

New York City Water and Sewer System

(A Component Unit of The City of New York)

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009, and
Independent Auditors' Report

NEW YORK CITY WATER AND SEWER SYSTEM

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combining balance sheets 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 June 30, 2010 and 2009, and the related combining statements of revenues, expenses and changes in net assets (deficit), and cash flows for the years then ended. These financial statements 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. 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 opinion.

In our opinion, such financial statements 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, 2010 and 2009, and the respective changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in 2010 the System changed its method of accounting for derivative instruments to conform to Governmental Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and in 2009 the System changed its method of accounting for pollution remediation obligations to conform to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The accompanying management's discussion and analysis ("MD&A") on pages 2-8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.



September 28, 2010

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, 2010 and 2009. 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 System is a component unit of The City of New York ("The City").

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) standards. 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 fiscal years 2010, 2009 and 2008 (in thousands):

	2010	2009	2008	Variance	
				2010 v 2009	2009 v 2008
REVENUES:					
Water supply and distribution	\$ 1,005,045	\$ 920,033	\$ 784,856	\$ 85,012	\$ 135,177
Sewer collection and treatment	1,562,777	1,430,588	1,220,653	132,189	209,935
Other operating revenues	190,251	97,946	97,778	92,305	168
Total operating revenues	2,758,073	2,448,567	2,103,287	309,506	345,280
Subsidy income	128,110	108,708	104,234	19,402	4,474
Investment income	65,760	106,234	108,892	(40,474)	(2,658)
Total revenues	2,951,943	2,663,509	2,316,413	288,434	347,096
EXPENSES:					
Operations and maintenance	1,829,835	1,448,268	1,320,439	381,567	127,829
Bad debt expense	14,032	36,060	-	(22,028)	36,060
Administration and general	40,257	50,581	44,027	(10,324)	6,554
Depreciation and amortization	574,483	696,345	646,377	(121,862)	49,968
Capital distribution	32,580	51,921	24,619	(19,341)	27,302
Loss on retirement of capital assets	23,254	299,450	14,598	(276,196)	284,852
Interest expense	1,019,633	929,333	834,085	90,300	95,248
Total expenses	3,534,074	3,511,958	2,884,145	22,116	627,813
Net loss before capital contributions	(582,131)	(848,449)	(567,732)	266,318	(280,717)
CAPITAL CONTRIBUTIONS	30,424	11,529	7,340	18,895	4,189
CHANGE IN NET ASSETS	(551,707)	(836,920)	(560,392)	285,213	(276,528)
NET ASSETS — Beginning	271,190	1,165,891	1,726,283	(894,701)	(560,392)
Restatements of beginning net assets (note 2)	-	(57,781)	-	57,781	(57,781)
NET (DEFICIT) ASSETS — Ending	\$ (280,517)	\$ 271,190	\$ 1,165,891	\$ (551,707)	\$ (894,701)

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenue

2010-2009

Operating revenues increased by 12.6% due primarily to a rate increase of 12.9%

2009-2008

Operating revenues increased by 16.4% primarily due to a rate increase of 14.5%

The following summarizes other operating revenues for fiscal years 2010, 2009, and 2008 (in thousands):

	2010	2009	2008	Variance	
				2010 v 2009	2009 v 2008
Upstate water fees	\$ 40,876	\$ 42,197	\$ 45,978	\$ (1,321)	\$ (3,781)
Late payment fees	29,107	18,708	24,261	10,399	(5,553)
Change in residual interest in sold liens	2,156	21,681	16,896	(19,525)	4,785
Release of escrow	98,820	-	-	98,820	-
Federal funding	2,733	-	-	2,733	-
Litigation settlement receipt	8,867	-	-	8,867	-
Connection fees and permits	<u>7,692</u>	<u>15,360</u>	<u>10,643</u>	<u>(7,668)</u>	<u>4,717</u>
Total other operating revenues	<u>\$ 190,251</u>	<u>\$ 97,946</u>	<u>\$ 97,778</u>	<u>\$ 92,305</u>	<u>\$ 168</u>

2010-2009

In fiscal year 2010 the System received \$98.8 million from an escrow account established in 1989 for penalties pertaining to ocean dumping. By meeting certain conditions, the System was entitled to use the funds from the escrow account for certain operations and maintenance costs. The System also received a litigation settlement of \$8.8 million relating to contamination of ground water by the gasoline additive methyl tert-butyl ether (MTBE).

Late payment fees increased by \$10.4 million compared to 2009, when a payment incentive program resulted in late payment charge forgiveness for participants. The change in residual interest in sold liens decreased by \$19.5 million.

Connection fees and permits decreased by almost 50% due to the economy.

Federal funding was received by the Water Board in fiscal year 2010 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

2009-2008

Overall, other operating revenues remained level for Fiscal 2009. Late payments fees decreased by \$5.5 million or 23%. The residual interest in sold liens increased because as of June 30, 2009 the tax lien trust which received water and sewer liens from the Board in Fiscal 2009 had not yet issued bonds or made payment to the Board for those liens.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Investment Income

2010-2009

Investment income decreased by \$40.4 million or 38.1%. The decrease was due to lower interest rates on invested assets and an unrealized loss of \$0.3 million on forward purchase agreements in Fiscal 2010 compared to a gain of \$17.9 million in Fiscal 2009. Additionally, the fiscal year 2009 investment income has been restated to include a \$7.1 million gain in the value of non-hedge derivatives, as discussed further below.

Investment income

2009-2008

Investment income decreased by \$2.6 million or 2.4%. The decrease was due to lower interest rates on invested assets.

Operating Expenses

2010-2009

Total operations and maintenance expenses increased by \$381.5 million or 26.3%. The increase is due primarily to a large retroactive collective bargaining settlement covering certain City employees involved in operations of the System costing \$267.4 million. In addition, pollution remediation expense increased by \$71.7 million and payments for upstate watershed improvements increased by \$19.5 million. Water Board general and administration expenses decreased by \$17.0 million due to decreases in certain outside contractor costs. Water Authority general and administration expenses increased by \$6.7 million primarily for fees related to new variable rate debt.

2009-2008

The System has implemented GASB Statement 49, (GASB 49) *Accounting and Financial Reporting for Pollution Remediation Obligations* requiring the reporting of pollution remediation obligations ("PROs"). At June 30, 2009, the System reported \$119 million of liabilities for known PROs and restated its fiscal year 2009 beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of \$61.6 million for known PROs.

Total operations and maintenance expenses increased by \$127.8 million or 10%. An expense of \$132.7 million for pollution remediation, recognized for the first time in Fiscal 2009 due to the implementation of GASB 49, was partially offset by a decrease in judgments and claims. Fringe benefits increased by \$27 million, reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense increased by \$36 million due to increased estimated customer delinquencies.

Non-operating Expenses

2010-2009

Interest expense increased by \$90.3 million or 9.7%, primarily due to an increase in bonds outstanding of \$2.1 billion or 9.8%.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2009-2008

The System recognized \$299 million of losses on retirement of fixed assets that were disposed of or taken out of service as of June 30, 2009.

Interest expense increased by \$95 million or 11%, primarily due to an increase in bonds outstanding of \$2.6 billion or 14%.

Following is a summary of the System's assets, liabilities and net assets as of June 30, (in thousands):

	2010	2009	2008	Variance	
				2010 v 2009	2009 v 2008
Current Assets	\$ 2,132,321	\$ 2,446,524	\$ 2,091,480	\$ (314,203)	\$ 355,044
Residual Interest in Sold Liens	40,734	38,578	16,896	2,156	21,682
Deferred outflows from hedging	71,930	47,745	-	24,185	47,745
Deferred Bond and Financing Expenses	163,703	152,516	137,508	11,187	15,008
Capital Assets	<u>23,016,469</u>	<u>21,139,238</u>	<u>19,347,150</u>	<u>1,877,231</u>	<u>1,792,088</u>
Total Assets	<u>\$ 25,425,157</u>	<u>\$ 23,824,601</u>	<u>\$21,593,034</u>	<u>\$ 1,600,556</u>	<u>\$2,231,567</u>
Long-Term Liabilities	\$ 23,549,533	\$ 21,458,003	\$18,668,449	\$ 2,091,530	\$2,789,554
Current Liabilities	<u>2,156,141</u>	<u>2,095,408</u>	<u>1,758,694</u>	<u>60,733</u>	<u>336,714</u>
Total liabilities	<u>25,705,674</u>	<u>23,553,411</u>	<u>20,427,143</u>	<u>2,152,263</u>	<u>3,126,268</u>
Net Assets (Deficit):					
Invested in capital assets — net of related debt	920,728	1,253,882	1,737,181	(333,154)	(483,299)
Restricted for debt service	239,192	285,348	209,130	(46,156)	76,218
Restricted for operations and maintenance	191,772	195,844	200,438	(4,072)	(4,594)
Unrestricted (deficit)	<u>(1,632,209)</u>	<u>(1,463,884)</u>	<u>(980,858)</u>	<u>(168,325)</u>	<u>(483,026)</u>
Total net (deficit) assets	<u>(280,517)</u>	<u>271,190</u>	<u>1,165,891</u>	<u>(551,707)</u>	<u>(894,701)</u>
Total Liabilities and Net Assets	<u>\$ 25,425,157</u>	<u>\$ 23,824,601</u>	<u>\$21,593,034</u>	<u>\$ 1,600,556</u>	<u>\$2,231,567</u>

2010-2009

Current assets decreased by \$314.2 million or 12.8%. Investment including cash equivalent decreased by \$437.9 million primarily in the construction and escrow funds. Construction Funds decreased due to the timing of bond issuances and payments to The City for capital costs and payments from escrow account to defease bonds. Net receivables increased by \$123.7 million.

