collection systems	<u>7,579,881</u>	<u>285,806</u>	<u>21,561</u>	<u>7,844,126</u>	<u>213,980</u>	<u>43,459</u>	<u>8,014,647</u>
	22,190,193	2,773,525	1,192,606	23,771,112	3,552,940	1,762,510	25,561,542
Less accumulated depreciation	<u>6,181,233</u>	<u>450,860</u>	<u>16,584</u>	<u>6,615,509</u>	<u>535,530</u>	<u>25,193</u>	<u>7,125,846</u>
	<u>\$16,008,960</u>	<u>\$2,322,665</u>	<u>\$1,176,022</u>	<u>\$17,155,603</u>	<u>\$3,017,410</u>	<u>\$1,737,317</u>	<u>\$18,435,696</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 4 - INVESTMENTS AND CASH DEPOSITS

a. Cash Deposits

The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of the City and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. The System had \$200 thousand on deposit at June 30, 2007 and 2006, which was covered by Federal depository insurance and the remaining balance was uncollateralized.

At June 30, 2007 and 2006, the carrying amounts of bank deposits were \$20.7 million and \$5.9 million, respectively, and the bank balances were \$21.9 million and \$7 million, respectively.

b. Investments

Pursuant to the Water and Sewer General Revenue Bond Resolution and the Authority's and the Board's investment guidelines, the Authority and the Board may generally invest in obligations of, or guaranteed by, the U.S. government; certain highly rated obligations of the State of New York or any subdivision or instrumentality thereof; certain certificates of deposit and similar instruments issued by highly rated commercial banks; certain highly rated corporate securities or commercial paper securities; certain repurchase agreements with highly rated institutions; certain investment agreements with highly rated institutions; certain highly rated money market funds; and certain highly rated municipal obligations.

The System had the following investments and maturities (in thousands):

<u>Investment type</u>	<u>2007</u>	<u>2006</u>	<u>Investment maturity</u>
Certificate of Deposit	\$ 104	\$ 100	Greater than one year
U.S. Government securities	1,232,617	1,018,495	Less than one year
New York State securities	77,474	77,230	Greater than one year
Repurchase agreements	70,345	82,259	Less than one year
Guaranteed investment contracts	<u>211,315</u>	<u>298,306</u>	Greater than one year
	<u>\$1,591,855</u>	<u>\$1,476,390</u>	

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 4 (continued)

All of the System's investments in U.S. agencies carry the explicit guarantee of the U.S. Government. At June 30, 2007 and 2006, the System's investment in New York State securities was rated AAA by Standard & Poor's and Aaa by Moody's investment services. The System's investments in guaranteed investment contracts are not rated.

For an investment, 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 investment or collateral securities that are in the possession of an outside party. The System's investments, other than repurchase agreements, are not collateralized. All investments and collateral are held in the Authority's name by the trustee or in the Board's name by the agent.

NOTE 5 - LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with the City, which transfers all the water and sewer related real and personal property to the Board for the term of the lease. The Lease term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the lease, or the date on which all bonds, notes or other obligations of the Authority are paid in full, or provisions for such payment have been made pursuant to the applicable debt instrument. The Lease provides for payments to the City to cover the following:

- (a) an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by the City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by the City;
- (b) an amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

In addition to the payments described above, the Board pays rent to the City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes certified by the City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 5 (continued)

A summary of operation and maintenance expenses for the years ended June 30, 2007 and 2006 is as follows (in thousands)

	<u>2007</u>	<u>2006</u>
Water transmission and distribution	\$ 339,854	\$ 332,174
Sewer collection systems	413,837	392,071
City agency support cost	57,304	54,387
Fringe benefits	110,687	83,212
Payments for watershed improvements	61,983	66,833
Judgments and claims	<u>31,232</u>	<u>8,241</u>
	1,014,897	936,918
Rental payments to the City	<u>132,260</u>	<u>119,461</u>
	<u>\$1,147,157</u>	<u>\$1,056,379</u>

NOTE 6 - PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2007 and 2006, all utility construction recorded by the System, which has not been reimbursed to the City, has been recorded as a payable to the City, net of the amount of any State or Federal capital grants received by the City.

