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, 2011 and 2010, Required
Supplementary Information, and
Independent Auditors' Report

NEW YORK CITY WATER AND SEWER SYSTEM

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Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Joint Audit Committee of
New York City Municipal Water Finance Authority
and 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, 2011 and 2010, 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2011 and 2010, 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.

The accompanying management's discussion and analysis ("MD&A") on pages 2-10 and the Schedule of Funding Progress on page 44 are not a required part of the basic financial statements, but are 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.

Deloitte & Touche LLP

October 7, 2011

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, 2011 and 2010. 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 2011, 2010 and 2009 (in thousands):

				Variance	
	2011	2010	2009	2011 v 2010	2010 v 2009
REVENUES:					
Water supply and distribution	$ 1,158,977	$ 1,005,045	$ 920,033	$ 153,932	$ 85,012
Sewer collection and treatment	1,797,777	1,562,777	1,430,588	235,000	132,189
Other operating revenues	111,552	190,251	97,946	(78,699)	92,305
Total operating revenues	3,068,306	2,758,073	2,448,567	310,233	309,506
Subsidy income	180,986	128,110	108,708	52,876	19,402
Investment income	38,313	65,760	106,234	(27,447)	(40,474)
Total revenues	3,287,605	2,951,943	2,663,509	335,662	288,434
EXPENSES:					
Operations and maintenance	1,294,533	1,539,846	1,249,514	(245,313)	290,332
Other operating expenses	103,334	289,989	198,754	(186,655)	91,235
Bad debt expense	76,799	14,032	36,060	62,767	(22,028)
Administration and general	40,424	40,257	50,581	167	(10,324)
Depreciation and amortization	628,339	574,483	696,345	53,856	(121,862)
Capital distribution	53,591	32,580	51,921	21,011	(19,341)
Loss on retirement of capital assets	3,426	23,254	299,450	(19,828)	(276,196)
Interest expense	1,178,226	1,019,633	929,333	158,593	90,300
Total expenses	3,378,672	3,534,074	3,511,958	(155,402)	22,116
Net loss before capital contributions	(91,067)	(582,131)	(848,449)	491,064	266,318
CAPITAL CONTRIBUTIONS	18,696	30,424	11,529	(11,728)	18,895
CHANGE IN NET ASSETS	(72,371)	(551,707)	(836,920)	479,336	285,213
NET (DEFICIT) ASSETS — Beginning	(280,517)	271,190	1,165,891	(551,707)	(894,701)
Restatements of beginning net assets	-	-	(57,781)	-	57,781
NET (DEFICIT) ASSETS — Ending	$ (352,888)	$ (280,517)	$ 271,190	$ (72,371)	$ (551,707)

Operating Revenue

2011-2010

Operating revenues increased by $310.2 million or 11.2% due predominantly to a rate increase of 12.9%.

2010-2009

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

The following summarizes other operating revenues for fiscal years 2011, 2010, and 2009 (in thousands):

				Variance	
	2011	2010	2009	2011 v 2010	2010 v 2009
Upstate water fees	$ 64,737	$ 40,876	$ 42,197	$ 23,861	$ (1,321)
Late payment fees	30,270	29,107	18,708	1,163	10,399
Change in residual interest in sold liens	(1,734)	2,156	21,681	(3,890)	(19,525)
Release of escrow	4,406	98,820	-	(94,414)	98,820
Federal funding	2,504	2,733	-	(229)	2,733
Litigation settlement receipt	-	8,867	-	(8,867)	8,867
Connection fees and permits	11,369	7,692	15,360	3,677	(7,668)
Total other operating revenues	$ 111,552	$ 190,251	$ 97,946	$ (78,699)	$ 92,305

2011-2010

In fiscal 2011 the System received $4.4 million from two trust accounts established in 2004. These trust funds were established to pay for fines pertaining to nitrogen removal and combined sewer overflow abatement pursuant to consent orders to New York State Department of Environmental Conservation. By meeting certain conditions, the System was entitled to use the funds from the trust accounts.