Deferred outflows from hedging increased by \$24.1 million due to a decline in the fair value of the hedging derivative instruments. The System implemented Governmental Accounting Standards Board ("GASB") Statement No. 53 ("GASB 53"), *Accounting and Financial Reporting for Derivative Instruments*, in Fiscal 2010, which resulted in the restatement of Fiscal 2009 beginning net asset balance of \$3.8 million, the recording of a miscellaneous revenue, and an asset, deferred outflows from hedging, of \$47.7 million and a liability, interest rate swap agreement – net, of \$36.8 million.

Long term liabilities increased by \$2.1 billion due to the increase in long term portion of bonds payable of \$2.0 billion.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Pollution remediation has decreased by \$44.7 million as System has performed remediation of known pollution.

Current liabilities increased by \$60.7 million or 2.9% due to an increase of \$87.2 million in the amount payable to The City for capital costs and an increase of \$98.5 million in current portion of bonds and notes payable which was mostly offset by decrease in revenues received in advance, decrease in commercial paper payable and decrease in refunds payable to customers.

2009–2008

Current assets increased by \$355.0 million or 17%. Investments including cash equivalents increased by \$253 million primarily in the construction and revenue funds, due to the timing of bond issuances and payments to The City for capital costs. Net receivables increased by \$125.9 million.

The residual interest in sold liens increased by \$22 million, as discussed above.

Deferred outflows from hedging increased from 2008 to 2009 as a result of the restatement resulting from the implementation of GASB 53, as discussed above. The \$47.7 million balance represents the inception to date change in fair value of the hedging derivatives.

Long term liabilities increased by \$2.8 billion due to the increase in bonds payable of \$2.6 billion and the pollution remediation obligation of \$119 million, as discussed above.

Current liabilities increased by \$336.7 million or 19.1% primarily due to an increase in the amount payable to The City for capital costs.

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Capital assets as of June 30 are detailed as follows (in thousands):

	2010	2009	2008	Variance	
				2010 v 2009	2009 v 2008
Utility plant under construction	\$ 6,112,362	\$ 5,072,496	\$ 4,011,216	\$ 1,039,866	\$ 1,061,280
Utility plant in service:					
Buildings	24,193	24,193	23,493	-	700
Equipment	1,538,451	1,375,904	998,427	162,547	377,477
Vehicles	157,179	155,318	123,891	1,861	31,427
Water supply and wastewater treatment systems	15,424,628	14,382,432	13,629,052	1,042,196	753,380
Water distribution and sewage collection systems	8,316,190	8,165,612	8,239,032	150,578	(73,420)
Total utility plant in service	25,460,641	24,103,459	23,013,895	1,357,182	1,089,564
Less accumulated depreciation for:					
Buildings	(16,444)	(16,138)	(14,376)	(306)	(1,762)
Equipment	(573,595)	(499,543)	(420,649)	(74,052)	(78,894)
Vehicles	(98,852)	(93,242)	(87,957)	(5,610)	(5,285)
Water supply and wastewater treatment systems	(5,056,201)	(4,701,459)	(4,429,445)	(354,742)	(272,014)
Water distribution and sewage collection systems	(2,811,442)	(2,726,335)	(2,725,534)	(85,107)	(801)
Total accumulated depreciation	(8,556,534)	(8,036,717)	(7,677,961)	(519,817)	(358,756)
Total — net utility plant in service	16,904,107	16,066,742	15,335,934	837,365	730,808
Total capital assets, net	\$23,016,469	\$21,139,238	\$ 19,347,150	\$ 1,877,231	\$ 1,792,088

The net increase in the System's capital assets net of depreciation during Fiscal 2010 was \$1.9 billion or 8.9%. Capital asset additions for Fiscal 2010 were \$2.4 billion.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The net increase in the System's capital assets net of depreciation during Fiscal 2009 was \$1.6 billion or 9%. Capital asset additions for Fiscal 2009 were \$2.1 billion.

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, 2010, the total outstanding debt of the System was \$24.6 billion, of which \$600 million was commercial paper. The remaining \$24.0 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2042. The total outstanding long-term debt at June 30, 2010 was as follows (in thousands):

Issue Date	
2010	\$ 3,140,779
2009	3,500,294
2008	2,872,756
2007	2,152,442
2006	2,502,230
2005 and prior	<u>9,809,214</u>
Total long-term debt	<u>\$ 23,977,715</u>

In the summary above, bonds retired through refundings in Fiscal 2010 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the Fiscal 2010 amount.

In Fiscal 2010, the Authority issued \$2.7 billion of water and sewer revenue bonds directly to the public, including \$577.9 million of refunding bonds and \$2.2 billion of new money bonds. The Authority also issued \$406.7 million of new money Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the water and sewer system, to provide long-term financing of commercial paper notes, which had previously financed capital improvements to the system and to pay the costs of issuance on the bonds.

On November 5, 2009, NYW issued \$504.2 million of fixed rate new money second general resolution revenue bonds, Fiscal 2010 Series AA. The bonds are taxable Build America Bonds. Build America Bonds (BABs) allow NYW to issue higher cost taxable bonds and receive a reimbursement from the federal government for 35% of the annual interest on the bonds. This bond issue included two term bonds maturing in 2041. The Authority used the bond proceeds to pay the costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds. Additionally, on November 5, 2009, NYW issued \$218.8 million of tax-exempt fixed rate refunding bonds under its second general resolution. The 2010 Series BB bonds refunded a portion of the 1998 Series D, 1999 Series A and 1999 Series B first resolution bonds and paid the costs of issuance. The Fiscal 2010 Series BB bonds included serial bonds maturing from 2012 through 2027.

On December 16, 2009, NYW issued \$200.0 million of tax-exempt, new money second general resolution revenue bonds, Fiscal 2010 Series CC bonds. The bonds are variable rate demand obligations backed by a standby bond purchase agreement from a bank. These bonds will mature in 2041. The Authority used the bond proceeds to refund its commercial paper notes series 5 Lot B, to pay the costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

On February 3, 2010, NYW issued \$400.0 million of fixed rate new money second general resolution revenue bonds, Fiscal 2010 Series DD. The bonds are taxable Build America Bonds. This bond issue included two term bonds maturing in 2041 and 2042. The Authority used the bond proceeds to pay the costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

On February 11, 2010, NYW issued fixed-rate new money second general resolution revenue bonds, Fiscal 2010 Series 2, 3 and 4 to EFC, in the respective par amounts of \$142.8 million, \$67.4 million and \$196.5 million. The bonds included serial bonds maturing from 2010 to 2029 and term bonds maturing in 2030 and 2039. The Authority used the bond proceeds to refund its commercial paper notes Series 7 and Series 8 and to pay the costs of issuance of the bonds.

On March 18, 2010, NYW issued \$500.0 million of fixed rate, new money second general resolution revenue, Fiscal 2010 Series EE. The bonds are taxable Build America Bonds. This bond issue included two term bonds maturing in 2042. The Authority used the bond proceeds to refund the Authority's commercial paper notes series 1, to pay the costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

On March 25, 2010, NYW issued \$359.1 million of tax-exempt, fixed rate refunding bonds under its second general resolution. The Fiscal 2010 Series FF bonds refunded \$380.3 million of its outstanding first resolution revenue bonds, including all or a portion of the Authority's 1998 Series D, 1999 Series B, 2001 Series B and 2003 Series D bonds and paid the costs of issuance of the bonds. The Fiscal 2010 Series FF bonds included serial bonds maturing from 2016 through 2031.