As of June 30, 2007 and 2006, the System had net payables of \$346.1 million and \$317.6 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 7 - SHORT-TERM LIABILITIES

In fiscal years 2007 and 2006, the changes in short-term liabilities were as follows (in thousands):

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Commercial paper (1)	<u>\$800,000</u>	<u>\$1,392,800</u>	<u>\$1,841,800</u>	<u>\$351,000</u>	<u>\$2,059,000</u>	<u>\$1,610,000</u>	<u>\$ 800,000</u>

- (1) Commercial paper is used to pay construction costs in advance of long-term bond financing. It is reported as part of the current portion of bonds and notes payable on the System's balance sheets.

Commercial paper activity comprises the following for the year ended June 30, 2007 (in thousands):

	Balance at June 30, 2006	Issued	Retired	Balance at June 30, 2007
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$200,000	\$ 600,000	\$ 600,000	\$200,000
Commercial Paper Series 5 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	140,000	270,000	210,000	200,000
Commercial Paper Series 6 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	11,000	789,000	600,000	200,000
Commercial Paper Series 7 - Variable Rate, Short-term Rolling Maturity	-	400,000	200,000	200,000
Total commercial paper payable	<u>\$351,000</u>	<u>\$2,059,000</u>	<u>\$1,610,000</u>	<u>\$800,000</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 - LONG-TERM LIABILITIES

In fiscal years 2007 and 2006, the changes in long-term liabilities were as follows (in thousands):

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Due within one year
<u>Bonds payable</u>								
First resolution	\$10,634,596	\$1,431,080	\$1,171,123	\$10,894,553	587,975	\$549,068	\$10,933,460	\$ 42,943
Second resolution	<u>3,999,455</u>	<u>1,186,847</u>	<u>146,504</u>	<u>5,039,798</u>	<u>1,633,132</u>	<u>335,206</u>	<u>6,337,724</u>	<u>168,028</u>
Total bonds payable	<u>14,634,051</u>	<u>2,617,927</u>	<u>1,317,627</u>	<u>15,934,351</u>	<u>2,221,107</u>	<u>884,274</u>	<u>17,271,184</u>	<u>\$210,971</u>
Less discounts (net)	100,304	(31,866)	26,431	42,007	(15,838)	12,331	13,838	
Less deferred refunding costs	<u>340,268</u>	<u>66,222</u>	<u>36,041</u>	<u>370,449</u>	<u>21,575</u>	<u>37,089</u>	<u>354,935</u>	
Total long-term liabilities	<u>\$14,193,479</u>	<u>\$2,583,571</u>	<u>\$1,255,155</u>	<u>\$15,521,895</u>	<u>2,215,370</u>	<u>\$834,854</u>	<u>\$16,902,411</u>	

With respect to all series, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements as well as to meet certain debt service coverage and operating cost funding requirements. All series are specific obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

During 2007 and 2006, the Authority issued \$586.8 and \$720.7 million, respectively, of bonds to refund \$683.5 and \$683.3 million, respectively, of outstanding bonds. The advance refundings resulted in an accounting loss of \$21.6 and \$66.2 million, respectively. The Authority in effect reduced its aggregate debt service by \$17.3 and \$56.3 million, respectively, and obtained an economic benefit of \$46.3 and \$37.3 million, respectively.

During 2006, the Authority economically defeased \$70.4 million of bonds with current revenue. Bonds economically defeased remain a liability, and the escrow deposited with the Authority's trustee is an asset on the Authority's records.