Upstate water fees increased by $23.9 million or 58.4% compared to 2010. The increase is due primarily to consumption related to weather in the summer of 2010 and a rate increase of 24.7%.

The change in residual interest in sold liens decreased by $3.9 million.

Connection fees and permits increased by $3.7 million or 47.8% due to increased new construction activity.

Federal funding was received by the Water Board in fiscal 2011 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

2010-2009

In fiscal 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 from a group of settling defendant companies 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 2010 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

Investment Income

2011-2010

Investment income decreased by $27.4 million or 41.7%. The decrease was due to lower interest rates on invested assets and an unrealized loss of $14.4 million due to the change in the fair market value of agreements to purchase securities in fiscal 2011 compared to a loss of $0.3 million in fiscal 2010. The market value of these assets is affected by changes in the fair values of the contracts caused by changes in market interest rates.

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 agreements to purchase securities in fiscal 2010 compared to a gain of $17.9 million in fiscal 2009. Additionally, the fiscal 2009 investment income has been restated to include a $7.1 million gain in the value of non-hedge derivatives, as discussed further below.

Operating Expenses

2011-2010

Operations and maintenance expenses decreased by $245.3 million or 15.9% because of a large collective bargaining settlement that had increased operations and maintenance costs in fiscal 2010. Water Board general and administration expenses decreased by $3.4 million due to decreases in certain outside contractor costs. Water Authority general and administration expenses increased by $3.6 million primarily for increases in fees related to variable rate debt.

2010-2009

Operations and maintenance expenses increased by $290.3 million or 23.2%. 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. Other operating expenses increased by $91.2 million. The increase is due to 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.

Non-operating Expenses

2011-2010

Interest expense increased by $158.6 million or 15.6%, primarily due to an increase in bonds outstanding of $2.5 billion or 10.6%.

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%.

Changes in Net Assets

2011-2010

The change in net assets represents the net total of operating income, non-operating losses, and capital contributions. Net assets decreased by $72.4 million in fiscal year 2011.

2010-2009

The change in net assets represents the net total of operating income, non-operating losses, and capital contributions. Net assets decreased by $551.7 million in fiscal year 2010.

Restatement of 2009 Beginning Net Assets – 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 of the fiscal 2009 beginning net asset balance of $61.6 million, reflecting the pollution remediation obligation as of June 30, 2008.

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 was 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.

The implementation of GASB 49 and GASB 53 have resulted in restatements 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 15, and for further information pertaining to the derivative instruments, see Note 5.

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

				Variance	
	2011	2010	2009	2011 v 2010	2010 v 2009
Current Assets	$ 2,251,021	$ 2,132,321	$ 2,446,524	$ 118,700	$ (314,203)
Residual Interest in Sold Liens	39,000	40,734	38,578	(1,734)	2,156
Deferred outflows from hedging	53,216	71,930	47,745	(18,714)	24,185
Deferred Bond and Financing Expenses	176,139	163,703	152,516	12,436	11,187
Capital Assets	24,988,836	23,016,469	21,139,238	1,972,367	1,877,231
Total Assets	$ 27,508,212	$ 25,425,157	$23,824,601	$ 2,083,055	$1,600,556
Long-Term Liabilities	$ 26,115,749	$ 23,549,533	$21,458,003	$ 2,566,216	$2,091,530
Current Liabilities	1,745,351	2,156,141	2,095,408	(410,790)	60,733
Total liabilities	27,861,100	25,705,674	23,553,411	2,155,426	2,152,263
Net Assets (Deficit):					
Invested in capital assets — net of related debt	(215,322)	920,728	1,253,882	(1,136,050)	(333,154)
Restricted for debt service	573,461	239,192	285,348	334,269	(46,156)
Restricted for operations and maintenance	199,636	191,772	195,844	7,864	(4,072)
Unrestricted (deficit)	(910,663)	(1,632,209)	(1,463,884)	721,546	(168,325)
Total net (deficit) assets	(352,888)	(280,517)	271,190	(72,371)	(551,707)
Total Liabilities and Net Assets	$ 27,508,212	$ 25,425,157	$23,824,601	$ 2,083,055	$1,600,556

2011-2010

Current assets increased by $118.7 million or 5.6%. The increase is due to excess monies held by the Authority for debt service in fiscal 2012.