On June 30, 2010, NYW issued \$554.1 million of fixed rate new money second general resolution revenue bonds, Fiscal 2010 Series GG. The bonds are taxable Build America Bonds. This bond issue included two term bonds maturing in 2042. The Authority used the bond proceeds to refund the Authority's commercial paper notes Series 1 and Series 6 to pay the costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

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 12.9% for Fiscal 2011, based on projected revenues and cost, became effective July 1, 2010.

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, Director of Media and Investor 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.

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NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

June 30, 2010

(In thousands)

	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 171,337	\$ 952,625	\$ -	\$ 1,123,962
Investments	26,578	349,602	-	376,180
Accrued interest and subsidy receivable	178	1,288	-	1,466
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of \$233,977	299,528	-	-	299,528
Unbilled	242,944	-	-	242,944
Receivable from the City of New York	88,241	-	-	88,241
Total current assets	828,806	1,303,515	-	2,132,321
UTILITY PLANT IN SERVICE — Less accumulated depreciation of \$8,556,534	16,904,107	-	-	16,904,107
UTILITY PLANT CONSTRUCTION	6,112,362	-	-	6,112,362
Total capital assets	23,016,469	-	-	23,016,469
Revenue required to be billed by and received from the board	-	14,500,294	(14,500,294)	-
Residual interest in sold liens	40,734	-	-	40,734
Deferred outflows from hedging	-	71,930	-	71,930
Long-term deferred bond and financing expenses	-	163,703	-	163,703
Total non current assets and deferred items	23,057,203	14,735,927	(14,500,294)	23,292,836
TOTAL	\$ 23,886,009	\$ 16,039,442	\$ (14,500,294)	\$ 25,425,157

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

June 30, 2010

(In thousands)

	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	\$ -	\$ 23,613,153	\$ -	\$ 23,613,153
Net discount on bonds and notes payable	-	115,844	-	115,844
Unamortized deferred bond refunding costs	-	(309,288)	-	(309,288)
Pollution remediation obligation	74,260	-	-	74,260
OPEB Liability	-	534	-	534
Interest rate swap agreement - net	-	55,030	-	55,030
Revenue requirements payable to the Authority	14,500,294	-	(14,500,294)	-
Total long-term liabilities	14,574,554	23,475,273	(14,500,294)	23,549,533
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	44,974	56,623	-	101,597
Revenues received in advance	57,329	-	-	57,329
Commercial paper payable	-	600,000	-	600,000
Current portion of bonds and notes payable	-	364,562	-	364,562
Payable to The City of New York	-	967,943	-	967,943
Refunds payable to customers	64,710	-	-	64,710
Total current liabilities	167,013	1,989,128	-	2,156,141
Total liabilities	14,741,567	25,464,401	(14,500,294)	25,705,674
NET ASSETS:				
Invested in capital assets — net of related debt	23,016,469	(22,095,741)	-	920,728
Restricted for debt service	-	239,192	-	239,192
Restricted for operations and maintenance	191,772	-	-	191,772
Unrestricted (deficit)	(14,063,799)	12,431,590	-	(1,632,209)
Total net assets	9,144,442	(9,424,959)	-	(280,517)
TOTAL	\$ 23,886,009	\$ 16,039,442	\$ (14,500,294)	\$ 25,425,157

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

June 30, 2009

(In thousands)

	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 109,990	\$ 1,060,452	\$ -	\$ 1,170,442
Investments	91,746	675,875	-	767,621
Accrued interest receivable	360	3,296	-	3,656
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of \$219,445	276,292	-	-	276,292
Unbilled	215,185	-	-	215,185
Receivable from The City of New York	13,328	-	-	13,328
Total current assets	<u>706,901</u>	<u>1,739,623</u>	<u>-</u>	<u>2,446,524</u>
UTILITY PLANT IN SERVICE — Less accumulated depreciation of \$8,036,717	16,066,742	-	-	16,066,742
UTILITY PLANT CONSTRUCTION	<u>5,072,496</u>	<u>-</u>	<u>-</u>	<u>5,072,496</u>
Total capital assets	<u>21,139,238</u>	<u>-</u>	<u>-</u>	<u>21,139,238</u>
Revenue required to be billed by and received from the board	-	12,763,380	(12,763,380)	-
Residual interest in sold liens	38,578	-	-	38,578
Deferred outflows from hedging	-	47,745	-	47,745
Long-term deferred bond and financing expenses	<u>-</u>	<u>152,516</u>	<u>-</u>	<u>152,516</u>
Total non current assets and deferred items	<u>21,177,816</u>	<u>12,963,641</u>	<u>(12,763,380)</u>	<u>21,378,077</u>
TOTAL	<u>\$ 21,884,717</u>	<u>\$ 14,703,264</u>	<u>\$ (12,763,380)</u>	<u>\$ 23,824,601</u>

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

JUNE 30, 2009

(In thousands)

	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	\$ -	\$ 21,568,771	\$ -	\$ 21,568,771
Net discount on bonds and notes payable	-	50,699	-	50,699
Unamortized deferred bond refunding costs	-	(317,628)	-	(317,628)
Pollution remediation obligation	118,960	-	-	118,960
OPEB liability	-	395	-	395
Interest rate swap agreement - net	-	36,806	-	36,806
Revenue requirements payable to the Authority	<u>12,763,380</u>	<u>-</u>	<u>(12,763,380)</u>	<u>-</u>
Total long-term liabilities	<u>12,882,340</u>	<u>21,339,043</u>	<u>(12,763,380)</u>	<u>21,458,003</u>
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	46,946	50,109	-	97,055
Revenues received in advance	77,672	-	-	77,672
Commercial paper payable	-	700,000	-	700,000
Current portion of bonds and notes payable	-	266,026	-	266,026
Payable to The City of New York	-	880,664	-	880,664
Refunds payable to customers	<u>73,991</u>	<u>-</u>	<u>-</u>	<u>73,991</u>
Total current liabilities	<u>198,609</u>	<u>1,896,799</u>	<u>-</u>	<u>2,095,408</u>
Total liabilities	<u>13,080,949</u>	<u>23,235,842</u>	<u>(12,763,380)</u>	<u>23,553,411</u>
NET ASSETS:				
Invested in capital assets — net of related debt	21,139,238	(19,885,356)	-	1,253,882
Restricted for debt service	-	285,348	-	285,348
Restricted for operations and maintenance	195,844	-	-	195,844
Unrestricted (deficit)	<u>(12,531,314)</u>	<u>11,067,430</u>	<u>-</u>	<u>(1,463,884)</u>
Total net assets	<u>8,803,768</u>	<u>(8,532,578)</u>	<u>-</u>	<u>271,190</u>
TOTAL	<u>\$ 21,884,717</u>	<u>\$ 14,703,264</u>	<u>\$ (12,763,380)</u>	<u>\$ 23,824,601</u>

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2010

(In thousands)

	New York City		
	Water	Municipal	
	Board	Water	
		Finance	
		Authority	Total
	Water	Municipal	Total
	Board	Water	Total
		Finance	
		Authority	Total
OPERATING REVENUES:			
Water supply and distribution	\$ 1,005,045	\$ -	\$ 1,005,045
Sewer collection and treatment	1,562,777	-	1,562,777
Other operating revenues	190,251	-	190,251
	<u>2,758,073</u>	<u>-</u>	<u>2,758,073</u>
Total operating revenues			
OPERATING EXPENSES:			
Operation and maintenance	1,829,835	-	1,829,835
Bad debt expense	14,032	-	14,032
Administration and general	9,837	30,420	40,257
	<u>1,853,704</u>	<u>30,420</u>	<u>1,884,124</u>
Total operating expenses			
DEPRECIATION AND AMORTIZATION	<u>539,008</u>	<u>35,475</u>	<u>574,483</u>
OPERATING INCOME (LOSS)	365,361	(65,895)	299,466
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,019,633)	(1,019,633)
Loss on retirement of capital assets	(23,254)	-	(23,254)
Subsidy income	-	128,110	128,110
Capital distribution	(32,580)	-	(32,580)
Investment income	723	65,037	65,760
	<u>310,250</u>	<u>(892,381)</u>	<u>(582,131)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS			
CAPITAL CONTRIBUTION	<u>30,424</u>	<u>-</u>	<u>30,424</u>
CHANGE IN NET ASSETS	340,674	(892,381)	(551,707)
NET ASSETS (DEFICIT) — Beginning of year	<u>8,803,768</u>	<u>(8,532,578)</u>	<u>271,190</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 9,144,442</u>	<u>\$ (9,424,959)</u>	<u>\$ (280,517)</u>