During 2006, the Authority defeased \$60.1 million, of outstanding bonds with \$60.1 million of current revenue, which resulted in an accounting loss of \$1.0 million.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

The Authority has defeased cumulatively \$9.740 billion and \$9.056 billion of outstanding bonds as of June 30, 2007 and 2006, respectively, by placing proceeds of refunding bonds issued in irrevocable escrow accounts to provide for all future debt service payments on defeased bonds. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's financial statements.

As of June 30, 2007 and 2006, \$8.081 billion and \$6.883 billion of the defeased bonds, respectively, had been retired from the assets of the escrow accounts.

Debt service requirements to maturity including amounts relating to commercial paper at June 30, 2007 are as follows (in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest (1)</u>	<u>Total</u>
2008	\$ 1,010,971	\$ 647,046	\$ 1,658,017
2009	227,162	636,656	863,818
2010	247,686	630,870	878,556
2011	332,263	622,230	954,493
2012	320,280	611,722	932,002
2013-2017	2,053,174	2,880,881	4,934,055
2018-2022	2,588,943	2,513,995	5,102,938
2023-2027	2,814,390	2,009,096	4,823,486
2028-2032	3,524,825	1,406,868	4,931,693
2033-2037	3,390,315	767,661	4,157,976
2038-2042	<u>1,561,175</u>	<u>103,644</u>	<u>1,664,819</u>
	<u>\$18,071,184</u>	<u>\$12,830,669</u>	<u>\$30,901,853</u>

- (1) Includes interest for variable rate bonds estimated at 3.8%, which is the rate at the end of the fiscal year. Variable rate bonds are sold daily or weekly and interest rates are determined by the market on the day sold.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2007 (in thousands):

	Balance at June 30, <u>2006</u>	<u>Issued</u>	Retired/ <u>defeased</u>	Balance at June 30, <u>2007</u>
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 10,255	\$ -	\$ 2,590	\$ 7,665
1992 Fiscal Series B - 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	11,318	-	2,698	8,620
1993 Fiscal Series A - 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	82,195	-	11,835	70,360
1993 Fiscal Series C - Adjustable Rate Term Bonds maturing 2022	100,000	-	-	100,000
1994 Fiscal Series 1 - 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	31,500	-	320	31,180
1994 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2023	200,000	-	-	200,000
1994 Fiscal Series G - Adjustable, Auction and Leveraged Reverse Rate Bonds maturing in varying installments through 2024	185,000	-	-	185,000
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	204,700	-	6,000	198,700
1995 Fiscal Series 1 - 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	26,495	-	2,585	23,910
1996 Fiscal Series C - 4.90% to 5.75% Serial Bonds maturing in varying installments through 2017	29,455	-	29,455	-
1997 Fiscal Series A - 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	130,545	-	105,545	25,000
1997 Fiscal Series B - 5.75% to 5.80% Serial Bonds maturing in varying installments through 2029	100,000	-	100,000	-

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	\$ 30,435	\$ -	\$ 2,085	\$ 28,350
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	313,038	-	192,902	120,136
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	10,370	-	750	9,620
1998 Fiscal Series 6 - 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	13,633	-	854	12,779
1998 Fiscal Series A - 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	256,315	-	-	256,315
1998 Fiscal Series B - 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	224,470	-	224,470	-
1998 Fiscal Series C - 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	84,300	-	325	83,975
1998 Fiscal Series D - 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	359,270	-	4,050	355,220
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	94,565	-	4,916	89,649
1999 Fiscal Series A - 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	-	301,470
1999 Fiscal Series B - 4.0% to 5.25% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	171,910	-	-	171,910
2000 Fiscal Series B - 6.00% to 6.10% Serial Bonds maturing in varying installments through 2033	131,865	-	-	131,865
2000 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 - 3.80% to 5.96% Serial Bonds maturing in varying installments through 2019	9,580	-	530	9,050