Deferred outflows from hedging decreased by $18.7 million due to an increase in the fair value of the hedging derivative instruments.

Long term liabilities increased by $2.6 billion primarily due to the increase in long term portion of bonds payable of $2.5 billion.

Pollution remediation obligations have increased by $28.4 million.

Current liabilities decreased by $410.8 million or 19.1% primarily due to a decrease of $285.6 million in the amount payable to The City primarily for capital costs, a decrease of $200 million in commercial paper notes payable, and offset by other changes.

2010-2009

Current assets decreased by $314.2 million or 12.8%. Investments, including cash equivalents, 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 defeased 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 GASB 53 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, 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.

Pollution remediation has decreased by $44.7 million as the 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.

Capital Assets

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

				Variance	
	2011	2010	2009	2011 v 2010	2010 v 2009
Utility plant under construction	$ 7,804,563	$ 6,112,362	$ 5,072,496	$ 1,692,201	$ 1,039,866
Utility plant in service:					
Buildings	34,877	24,193	24,193	10,684	-
Equipment	1,723,907	1,538,451	1,375,904	185,456	162,547
Vehicles	150,591	157,179	155,318	(6,588)	1,861
Water supply and wastewater treatment systems	15,943,523	15,424,628	14,382,432	518,895	1,042,196
Water distribution and sewage collection systems	8,463,662	8,316,190	8,165,612	147,472	150,578
Total utility plant in service	26,316,560	25,460,641	24,103,459	855,919	1,357,182
Less accumulated depreciation for:					
Buildings	(18,447)	(16,444)	(16,138)	(2,003)	(306)
Equipment	(667,675)	(573,595)	(499,543)	(94,080)	(74,052)
Vehicles	(93,086)	(98,852)	(93,242)	5,766	(5,610)
Water supply and wastewater treatment systems	(5,451,319)	(5,056,201)	(4,701,459)	(395,118)	(354,742)
Water distribution and sewage collection systems	(2,901,760)	(2,811,442)	(2,726,335)	(90,318)	(85,107)
Total accumulated depreciation	(9,132,287)	(8,556,534)	(8,036,717)	(575,753)	(519,817)
Total — net utility plant in service	17,184,273	16,904,107	16,066,742	280,166	837,365
Total capital assets, net	$24,988,836	$23,016,469	$21,139,238	$ 1,972,367	$ 1,877,231

The increase in the System's capital assets, net of depreciation during fiscal 2011 was $1.9 billion or 8.6%. Capital asset additions for fiscal 2011 were $2.6 billion. See Note 3 (Utility Plant) for further details.

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.

Debt Administration

The Authority issues debt to pay for the capital improvements to the System and certain related costs. Certain costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed and costs associated with pollution remediation are financed with debt, but they are not recorded as System assets on the balance sheet. These costs or distributions are reported as expenses in the System's combining statements of revenues, expenses and changes in net assets (deficit) in the years incurred. Land purchased is granted to The City and becomes The City's capital asset because it is not subject to the capital lease under which the System reports water distribution and sewer collection and treatment capital assets.

The debt program of the Authority includes commercial paper, long-term debt of the Authority and a bond anticipation note 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, 2011, the total outstanding debt of the System was $26.9 billion, of which $400 million was commercial paper. The remaining $26.5 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2044. The total outstanding long-term debt at June 30, 2011 was as follows (in thousands):

Issue Date	
2011	$ 4,569,736
2010	3,130,424
2009	3,494,572
2008	2,843,358
2007	2,137,157
2006 and prior	10,333,622
Total long-term debt	$ 26,508,869

In the summary above, bonds retired through refunding in fiscal 2011 are removed from the year in which the refunded bonds were issued, and the refunding bonds are included in the fiscal 2011 amount.