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	\$ 920,033	\$ -	\$ 920,033
Sewer collection and treatment	1,430,588	-	1,430,588
Other operating revenues	<u>97,946</u>	<u>-</u>	<u>97,946</u>
Total operating revenues	<u>2,448,567</u>	<u>-</u>	<u>2,448,567</u>
OPERATING EXPENSES:			
Operation and maintenance	1,448,268	-	1,448,268
Bad debt expense	36,060	-	36,060
Administration and general	<u>26,858</u>	<u>23,723</u>	<u>50,581</u>
Total operating expenses	<u>1,511,186</u>	<u>23,723</u>	<u>1,534,909</u>
DEPRECIATION AND AMORTIZATION	<u>659,733</u>	<u>36,612</u>	<u>696,345</u>
OPERATING INCOME (LOSS)	277,648	(60,335)	217,313
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(929,333)	(929,333)
Loss on retirement of fixed assets	(299,450)	-	(299,450)
Subsidy income	-	108,708	108,708
Capital distribution	(51,921)	-	(51,921)
Investment income	<u>3,200</u>	<u>103,034</u>	<u>106,234</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(70,523)	(777,926)	(848,449)
CAPITAL CONTRIBUTION	<u>11,529</u>	<u>-</u>	<u>11,529</u>
CHANGE IN NET ASSETS	(58,994)	(777,926)	(836,920)
NET ASSETS (DEFICIT) — Beginning of year	8,924,370	(7,758,479)	1,165,891
Restatement of beginning net assets (note 2)	<u>(61,608)</u>	<u>3,827</u>	<u>(57,781)</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 8,803,768</u>	<u>\$ (8,532,578)</u>	<u>\$ 271,190</u>

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

(In thousands)

	New York City Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,550,371	\$ -	\$ 2,550,371
Payments for operations and maintenance	(1,507,072)	-	(1,507,072)
Payments for administration	(9,074)	(29,231)	(38,305)
	<u>1,034,225</u>	<u>(29,231)</u>	<u>1,004,994</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,361,789	4,361,789
Acquisition and construction of capital assets	-	(2,689,060)	(2,689,060)
Payments by the Board to the Authority	(1,039,425)	1,039,425	-
Repayments of bonds, notes and other borrowings	-	(2,304,113)	(2,304,113)
Interest paid on bonds, notes and other borrowings	-	(888,099)	(888,099)
	<u>(1,039,425)</u>	<u>(480,058)</u>	<u>(1,519,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	91,130	386,721	477,851
Purchases of investments	(26,578)	(54,855)	(81,433)
Interest on investments	1,995	69,596	71,591
	<u>66,547</u>	<u>401,462</u>	<u>468,009</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	61,347	(107,827)	(46,480)
CASH AND CASH EQUIVALENTS — Beginning of year	109,990	1,060,452	1,170,442
CASH AND CASH EQUIVALENTS — End of year	\$ 171,337	\$ 952,625	\$ 1,123,962

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

(In thousands)

	New York City Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 365,363	\$ (65,895)	\$ 299,468
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	539,008	35,475	574,483
Operations and maintenance expense paid for with bond proceeds	85,599	-	85,599
Pollution remediation expense	249,091	-	249,091
Changes in assets and liabilities (net):			
Pollution remediation liability	(44,700)	-	(44,700)
Receivables — net	(109,699)	-	(109,699)
Receivable from the City	(74,913)	-	(74,913)
Residual interest in sold liens	(2,156)	-	(2,156)
Accounts payable	(1,972)	1,189	(783)
Revenues received in advance	(20,343)	-	(20,343)
Accrued interest receivable	182	-	182
Refunds payable	48,765	-	48,765
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,034,225</u>	<u>\$ (29,231)</u>	<u>\$ 1,004,994</u>

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of (\$1,177) in 2010.

Capital expenditures in the amount of \$967,943 had been incurred but not paid at June 30, 2010.

The Board received capital assets of \$30,424 in 2010 which represented capital contributed by the City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City		
	Water	Municipal	
	Board	Water	
		Finance	
		Authority	Total
	<u>Water</u>	<u>Authority</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,331,041	\$ -	\$ 2,331,041
Payments for operations and maintenance	(1,273,908)	-	(1,273,908)
Payments for administration and general	<u>(24,952)</u>	<u>(22,737)</u>	<u>(47,689)</u>
Net cash provided by (used in) operating activities	<u>1,032,181</u>	<u>(22,737)</u>	<u>1,009,444</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,448,758	4,448,758
Acquisition and construction of capital assets	-	(2,570,868)	(2,570,868)
Payments by the Board to the Authority	(1,049,850)	1,049,850	-
Repayments of bonds, notes and other borrowings	-	(1,943,379)	(1,943,379)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(805,667)</u>	<u>(805,667)</u>
Net cash used in capital and related financing activities	<u>(1,049,850)</u>	<u>178,694</u>	<u>(871,156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	-	398,074	398,074
Purchases of investments	-	(683,935)	(683,935)
Interest on investments	<u>1,675</u>	<u>66,939</u>	<u>68,614</u>
Net cash (used in) provided by investing activities	<u>1,675</u>	<u>(218,922)</u>	<u>(217,247)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,994)	(62,965)	(78,959)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>125,984</u>	<u>1,123,417</u>	<u>1,249,401</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 109,990</u>	<u>\$ 1,060,452</u>	<u>\$ 1,170,442</u>

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City Municipal Water Finance Authority	Water Board	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ (60,335)	\$ 277,648	\$ 217,313
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	36,612	659,733	696,345
Operations and maintenance expense paid for with bond proceeds	-	141,405	141,405
Changes in assets and liabilities (net):			
Pollution remediation liability	-	57,352	57,352
Receivables — net	-	(118,519)	(118,519)
Receivable from the City	-	9,597	9,597
Residual interest in sold liens	-	(21,681)	(21,681)
Accounts payable	986	(32,086)	(31,100)
Revenues received in advance	-	2,428	2,428
Accrued interest receivable	-	(234)	(234)
Refunds payable	-	56,538	56,538
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (22,737)</u>	<u>\$ 1,032,181</u>	<u>\$ 1,009,444</u>

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of (\$3,423) in 2009.

Capital expenditures in the amount of \$739,435 had been incurred but not paid at June 30, 2009.

The Board received capital assets of \$11,279 in 2009 which represented capital contributed by The City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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 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 Governmental Accounting Standards Board (“GASB”) standards, 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.

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. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (“FASB”) prior to December 1, 1989 are followed by the System to the extent that those standards do not conflict with or contradict guidance of GASB. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

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. All investments are carried at fair value with the exception of money market funds which are carried at cost plus accrued interest. For purposes of the statements of cash flows and

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

statement of net assets, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Assets — Net Asset Classification — Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted based on the requirements of the applicable bond indentures in the net asset classification.

Lien sales and residual interest in sold lien — The City periodically sells tax liens secured by water and sewer rents and surcharges, for which the Board receives the applicable sale proceeds. At the time of sale, the Board recognizes the proceeds as operating revenue and removes the related receivables. The Board maintains a residual interest in the liens, which represents the amount estimated to be received by the Board if and when liens held by the purchasing trusts generate cash flows above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

Bond Discount and Bond Issuance Costs — 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.

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 with a cost of \$35,000 or more and a useful life of five years or longer. 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:

Buildings	40–50
Water supply and wastewater treatment systems	15–50
Water distribution and sewage collection systems	15–75
Equipment	5–35
Vehicles	10

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for some improvements for assets that are not owned by The City or the System, as well as certain pollution remediation activities, through bond proceeds. These costs are shown as operations and maintenance expenses in the statements

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 or, in some cases, characteristics of customer properties. The System records estimated unbilled revenue at year-end. Operating expenses include 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.

Deferred Revenues — Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Customer account credit balances are included in refunds payable not in accounts receivables.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Bond Refunding Costs — Deferred bond refunding costs represent the accounting gains or losses 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.

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.

In November 2006 GASB issued Statement No. 49, (“GASB 49”), *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement established accounting and financial reporting standards for obligations to address current or potential detrimental effects of existing pollution. GASB 49 is effective for financial statements for periods beginning after December 15, 2007, and was implemented by the System for its Board’s Fiscal 2009. The implementation of GASB 49 resulted in a restatement (discussed further below) of the Fiscal 2009 beginning net asset balance of \$61.6 million, reflecting the pollution remediation obligation as of June 30, 2008. For further information pertaining to pollution remediation obligations also see note 14.

In June 2007 GASB issued Statement No. 51, (“GASB 51”) *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that intangible assets generally be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. GASB 51 is effective for financial statements for periods beginning after June 15, 2009 and was implemented by the System for its fiscal 2010. The implementation had no impact on its financial statements.