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	<u>Balance at June 30, 2006</u>	<u>Issued</u>	<u>Retired/ defeased</u>	<u>Balance at June 30, 2007</u>
2001 Fiscal Series B - 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	\$ 67,390	\$ -	\$ 165	\$ 67,225
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	234,800	-	1,860	232,940
2001 Fiscal Series E - 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A - 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	166,305	-	50,000	116,305
2002 Fiscal Series B - 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,455	-	235	171,220
2002 Fiscal Series C - 4.1% to 5.125% Serial and Term Bonds maturing in varying installments through 2032	46,580	-	-	46,580
2002 Fiscal Series D - 3.0% to 4.90% Serial and Term Bonds maturing in varying installments through 2020	41,580	-	85	41,495
2002 Fiscal Series E - 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,850	-	105	213,745
2002 Fiscal Series F - 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	-	-	105,635
2002 Fiscal Series G - 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	<u>Balance at June 30, 2006</u>	<u>Issued</u>	<u>Retired/ defeased</u>	<u>Balance at June 30, 2007</u>
2002 Fiscal Series 1 - 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	\$ 180,638	\$ -	\$ 5,685	\$ 174,953
2002 Fiscal Series 2 - 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	61,835	-	2,501	59,334
2002 Fiscal Series 3 - 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	463,310	-	14,273	449,037
2002 Fiscal Series 4 - 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	200,533	-	8,005	192,528
2002 Fiscal Series 5 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	163,882	-	5,434	158,448
2002 Fiscal Series 6 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	81,319	-	4,872	76,447
2002 Fiscal Series 7 - 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	5,925	-	1,490	4,435
2003 Fiscal Series A - 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	689,180	-	3,335	685,845
2003 Fiscal Series C Adjustable Rate Bonds maturing in 2018	300,300	-	-	300,300
2003 Fiscal Series D - 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	216,355	-	1,830	214,525
2003 Fiscal Series E - 5% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F - Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 - 4.23% to 4.375% Serial Bonds maturing in varying installments through 2032	137,413	-	4,726	132,687

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2003 Fiscal Series 2 - 5.27% Serial Bonds maturing in varying installments through 2028	\$ 561,664	\$ -	\$ 11,590	\$ 550,074
2003 Fiscal Series 3 - 5.15% Serial Bonds maturing in varying installments through 2025	19,825	-	695	19,130
2003 Fiscal Series 4 - 5.18% Serial Bonds maturing in varying installments through 2025	31,545	-	1,110	30,435
2003 Fiscal Series 5 - 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	277,930	-	9,028	268,902
2004 Fiscal Series A - 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2023	338,500	-	1,780	336,720
2004 Fiscal Series C - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	595,745	-	575	595,170
2004 Fiscal Series 1 - 4.12% - 4.45% Serial Bonds maturing in varying installments through 2033	287,567	-	8,712	278,855
2004 Fiscal Series 2 - 4.46% Serial Bonds maturing in varying installments through 2026	249,063	-	7,713	241,350
2005 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000
2005 Fiscal Series B - 2.125% - 5.00% Serial Bonds maturing in varying installments through 2036	921,005	-	1,045	919,960
2005 Fiscal Series C - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2036	575,735	-	730	575,005
2005 Series D - 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 - 3.95% - 5.00% Bonds maturing in varying installments through 2034	223,946	-	6,783	217,163
2005 Fiscal Series 2 - 2.567% - 5.00% Bonds maturing in varying installments through 2026	381,274	-	11,651	369,623
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	519,245	-	355	518,890
2006 Series B - 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Series C - 4.50% - 4.75% Term Bonds maturing in 2033	350,345	-	-	350,345