In fiscal 2011, the Authority issued $3.8 billion of water and sewer revenue bonds directly to the public, including $1.4 billion of refunding bonds and $2.4 billion of new money bonds. The Authority also issued $678.8 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, including $478.8 million of new money bonds and $200 million of refunding bonds. The Authority used new money bond proceeds to finance capital improvements to the 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 September 23, 2010, the Authority issued $750.0 million of fixed rate new money second general resolution revenue bonds, Fiscal 2011 Series AA. The bonds are taxable Build America Bonds. Build America Bonds (BABs) allow the Authority 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 and 2043. The Authority used the bond proceeds to pay the costs for improvements to the System, to refund the Authority's commercial paper notes series 8 and to pay the costs of issuance of the bonds.

Additionally, on September 30, 2010, the Authority issued $210.0 million of tax-exempt fixed rate refunding bonds under its second general resolution. The Fiscal 2011 Series BB bonds refunded a portion of the Fiscal 2001 Series D and 1999 Series A first resolution bonds and paid the costs of issuance. The Fiscal 2011 Series BB bonds included serial bonds maturing from 2011 through 2043.

On November 18, 2010, the Authority issued $750.0 million of fixed rate, new money second general resolution revenue bonds, Fiscal 2011 Series CC bonds. The bonds are taxable BABs and include two term bonds maturing in 2042 and 2044. The Authority used the bond proceeds to refund its commercial paper notes series 1, series 6 and series 7, to pay the costs for improvements to the System and to pay the costs of issuance of the bonds.

Also on November 18, 2010, the Authority issued $275.0 million of adjustable rate new money and refunding second general resolution revenue bonds, Fiscal 2011 Series DD. These bonds issues included term bonds maturing in 2043. The Authority used the bond proceeds to pay the costs for improvements to the System, to refund its commercial paper notes series 5 A&B and to pay the costs of issuance of the bonds. The commercial paper notes series 5 will not be reissued.

On January 27, 2011, the Authority issued $450.0 million of tax-exempt fixed rate, new money second general resolution revenue bonds, Fiscal 2011 Series EE. This bond issue included three term bonds maturing in 2040 and 2043. The Authority used the bond proceeds to refund the Authority's commercial paper notes series 6 and series 8, to pay the costs for improvements to the System and to pay the costs of issuance of the bonds.

On March 3, 2011, the Authority issued $200.0 million of tax-exempt, adjustable rate, new money second general resolution revenue bonds, Fiscal 2011 Series FF. The Authority used the bond proceeds to pay the costs for improvements to the System and to pay the costs of issuance of the bonds. The Fiscal 2011 Series FF bonds included term bonds maturing in 2044.

On March 31, 2011, the Authority issued $541.8 million of tax-exempt, fixed rate new money and refunding second general resolution revenue bonds, Fiscal 2011 Series GG. 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 7, to refunded a portion of its 2001 Series D, 2001 Series E, 2002 Series B, 2002 Series C, 2002 series D, 2002 Series E, 2002 Series F and 2003 Series D first resolution bonds, to pay the costs for improvements to the System and to pay the costs of issuance of the bonds.

On June 17, 2011, the Authority issued fixed-rate new money and refunding second general resolution revenue bonds, Fiscal 2011 Series 1 and 2 to EFC, in the respective par amounts of $564.5 million and $114.3 million. The bonds included serial bonds maturing from 2012 to 2041 and term bonds maturing in 2036 and 2041. The Authority used the bond proceeds for new money projects, to refund its 2001 Series C and 2001 Series D bonds and to pay the costs of issuance of the bonds.

On June 23, 2011, the Authority issued $662.2 million of tax-exempt fixed rate refunding second general resolution revenue bonds, Fiscal 2011 Series HH. This bond issue included four term bonds maturing in 2026, 2029, 2031 and 2032. The Authority used the bond proceeds to refund the remaining portion of Authority's 2001 Series E, 2002 Series A, 2002 Series B, 2002 Series C, 2002 series E, 2002 Series F and 2002 Series G first resolution bonds, to pay the costs for improvements to the 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 7.5% for fiscal 2012, based on projected revenues and cost, became effective July 1, 2011.