In June 2008 GASB issued Statement No. 53, (“GASB 53”), *Accounting and Financial Reporting for Derivative Instruments*. This Standard established guidance on the recognition, measurement, and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. GASB 53 is effective for financial statements for periods beginning after June 15, 2009 and was implemented by the System for its Fiscal 2010. The implementation of GASB 53 resulted in a restatement (discussed further below) of the Authority’s Fiscal 2009 beginning net asset balance of \$3.8 million reflecting the fair value of the non hedge derivative as of June 30, 2008. For further information pertaining to derivative instruments see note 5.

Restatement of Beginning Net Assets – The implementation of GASB 49 and GASB 53 have resulted in restatements (discussed above) to reduce the System’s Fiscal 2009 beginning net asset balance by \$57.8 million, reflecting the pollution remediation obligation as of June 30, 2008 and the fair value of non-hedge derivatives as of June 30, 2008. For further information pertaining to the pollution remediation obligations, see note 14, and for further information pertaining to the derivative instruments, see note 5.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2010 and 2009, as adjusted as per note 14 (in thousands):

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Nondepreciable assets — utility construction	<u>\$ 4,011,216</u>	<u>\$2,566,837</u>	<u>\$1,505,557</u>	<u>\$ 5,072,496</u>	<u>\$ 2,439,493</u>	<u>\$ 1,399,627</u>	<u>\$ 6,112,362</u>
Depreciable assets/ Utility plant in service							
Buildings	\$ 23,493	\$ 700	\$ -	\$ 24,193	\$ -	\$ -	\$ 24,193
Equipment	998,427	380,642	3,165	1,375,904	162,547	-	1,538,451
Vehicles	123,891	31,427	-	155,318	1,861	-	157,179
Water supply and wastewater treatment systems	13,629,052	754,824	1,444	14,382,432	1,042,196	-	15,424,628
Water distribution and sewage collection systems	<u>8,239,032</u>	<u>337,964</u>	<u>411,384</u>	<u>8,165,612</u>	<u>193,023</u>	<u>42,445</u>	<u>8,316,190</u>
Total depreciable assets	<u>23,013,895</u>	<u>1,505,557</u>	<u>415,993</u>	<u>24,103,459</u>	<u>1,399,627</u>	<u>42,445</u>	<u>25,460,641</u>
Less accumulated depreciation for:							
Buildings	14,376	1,762	-	16,138	306	-	16,444
Equipment	420,649	79,579	685	499,543	74,052	-	573,595
Vehicles	87,957	6,616	1,331	93,242	5,610	-	98,852
Water supply and wastewater treatment systems	4,429,445	272,014	-	4,701,459	354,742	-	5,056,201
Water distribution and sewage collection systems	<u>2,725,534</u>	<u>203,127</u>	<u>202,326</u>	<u>2,726,335</u>	<u>104,297</u>	<u>19,190</u>	<u>2,811,442</u>
Totals accumulated depreciation (1)	<u>7,677,961</u>	<u>563,098</u>	<u>204,342</u>	<u>8,036,717</u>	<u>539,007</u>	<u>19,190</u>	<u>8,556,534</u>
Total utility plant in service	<u>\$15,335,934</u>	<u>\$ 942,459</u>	<u>\$ 211,651</u>	<u>\$16,066,742</u>	<u>\$ 860,620</u>	<u>\$ 23,255</u>	<u>\$16,904,107</u>
Total capital assets, net	<u>\$19,347,150</u>	<u>\$3,509,296</u>	<u>\$1,717,208</u>	<u>\$21,139,238</u>	<u>\$ 3,300,113</u>	<u>\$ 1,422,882</u>	<u>\$23,016,469</u>

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS

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.

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 \$750 thousand and \$7.2 million respectively, on deposit at June 30, 2010 and 2009, which was covered by Federal depository insurance. The remaining balances at June 30, 2010 were uncollateralized and uninsured.

Cash and cash equivalents were comprised of the following at June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Cash	53,966	7,167
Cash equivalents	<u>1,069,996</u>	<u>1,163,275</u>
Cash and cash equivalents	<u>\$ 1,123,962</u>	<u>\$ 1,170,442</u>

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS (continued)

The System had the following investments at June 30, 2010 and 2009 (in thousands):

Investments	Fair Value	
	2010	2008
U.S. Government Sponsored Entities	\$ 1,050,994	\$ 1,356,684
New York State instrumentality	169,947	339,380
New York City authority securities	38,282	64,635
Dreyfus Government Money Market	64,781	8,942
Guaranteed investment contracts	95,052	132,171
Forward Purchase Agreements Market Value Adjustment	<u>27,120</u>	<u>29,084</u>
Total investments including cash equivalents	1,446,176	1,930,896
Less amounts reported as cash equivalents	<u>(1,069,996)</u>	<u>(1,163,275)</u>
Investments	<u>\$ 376,180</u>	<u>\$ 767,621</u>

The System's management invests funds which are not immediately required for operations, debt service or capital project expenses and funds that are held for debt service and operations and maintenance reserves. Each account of the Authority is held pursuant to the Resolution and may be invested in securities or categories in investments that are specifically enumerated as permitted investments for such account pursuant to the Resolution. The Board invests the reserves for operations and maintenance as permitted by the Board's investment guidelines.

Credit Risk — Investments held by the System at June 30, 2010 and 2009 include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, and shares of money market funds, all of which are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's. Also held by the Authority are direct obligations of, or obligations guaranteed by the State of New York or direct obligations of any agency or public authority thereof, which are rated, at the time of purchase, in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and guaranteed investment contracts with financial institutions whose long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long term debt obligations have a rating in one of the two highest rating categories for comparable types of obligations by each rating agency then maintaining a rating on the Authority's bonds at the time such agreement or contract was entered into.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS (continued)

Interest Rate Risk — Approximately 45% of the System’s investments at June 30, 2010 are Forward Purchase Agreements or Guaranteed Investment Contracts with guaranteed fixed rates of return. The fair value of the Forward Purchase Agreements is highly susceptible to changes in market interest rates; however the System does not expect these Agreements to terminate. Additionally approximately 15% of the System’s other investments are in investments that are expected to be held to maturity. The remainder of the System’s investments will mature within a year after June 30, 2010; for these investments the System’s risk that changes in interest rates will adversely affect the fair value of investments is very limited.

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, the System may 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 are held in the Trustee’s name by the trustee or in the Board’s name by its custodian bank.

5. DERIVATIVE INSTRUMENTS

As of June 30, 2010 the Authority had the following:

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value (000)	Counterparty Credit Rating (Moody's/S&P/Fitch)
Hedging Derivative						
Muni-CPI	\$20,000,000	7/9/2002	6/15/2013	pay 4.15% receive muni-CPI rate	\$ (626)	A2/A/A
Synthetic Fixed Rate	240,600,000	10/26/2007	6/15/2036	pay 3.439% receive 67% of 1-month LIBOR	(42,782)	Aa1/AAA/NR
Synthetic Fixed Rate	160,400,000	10/26/2007	6/15/2036	pay 3.439% receive 67% of 1-month LIBOR	(28,521)	Aa3/A+/A+
Investment Derivative						
Synthetic Variable Rate	200,000,000	12/23/2003	6/15/2014	pay SIFMA Index receive 3.567%	\$ 16,899	Aa1/AA/AA

Hedging Derivative Instruments

The Authority executed an interest rate exchange agreement (the “Muni-CPI agreement”) effective July 9, 2002 in conjunction with its sale of \$20 million of muni-CPI Bonds in the 2013 maturity of its Fiscal 2003 Series A Water and Sewer System Revenue Bonds (the “CPI Bonds”). The CPI Bonds pay the holder a floating rate tied to the consumer price index (a fixed spread of 1.53% plus a floating rate equal to the change in the Consumer Price Index – Urban (“CPI-U”) for a given period). Under the interest rate exchange agreement, the Authority pays the counterparty a fixed interest rate of 4.15% while it

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

5. DERIVATIVE INSTRUMENTS (continued)

receives a floating interest rate matching the rate on the CPI Bonds. This allowed the Authority to achieve a fixed rate 10 basis points lower than conventional fixed rate debt in the 2013 maturity at the time of issuance. The interest rate exchange agreement terminates upon the maturity of the CPI Bonds on June 15, 2013. The Authority's obligations under the interest rate exchange agreement are payable as Authority expenses.

The Authority executed two interest rate exchange agreements (the "synthetic fixed rate agreements") effective October 24, 2007, in conjunction with its sale of \$401 million of Adjustable Rate Fiscal 2008 Series BB Second Resolution Bonds effective on October 24, 2007. Under these agreements, the Authority pays a fixed interest rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR on the combined notional amount of \$401 million. The agreements are with two counterparties, with one agreement in the amount of \$240.6 million and the second agreement in the amount of \$160.4 million. These agreements allowed the Authority to achieve a fixed rate cost lower than conventional fixed rate debt at the time of issuance. The Authority's obligations under these interest rate exchange agreements are payable on a parity with the related second resolution bonds.