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2006 Fiscal Series D - 4.5% - 5.00% Serial Bonds maturing in varying installments through 2038	\$ 406,205	\$ -	\$ -	\$ 406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB - 3.25%- 5.00% Serial Bonds maturing in varying installments through 2016	100,000	-	10,000	90,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2036	224,684	-	4,423	220,261
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	201,441	-	2,428	199,013
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	256,388	-	2,910	253,478
2007 Fiscal Series A - 4.25% - 4.75% Serial Bonds maturing in varying installments through 2039	-	587,975	-	587,975
2007 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2037	-	199,910	-	199,910
2007 Fiscal Series BB - 3.75% - 5.00% Serial Bonds maturing in varying installments through 2021	-	134,360	2,615	131,745
2007 Fiscal Series CC - Adjustable rate bonds maturing in varying installments through 2038	-	210,500	-	210,500
2007 Fiscal Series DD - 4.75% - 5.00% Serial Bonds maturing in varying installments through 2039	-	395,000	-	395,000
2007 Fiscal Series 1 - 4.35% - 4.40% Serial Bonds maturing in varying installments through 2036	-	228,112	1,578	226,534
2007 Fiscal Series 2 - 4.45% - 4.50% Serial Bonds maturing in varying installments through 2036	-	290,314	2,042	288,272
2007 Fiscal Series 3 - 4.90% Serial Bonds maturing in varying installments through 2024	-	174,936	-	174,936
Total debt payable	<u>15,934,351</u>	<u>2,221,107</u>	<u>884,274</u>	<u>17,271,184</u>
Current portion of bonds and notes payable	<u>215,061</u>			<u>210,971</u>
Bonds and notes payable, less current portion	<u>\$15,719,290</u>			<u>\$17,060,213</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

Derivatives

In 2004, the Authority entered into a \$200 million interest rate exchange agreement under which the Authority receives a fixed rate in exchange for a floating rate based on the SIFMA Index (formerly the BMA Municipal Swap Index). This effectively converted a portion of the Authority's second resolution bonds issued through the New York State Environmental Facilities Corporation to variable rate bonds. The terms of this agreement require the Authority to pay the SIFMA index and the counterparty to pay 3.567%.

In 2003, the Authority sold \$20 million of muni-CP bonds in the 2013 maturity of its Fiscal 2003 Series A issue. In connection with the muni-CP bonds, the Authority entered into an interest rate exchange agreement under which the Authority receives a floating rate tied to the consumer price index, which matches the rate on the bonds, and pays a fixed interest rate. This allowed the Authority to achieve a yield 10 basis points lower than traditional fixed rate debt with a 2013 maturity. The terms of this transaction require the counterparty to pay the Authority the muni-CP rate, which is set at 1.53% plus a floating rate CPI, with the CPI being equal to the change in the consumer price index.

In keeping with market standards, the Authority or the counterparty may terminate the swap if the other party fails to perform under its terms as defined in the agreements. The Authority views termination risk to be remote at this time. Depending on the fair value at the time of termination, the Authority may have a liability to the counterparties.

Through the swap agreements the Authority is exposed to credit risk, i.e., the risk that the counterparties fail to perform their contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2007 and 2006 was approximately \$3.1 million and \$5.8 million in favor of the counterparty, respectively. To mitigate credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, as defined in the agreement.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 9 - RESTRICTED ASSETS

Certain cash and investments, plus accrued interest and other receivables, of the System are restricted as follows (in thousands):

	<u>2007</u>	<u>2006</u>
<u>The Board</u>		
Operation and maintenance reserve account	\$ 175,151	\$ 157,797
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
	<u>175,161</u>	<u>157,807</u>
<u>The Authority</u>		
Revenue fund	161,863	171,859
Debt service reserve fund	801,226	787,808
Construction fund	259,708	62,097
Arbitrage fund	6,519	-
Escrow fund	<u>194,713</u>	<u>293,394</u>
	<u>1,424,029</u>	<u>1,315,158</u>
	<u>\$1,599,190</u>	<u>\$1,472,965</u>

The operation and maintenance reserve account is established as a depository to hold the operations and maintenance reserve fund as required by the Resolution. It is required to hold one-sixth of the operating expenses as set forth in the annual budget. It is funded through the cash receipts of the Board. The operation and maintenance reserve general account is established as a depository to hold all excess funds of the Board after all legally mandated transfers have been made. It is available to meet any deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