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, 2011
(In thousands)

ASSETS	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 14,866	$ 9	$ -	$ 14,875
Restricted cash and cash equivalents	173,276	1,045,479	-	1,218,755
Restricted investments	26,360	340,397	-	366,757
Accrued interest and subsidy receivable	-	24	-	24
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of $310,776	340,039	-	-	340,039
Unbilled	274,283	-	-	274,283
Receivable from The City of New York	36,288	-	-	36,288
Total current assets	865,112	1,385,909	-	2,251,021
NON-CURRENT ASSETS:				
Utility plant in service — less accumulated depreciation of $9,132,287	17,184,273	-	-	17,184,273
Utility plant construction	7,804,563	-	-	7,804,563
Total capital assets	24,988,836	-	-	24,988,836
Residual interest in sold liens	39,000	-	-	39,000
Deferred outflows from hedging	-	53,216	-	53,216
Long-term deferred bond and financing expenses	-	176,139	-	176,139
Revenue required to be billed by and received from the Board	-	15,519,332	(15,519,332)	-
Total non-current assets and deferred items	25,027,836	15,748,687	(15,519,332)	25,257,191
TOTAL	$ 25,892,948	$ 17,134,596	$ (15,519,332)	$ 27,508,212

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS	Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	$ -	$ 26,078,417	$ -	$ 26,078,417
Net premium on bonds and notes payable	-	197,357	-	197,357
Unamortized deferred bond refunding costs	-	(300,850)	-	(300,850)
Pollution remediation obligation	102,652	-	-	102,652
OPEB Liability	-	699	-	699
Interest rate swap agreement — net	-	37,474	-	37,474
Revenue requirements payable to the Authority	15,519,332	-	(15,519,332)	-
Total long-term liabilities	15,621,984	26,013,097	(15,519,332)	26,115,749
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	45,052	61,618	-	106,670
Revenue received in advance	61,517	-	-	61,517
Commercial paper payable	-	400,000	-	400,000
Current portion of bonds and notes payable	-	430,452	-	430,452
Payable to The City of New York	-	682,345	-	682,345
Refunds payable to customers	64,367	-	-	64,367
Total current liabilities	170,936	1,574,415	-	1,745,351
Total liabilities	15,792,920	27,587,512	(15,519,332)	27,861,100
NET ASSETS:				
Invested in capital assets — net of related debt	24,988,836	(25,204,158)	-	(215,322)
Restricted for debt service	-	573,461	-	573,461
Restricted for operations and maintenance	199,636	-	-	199,636
Unrestricted (deficit)	(15,088,444)	14,177,781	-	(910,663)
Total net assets (deficit)	10,100,028	(10,452,916)	-	(352,888)
TOTAL	$ 25,892,948	$ 17,134,596	$ (15,519,332)	$ 27,508,212

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2010
(In thousands)

	New York City			
ASSETS	**Water Board**	**Municipal Water Finance Authority**	**Eliminations**	**Total**
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 6,133	$ 9	$ -	$ 6,142
Restricted cash and cash equivalents	165,204	952,616	-	1,117,820
Restricted 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
NON-CURRENT ASSETS:				
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
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
Revenue required to be billed by and received from the Board	-	14,500,294	(14,500,294)	-
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