Credit Risk — The Authority is exposed to the risk that the counterparty (or its guarantor) will default under its agreement. For the Muni-CPI agreement, the Authority would have to pay another counterparty to assume the position of the defaulting counterparty or face unhedged risk on changes in the CPI-U. The Authority has the right to terminate the Muni-CPI interest rate exchange agreement if the counterparty is downgraded below BBB- by Standard and Poor's or Baa3 by Moody's. Under the synthetic fixed rate agreements, the Authority has the right to terminate the swap, regardless of collateral posting, if the counterparty's ratings fall below both A3 and A-.

The counterparties under the interest rate exchange agreements must post collateral if their ratings fall below A3 by Moody's or A- by Standard and Poor's and the amount the counterparty would owe the Authority upon termination exceeds specified threshold amounts.

The Authority may exercise its right to assign the agreements to another counterparty, if necessary, in its judgment, to mitigate counterparty Risk, even in the absence of a significant credit rating downgrade.

Termination Risk — The counterparties could terminate the agreements upon the occurrence of certain events, when the mark-to-market value is such that the Authority would owe a termination payment to the counterparty. The counterparties may terminate the agreement only upon the occurrence of certain events such as payment defaults by the Authority, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of the Authority (or similar events) or a downgrade of the Authority's credit rating below BBB-/Baa3.

Basis Risk — Since during the term of the agreement, the rate on the CPI Bonds will exactly match the rate being paid by the counterparty, there is no basis risk for the Muni-CPI agreement. The Authority is exposed to basis risk on its synthetic fixed rate agreements, because the amount the Authority receives under the synthetic fixed rate interest rate exchange agreement may be lower than the average

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

5. DERIVATIVE INSTRUMENTS (continued)

monthly variable interest paid on the bonds associated with the agreement, which would require the Authority to make up the shortfall.

Interest Rate Risk —The Authority is exposed to the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. There is no interest rate risk with the Muni-CPI agreement. The fixed rate paid by the Authority on its synthetic fixed rate agreements may exceed the rate received (67% of LIBOR).

Investment Derivative

The Authority executed an interest rate exchange agreement (the "synthetic variable rate agreement") against its existing portfolio of second general resolution fixed rate bonds issued through the New York State Environmental Facilities Corporation ("EFC"). Pursuant to the interest rate exchange Agreement, the Authority receives a fixed payment of 3.567% and pays a floating rate based on the SIFMA Municipal Swap Index. The agreement provides the Authority with floating rate debt at a lower cost than variable rate demand bonds. The Authority's obligations under the Interest Rate Exchange Agreement are payable as Operating Expenses.

Credit Risk —The counterparty under this interest rate exchange agreement must post collateral if its ratings fall below A3 by Moody's or A- by Standard and Poor's and the amount the counterparty would owe the Authority upon termination exceeds specified threshold amounts.

The Authority has the right to terminate the swap, regardless of collateral posting, if the counterparty's ratings fall below both A3 and A-. If interest rates at the time of Counterparty default were lower than they were at the time the transaction was entered into, the Authority would not be able to replace the Counterparty on the same terms and conditions without incurring added cost.

Interest Rate Risk — During the term of the synthetic variable rate agreement, the rate paid by the Authority (SIFMA Municipal Swap Index) may exceed the fixed rate received.

Financial Statements Effect

The market value of derivatives at June 30, 2010 and June 30, 2009, was \$55.0 million and \$36.8 million, respectively. The market value of hedge derivatives at June 30, 2010 and June 30, 2009, was \$71.9 million and \$47.7 million respectively. These amounts are shown as deferred outflows in the balance sheet. The increase in market value of the non-hedge derivative at June 30, 2010 and June 30, 2009, was \$6.0 million and \$10.9 million respectively. Fiscal 2009 beginning net asset balance was increased by \$3.8 million to reflect the market value of the derivative at June 30, 2008. Fiscal 2009 investment income was increased by \$10.9 million, representing the change in the market value for Fiscal 2009.

See Note 2 for further discussion of GASB 53 implementation.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

6. LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with The City, which transfers the water and sewer related 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 provision 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. A summary of operation and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

6. LEASE AGREEMENT (continued)

	2010	2009
Water transmission and distribution	\$ 420,880	\$ 414,646
Sewer collection systems	697,095	438,512
City agency support cost	67,413	61,832
Fringe benefits	171,438	174,113
Pollution remediation	204,390	132,682
Payments for watershed improvements	85,599	66,072
Judgments and claims	<u>11,859</u>	<u>8,975</u>
Operations and maintenance	1,658,674	1,296,832
Rental payments to the City	<u>171,161</u>	<u>151,436</u>
Total operations maintenance and rental payments	<u>\$1,829,835</u>	<u>\$1,448,268</u>

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2010 and 2009, 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, 2010 and 2009, the System had a net payable of \$879.7 million and \$867.31 million, respectively, to The City for payments of utility construction and for overpayment of operations and maintenance expense.

8. SHORT TERM DEBT

In Fiscal 2010 and 2009, the changes in short-term debt were as follows (in thousands):

	30-Jun-08	Additions	Deletions	30-Jun-09	Additions	Deletions	30-Jun-10
Commercial paper (1)	<u>\$800,000</u>	<u>\$ 950,000</u>	<u>\$1,050,000</u>	<u>\$700,000</u>	<u>\$ 1,200,000</u>	<u>\$1,300,000</u>	<u>\$ 600,000</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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

8. SHORT TERM DEBT (continued)

Commercial paper activity is comprised of the following for the year ended June 30, 2010(in thousands):

	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$ -	\$ 400,000	\$ 400,000	\$ -
Commercial Paper Series 5 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	100,000	100,000	200,000
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	200,000	400,000	-
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	100,000	300,000	200,000	200,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total commercial paper payable	<u>\$700,000</u>	<u>\$ 1,200,000</u>	<u>\$ 1,300,000</u>	<u>\$ 600,000</u>

9. LONG-TERM DEBT

In Fiscal 2010 and 2009, the changes in long-term liabilities were as follows (in thousands):

Bonds Payable	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
First resolution	\$ 10,991,897	\$ 536,030	\$ 353,437	\$ 11,174,490	\$ -	\$ 775,972	\$ 10,398,518
Second resolution	<u>8,227,040</u>	<u>2,967,345</u>	<u>534,078</u>	<u>\$ 10,660,307</u>	<u>3,142,900</u>	<u>224,010</u>	<u>13,579,197</u>
Total bonds payable	<u>19,218,937</u>	<u>3,503,375</u>	<u>887,515</u>	<u>21,834,797</u>	<u>3,142,900</u>	<u>999,982</u>	<u>23,977,715</u>
Due within one year	<u>(235,015)</u>			<u>(266,026)</u>			<u>(364,562)</u>
Less discounts (net)	(26,377)	(20,920)	3,402	(50,699)	(44,713)	20,432	(115,844)
Less deferred refunding costs	<u>342,167</u>	<u>1,748</u>	<u>26,286</u>	<u>317,629</u>	<u>16,635</u>	<u>24,976</u>	<u>309,288</u>
Total long-term debt	<u>\$ 19,299,712</u>	<u>\$ 3,522,547</u>	<u>\$ 857,827</u>	<u>\$ 21,964,432</u>	<u>\$ 3,170,978</u>	<u>\$ 954,574</u>	<u>\$ 24,180,836</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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

During Fiscal 2010, the Authority issued \$577.9 million of bonds to refund \$614.97 of outstanding bonds. These refunding resulted in an accounting loss of \$16.6 million. The Authority in effect reduced its aggregate debt service by \$72.2 million.

During Fiscal 2009, the Authority issued \$612.3 million of bonds to refund \$652.5 million of auction rate bonds.

The Authority has defeased cumulatively \$11.6 billion and \$11.0 billion of outstanding bonds as of June 30, 2010 and 2009, respectively, by placing proceeds of refunding bonds issued in an irrevocable escrow account 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. Additionally, the Authority has economically defeased an additional \$19.5 million of bonds from its cash. The escrow account assets and the liabilities for these economically defeased bonds are included in the assets and liabilities of the Authority's financial statements until their respective maturity dates.

As of June 30, 2010 and 2009, \$11.1 billion and \$10.1 billion of the defeased bonds, respectively, had been retired using the assets of the escrow accounts.