The revenue fund is established as a depository to fund the debt service, Authority expense, debt service reserve and escrow funds. It is funded through cash transfers from the Board. The debt service reserve fund is established as a depository to hold the maximum annual debt service requirement for the next current or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 9 (continued)

The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. The construction fund is established as a depository to pay all capital construction costs incurred by the City and reimbursed by the Authority. It is funded through the proceeds of commercial paper, bond and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Construction

The System has contractual commitments of approximately \$7 billion and \$5.1 billion at June 30, 2007 and 2006, respectively, for water and sewer projects.

b. Claims and Litigation

In accordance with the Lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. The System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, the City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of law. As of June 30, 2007, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$255.3 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's balance sheet. The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 10 (continued)

c. Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all nonpurpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During 2007 and 2006, the System paid \$2,458 thousand and \$882 thousand, respectively, in rebates. At June 30, 2007 and 2006, the Authority had a liability of \$6.733 million and \$7.493 million, respectively.

NOTE 11 - PENSION PLANS

During 2007, the System employed four individuals at the Water Authority. Pension expense for these employees totaled \$239,000. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of the City employees' pension through an allocation of fringe benefit costs, which are included principally within operations and maintenance expenses in the accompanying financial statements.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority's policy is to provide certain health and related benefits to eligible retirees of the Authority, which constitute another post-employment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

The Authority's policy is to follow the eligibility criteria applicable to retirees of the City and to provide benefits substantially the same as those provided to City retirees and eligible beneficiaries/dependents. OPEB benefits include health insurance, Medicare Part B reimbursements, and welfare fund contributions.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

Funding Policy

The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal years ended June 30, 2007 and 2006, the Authority had no retirees, and thus made no contribution. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that requires contributions.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB Statement No. 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2006, which was the basis for the 2007 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost for the years, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the years ended June 30, 2007:

	<u>2007</u>
Annual required contribution	\$ 229,398
Interest on net OPEB obligations	15,920
Adjustment to annual required contribution	<u>(413,930)</u>
Annual OPEB cost (reduction in liability)	(168,612)
Payments	<u>-</u>
Decrease in net OPEB obligation	(168,612)
Net OPEB obligation - beginning of year	<u>398,010</u>
Net OPEB obligation - end of year	<u>\$ 229,398</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2007 and June 30, 2006 were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2007	\$(168,010)	0%	\$229,398
June 30, 2006	\$ 398,010	0%	\$398,010

The OPEB cost for fiscal 2007 was negative to reflect the reduction of the Authority's OPEB liability that resulted from the transfer of a large portion of the Authority's administrative staff members to the City, which assumed the OPEB obligations for the transferred staff members.

Funded Status and Funding Progress

As of June 30, 2006, the most recent actuarial valuation date, the cost was 0.0% funded. The actuarial accrued liability for benefits was \$173 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$173 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$306 thousand, and the ratio of the UAAL to the covered payroll was 57%.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2006 and 2005, and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information (unaudited)

Schedule of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial liability (AAL) - entry age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
6/30/06	\$ -	\$172,974	\$172,974	0%	\$ 306,155	56%
6/30/05	-	308,348	308,348	0%	1,041,223	29%

NOTE 13 - SUBSEQUENT EVENTS

On October 10, 2007, the Authority issued fiscal 2007 Series AA Second Resolution Bonds in the aggregate amount of \$400.0 million to reimburse outstanding commercial paper notes and to pay certain costs of issuance.

On October 24, 2007, the Authority issued fiscal 2007 Series BB Second Resolution Bonds in the aggregate amount of \$401.0 million to refund outstanding bonds and to pay for certain costs of issuance.

On October 24, 2007, the Authority issued fiscal 2007 Series CC Second Resolution Bonds in the aggregate amount of \$352.2 million to refund outstanding commercial paper notes and to pay for certain costs of issuance.