Debt service requirements to maturity, including amounts relating to commercial paper, at June 30, 2010 are as follows (in thousands):

June 30	Principal (1)	Interest (2)	Total
2011	\$ 964,562	\$ 909,943	\$ 1,874,505
2012	360,906	895,454	1,256,360
2013	353,222	880,151	1,233,373
2014	443,350	870,909	1,314,259
2015	470,486	859,011	1,329,497
2016–2020	2,722,804	4,029,527	6,752,331
2021–2025	3,060,340	3,533,026	6,593,366
2026–2030	3,715,690	2,946,045	6,661,735
2031–2035	4,575,540	2,183,097	6,758,637
2036–2040	5,752,530	1,220,622	6,973,152
2041–2045	2,158,285	118,089	2,276,374
	<u>\$24,577,715</u>	<u>\$18,445,874</u>	<u>\$43,023,589</u>

(1) Includes \$600 million of commercial paper due in 2011.

(2) Includes interest for variable rate bonds estimated at 0.214%, 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 of sale.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

Bonds, notes payable, and commercial paper are comprised of the following for the year ended June 30, 2010 (in thousands):

	Balance at June 30, 2009	Issued	Retired/ defeased	Balance at June 30, 2010
1991 Fiscal Series B - 7.00% Serial and Term Bonds maturing in varying installments through 2012	\$ 3,360	\$ -	\$ 1,600	\$ 1,760
1992 Fiscal Series B - 6.66% to 6.81% Serial and Term Bonds maturing in varying installments through 2014	4,085	-	1,727	2,358
1993 Fiscal Series A - 5.50% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2012	19,500	-	-	19,500
1994 Fiscal Series 1 - 5.75% to 5.88% Serial Bonds maturing in varying installments through 2013	30,480	-	3,895	26,585
1995 Fiscal Series 1 - 6.88% Serial Bonds maturing in varying installments through 2016	18,230	-	3,120	15,110
1997 Fiscal Series A - 6.0% Serial Bonds maturing in varying installments through 2021	25,000	-	-	25,000
1998 Fiscal Series D - 4.75% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	350,965	-	240,635	110,330
1998 Fiscal Series 1 - 5.15% to 5.35% Serial Bonds maturing in varying installments through 2017	23,840	-	2,435	21,405
1998 Fiscal Series 3 - 6.00% Serial Bonds maturing in varying installments through 2012	120,135	-	32,370	87,765
1998 Fiscal Series 4 - 4.90% to 5.20% Serial Bonds maturing in varying installments through 2018	8,060	-	810	7,250
1999 Fiscal Series A - 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	120,200	181,270
1999 Fiscal Series B - 4.75% 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 - 5.35% to 5.96% Serial Bonds maturing in varying installments through 2019	7,910	-	615	7,295
2001 Fiscal Series B - 5.00% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	67,225	-	67,225	-
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.63% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	232,060	-	-	232,060

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

	Balance at June 30, 2009	Issued	Retired/ defeased	Balance at June 30, 2010
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% Serial and Term Bonds maturing in 2031 and 2032	116,305	-	-	116,305
2002 Fiscal Series B - 4.00% Serial and Term Bonds maturing in varying installments through 2026	170,720	-	265	170,455
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 - 3.88% to 4.90% Serial and Term Bonds maturing in varying installments through 2020	41,310	-	95	41,215
2002 Fiscal Series E - 3.88% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,520	-	115	213,405
2002 Fiscal Series F - 3.88% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,315	-	170	105,145
2002 Fiscal Series G - 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375
2002 Fiscal Series 1 - 5.07% to 5.25% Serial Bonds maturing in varying installments through 2031	163,271	-	5,996	157,276
2002 Fiscal Series 2 - 4.30% to 5.00% Serial Bonds maturing in varying installments through 2031	54,142	-	2,681	51,461
2002 Fiscal Series 3 - 4.02% to 5.22% Serial Bonds maturing in varying installments through 2031	418,660	-	15,953	402,707
2002 Fiscal Series 4 - 5.06% to 6.74% Serial Bonds maturing in varying installments through 2023	171,116	-	5,612	165,504
2002 Fiscal Series 5 - 3.82% to 5.27% Serial Bonds maturing in varying installments through 2031	151,459	-	9,987	141,472
2002 Fiscal Series 6 - 3.71% to 5.40% Serial Bonds maturing in varying installments through 2019	64,870	-	4,427	60,443
2002 Fiscal Series 7 - 7.5% Serial Bonds maturing in varying installments through 2012	3,100	-	2,075	1,025
2003 Fiscal Series A - 4.0% to 5.38% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	677,230	-	5,215	672,015
2003 Fiscal Series D - 3.50% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	214,525	-	22,265	192,260
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 - 2.91% to 4.89% Serial Bonds maturing in varying installments through 2032	122,854	-	5,026	117,827

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

	Balance at June 30, 2009	Issued	Retired/ defeased	Balance at June 30, 2010
2003 Fiscal Series 2 - 4.97% to 5.24% Serial Bonds maturing in varying installments through 2028	525,113	-	13,352	511,760
2003 Fiscal Series 3 - 0.48% to 5.75% Serial Bonds maturing in varying installments through 2025	17,665	-	770	16,895
2003 Fiscal Series 4 - 0.35% to 5.80% Serial Bonds maturing in varying installments through 2025	28,095	-	1,235	26,860
2003 Fiscal Series 5 - 3.36% to 5.00% Serial Bonds maturing in varying installments through 2032	250,485	-	9,316	241,169
2004 Fiscal Series A - 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B - 3.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2023	336,720	-	-	336,720
2004 Fiscal Series C - 2.63% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	593,985	-	610	593,375
2004 Fiscal Series 1 - 3.62% - 5.00% Serial Bonds maturing in varying installments through 2033	260,572	-	9,252	251,321
2004 Fiscal Series 2 - 1.70% - 4.84% Serial Bonds maturing in varying installments through 2026	225,537	-	8,154	217,384
2005 Fiscal Series A - 5.00% Term Bonds maturing in 2039	150,000	-	-	150,000
2005 Fiscal Series B - 3.125% - 5.00% Serial Bonds maturing in varying installments through 2036	917,795	-	1,125	916,670
2005 Fiscal Series C - 3.25% - 5.00% Serial Bonds maturing in varying installments through 2031	573,480	-	800	572,680
2005 Series D - 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 - 3.92% - 5.00% Bonds maturing in varying installments through 2034	203,556	-	6,863	196,693
2005 Fiscal Series 2 - 2.577% - 5.00% Bonds maturing in varying installments through 2034	345,706	-	12,076	333,630
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	518,145	-	390	517,755
2006 Series B - 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Series C - 4.50% - 4.75% Serial Bonds maturing in varying installments through 2033	350,345	-	-	350,345
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 - 3.40% - 5.00% Serial Bonds maturing in varying installments through 2016	70,000	-	10,000	60,000
2006 Fiscal Series 1 - 2.84% - 4.96% Adjustable rate bonds maturing in varying installments through 2035	206,520	-	7,068	199,453
2006 Fiscal Series 2 - 3.20% - 4.94% Adjustable rate bonds maturing in varying installments through 2036	189,352	-	5,543	183,809
2006 Fiscal Series 3 - 3.06% - 5.00% Adjustable rate bonds maturing in varying installments through 2036	241,563	-	6,900	234,663

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

	Balance at June 30, 2009	Issued	Retired/ defeased	Balance at June 30, 2010
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% Term Bonds maturing in 2037	199,910	-	-	199,910
2007 Fiscal Series BB - 3.75% - 5.00% Serial Bonds maturing in varying installments through 2021	131,745	-	-	131,745
2007 Fiscal Series CC - Adjustable rate bonds maturing in 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 - 2.55% - 5.00% Serial Bonds maturing in varying installments through 2036	216,864	-	6,713	210,152
2007 Fiscal Series 2 - 3.60% - 4.80% Serial Bonds maturing in varying installments through 2036	276,222	-	8,392	267,830
2007 Fiscal Series 3 - 4.17% to 6.42% Serial Bonds maturing in varying installments through 2024	149,330	-	-	149,330
2008 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2038	446,245	-	-	446,245
2008 Fiscal Series B - 1.69% Serial Bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C - 3.00% - 5.25% Serial Bonds maturing in varying installments through 2021	128,345	-	9,760	118,585
2008 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB - 1.69% Serial Bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series DD - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2037	262,625	-	11,981	250,643
2008 Fiscal Series 2 - 3.04% - 5.00% Serial Bonds maturing in varying installments through 2037	222,570	-	6,192	216,378
2009 Fiscal Series AA - 3.25% - 5.00% Serial Bonds maturing in varying installments through 2022	334,075	-	-	334,075
2009 Fiscal Series BB - Adjustable rate bonds maturing in varying installments through 2039	200,870	-	-	200,870
2009 Fiscal Series CC - 4.98% - 5.00% Serial Bonds maturing in varying installments through 2034	150,100	-	-	150,100
2009 Fiscal Series A - 5.00% - 5.63% Serial Bonds maturing in varying installments through 2040	536,030	-	-	536,030
2009 Fiscal Series DD - 5.25% - 6.00% Serial Bonds maturing in varying installments through 2040	325,580	-	-	325,580

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

9. LONG-TERM DEBT (continued)

	Balance at June 30, 2009	Issued	Retired/ defeased	Balance at June 30, 2010
2009 Fiscal Series EE - 2.50% - 5.50% Serial Bonds maturing in varying installments through 2040	645,455	-	-	645,455
2009 Fiscal Series FF - 3.00% - 5.50% Serial Bonds maturing in varying installments through 2040	362,830	-	-	362,830
2009 Fiscal Series 1 Bond - 3.82% - 5.16% Serial Bonds maturing in varying installments through 2038	368,451	-	2,430	366,021
2009 Fiscal Series 2 Bond - 4.87% Serial Bonds maturing in varying installments through 2038	79,984	-	651	79,333
2009 Fiscal Series GG - 4.13% - 5.25% Serial Bonds maturing in varying installments through 2040	500,000	-	-	500,000
2010 Fiscal Series AA - 5.75%-6.25% Term Bonds maturing in 2041	-	504,240	-	504,240
2010 Fiscal Series BB - 2.50% - 5.00% Serial Bonds maturing in varying installments through 2027	-	218,820	-	218,820
2010 Fiscal Series CC - Adjustable rate bonds maturing in 2041	-	200,000	-	200,000
2010 Fiscal Series DD - 5.95%-6.45% Term Bonds maturing in 2041 and 2042	-	400,000	-	400,000
2010 Fiscal Series EE - 6.01%-6.49% Term Bonds maturing in 2041 and 2042	-	500,000	-	500,000
2010 Fiscal Series FF - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2031	-	359,110	-	359,110
2010 Fiscal Series 2 - 0.13% - 5.00% Serial Bonds maturing in varying installments through 2039	-	142,805	2,121	140,684
2010 Fiscal Series 3- 3.611% Serial Bonds maturing in varying installments through 2039	-	67,420	-	67,420
2010 Fiscal Series 4 - 4.98% - 5.81% Serial Bonds maturing in varying installments through 2039	-	196,460	-	196,460
2010 Fiscal Series GG - 5.724%-6.124% Term Bonds maturing in 2042	-	554,045	-	554,045
	<u>21,834,797</u>	<u>3,142,900</u>	<u>999,983</u>	<u>23,977,715</u>
Total bonds payable	21,834,797	2,588,855	999,983	23,977,715
Current portion of bonds and notes payable	<u>266,026</u>			<u>364,562</u>
Bonds and notes payable, less current portion	<u>\$ 21,568,771</u>			<u>\$ 23,613,153</u>

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

10. RESTRICTED ASSETS

As of June 30, 2010 and 2009, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2010	2009
The Board:		
Operation and maintenance reserve account	\$ 191,772	\$ 195,834
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
Total Board	<u>191,782</u>	<u>195,844</u>
The Authority:		
Revenue fund	239,192	285,348
Debt service reserve fund	883,851	878,121
Debt service fund	9,489	11,061
Construction fund	150,316	397,946
Escrow fund	19,370	158,171
Operating fund	<u>-</u>	<u>8,967</u>
Total Authority	<u>1,302,218</u>	<u>1,739,614</u>
Total restricted assets	<u>\$ 1,494,000</u>	<u>\$ 1,935,458</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 expenses, 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.

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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

11. COMMITMENTS AND CONTINGENCIES

- a. **Construction** — The System has contractual commitments of approximately \$6.6 billion and \$7.2 billion at June 30, 2010 and 2009, respectively, for water and sewer projects.
- b. **Risk financing activities** — The System is self insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Water Authority. Any claims made against the System are resolved through The City's legal support and the amounts of the maximum liability for such judgments are described in (c) below. The System is subject to claims for construction delays, property damage, personal injury and judgments related to delays in construction deadlines under consent agreements.
- c. **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. In addition, 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 of the System. 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, 2010, the potential future liability attributable to the System for claims outstanding against The City was estimated to be \$228.6 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.
- d. **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 non-purpose 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 Fiscal 2010 and 2009, the System paid \$.54 million and \$2.46 million, respectively, in rebates. At June 30, 2010 and 2009, the Authority had a liability of \$8.2 million and \$6.3 million, respectively. These amounts are included in accrued payable expense in the balance sheets.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

12. PENSION PLANS

During Fiscal 2010, the Authority was billed and contributed \$112.4 thousand for 7 employees who participate in the defined benefit pension plan. 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 is included principally within operations and maintenance expenses in the accompanying financial statements.

13. 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 constitutes another postemployment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, ("GASB 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 premium reimbursements, and employee welfare fund contributions.

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 years ended June 30, 2010 and 2009, the Authority had two retirees and made contributions of \$ 4.4 thousand and \$7.4 thousand respectively. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that require 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 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2009, which was the basis for the Fiscal 2010 ARC calculation.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

13. OTHER POST-EMPLOYMENT BENEFITS (continued)

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal year ended June 30, 2010 (in thousands):

Annual required contribution	\$ 538
Interest on net OPEB obligations	16
Adjustment to annual required contribution	<u>(411)</u>
Annual OPEB cost	143
Payments	(4)
Net OPEB obligation — beginning of year	<u>395</u>
Net OPEB obligation — end of year	<u>\$ 534</u>

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, 2010, June 30, 2009, June 30, 2008, June 30, 2007 and June 30, 2006 were as follows (in thousands):

Fiscal Years	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 143	3.1 %	\$ 534
June 30, 2009	86	8.6 %	395
June 30, 2008	88	-	316
June 30, 2007	(168)	-	229
June 30, 2006	398		398

The OPEB cost for Fiscal 2007 was negative, reflecting 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, 2009, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was \$430.8 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$430.8 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$676 thousand, and the ratio of the UAAL to the covered payroll was 63.7%.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

13. OTHER POST-EMPLOYMENT BENEFITS (continued)

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.

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2009, 2008, 2007 2006 and 2005 to 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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2009	\$ -	\$ 431	\$ 431	- %	\$ 676	63.7 %
June 30, 2008	-	317	317	-	729	43.5
June 30, 2007	-	242	242	-	486	49.8
June 30, 2006	-	173	173	-	306	56.0
June 30, 2005	-	308	308	-	1,041	29.6

14. POLLUTION REMEDIATION OBLIGATIONS

As previously discussed, the System implemented GASB 49 in fiscal 2009, requiring the reporting of pollution remediation obligations (“PROs”). The System’s PROs may arise as a result of: (1) federal, state and local laws and regulations, (2) violations of pollution-related permits or licenses, (3) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2010 and 2009, the System reported \$74.3 million and \$119.0 million of liabilities for known PRO respectively. In fiscal year 2009 the System restated its beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of \$61.6 million for known PROs, in accordance with GASB 49.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (CONTINUED)

14. POLLUTION REMEDIATION OBLIGATIONS (continued)

The System has estimated these amounts based on the current value of outlays expected to be incurred for pollution remediation which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from estimates, if and when additional information about existing pollution conditions becomes known to the System in the future and/or if applicable laws or regulations change.

Remediation outlays for certain pollution conditions currently known to the System are not included in the reported liabilities because they are not yet reasonably estimable. These include certain locations that the System has been informed may be designated, under federal law, as Superfund sites, to address hazardous substances, pollutants, or contaminants at these sites and for which the System may be named as a potentially responsible party for the remediation because there are System facilities operated at these locations.

15. RELATED PARTY TRANSACTIONS

During Fiscal 2010 and 2009 the Authority bought \$ 31.9 million and \$189.9 million, respectively of New York City Transitional Finance Authority (“TFA”) bonds. At June 30, 2010 and 2009, the Authority held \$38.3 million and \$64.6 million, respectively in TFA bonds.

16. SUBSEQUENT EVENTS

On July 13, 2010 the Authority issued \$200 million of commercial paper notes, Series 6, to pay for construction costs of the System.

On August 10, 2010 the Authority issued \$200 million of commercial paper notes, Series 1, to pay for construction costs of the system.

On September 23, 2010 the Authority issued Fiscal 2011 Series AA Bonds in the aggregate amount of \$750 million to refund commercial paper notes and to pay for certain costs of issuance.

On September 23, 2010 the Authority drew down \$2.16 million of Fiscal 2010 Series 1 BANS.

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