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS	Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	$ -	$ 23,613,153	$ -	$ 23,613,153
Net premium 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
Revenue 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 (deficit)	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 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED JUNE 30, 2011
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 1,158,977	$ -	$ 1,158,977
Sewer collection and treatment	1,797,777	-	1,797,777
Other operating revenues	111,552	-	111,552
Total operating revenues	3,068,306	-	3,068,306
OPERATING EXPENSES:			
Operation and maintenance	1,294,533	-	1,294,533
Bad debt expense	76,799	-	76,799
Administration and general	6,409	34,015	40,424
Other operating expenses	103,334	-	103,334
Total operating expenses	1,481,075	34,015	1,515,090
DEPRECIATION AND AMORTIZATION	593,996	34,343	628,339
OPERATING INCOME (LOSS)	993,235	(68,358)	924,877
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,178,226)	(1,178,226)
Loss on retirement of capital assets	(3,426)	-	(3,426)
Subsidy income	-	180,986	180,986
Capital distribution	(53,591)	-	(53,591)
Investment income	672	37,641	38,313
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	936,890	(1,027,957)	(91,067)
CAPITAL CONTRIBUTION	18,696	-	18,696
CHANGE IN NET ASSETS	955,586	(1,027,957)	(72,371)
NET ASSETS (DEFICIT) — Beginning of year	9,144,442	(9,424,959)	(280,517)
NET ASSETS (DEFICIT) — End of year	$ 10,100,028	$ (10,452,916)	$ (352,888)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) YEAR ENDED JUNE 30, 2010 (In thousands)

	New York City		
	Water Board	Municipal Water 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
Total operating revenues	2,758,073	-	2,758,073
OPERATING EXPENSES:			
Operation and maintenance	1,539,846	-	1,539,846
Bad debt expense	14,032	-	14,032
Administration and general	9,837	30,420	40,257
Other operating expenses	289,989	-	289,989
Total operating expenses	1,853,704	30,420	1,884,124
DEPRECIATION AND AMORTIZATION	539,008	35,475	574,483
OPERATING INCOME (LOSS)	365,361	(65,895)	299,466
NON-OPERATING 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
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	310,250	(892,381)	(582,131)
CAPITAL CONTRIBUTION	30,424	-	30,424
CHANGE IN NET ASSETS	340,674	(892,381)	(551,707)
NET ASSETS (DEFICIT) — Beginning of year	8,803,768	(8,532,578)	271,190
NET ASSETS (DEFICIT) — End of year	$ 9,144,442	$ (9,424,959)	$ (280,517)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(In thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 2,922,730	$ -	$ 2,922,730
Payments for operations and maintenance	(1,242,579)	-	(1,242,579)
Payments for administration	(3,826)	(33,419)	(37,245)
Net cash provided by (used in) operating activities	1,676,325	(33,419)	1,642,906
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	6,410,737	6,410,737
Acquisition and construction of capital assets	-	(2,965,506)	(2,965,506)
Payments by the Board to the Authority	(1,661,360)	1,661,360	-
Repayments of bonds, notes and other borrowings	-	(4,069,142)	(4,069,142)
Interest paid on bonds, notes and other borrowings	-	(956,950)	(956,950)
Net cash (used in) provided by capital and related financing activities	(1,661,360)	80,499	(1,580,861)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	1,134	75,289	76,423
Purchases of investments	-	(80,969)	(80,969)
Interest on investments	706	51,463	52,169
Net cash provided by (used in) investing activities	1,840	45,783	47,623
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,805	92,863	109,668
CASH AND CASH EQUIVALENTS — Beginning of year	171,337	952,625	1,123,962
CASH AND CASH EQUIVALENTS — End of year	$ 188,142	$ 1,045,488	$ 1,233,630

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(In thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 993,235	$ (68,358)	$ 924,877
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	593,996	34,343	628,339
Operations and maintenance expense paid for with bond proceeds	56,040	-	56,040
Pollution remediation expense	18,902	-	18,902
Changes in assets and liabilities (net):			
Pollution remediation liability	28,392	-	28,392
Receivables — net	(71,850)	-	(71,850)
Receivable from The City	51,953	-	51,953
Residual interest in sold liens	1,734	-	1,734
Accounts payable	78	596	674
Revenues received in advance	4,188	-	4,188
Refunds payable	(343)	-	(343)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,676,325	$ (33,419)	$ 1,642,906

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of ($979) in 2011.
Capital expenditures in the amount of $635,323 had been incurred but not paid at June 30, 2011.
The Board received capital assets of $18,412 in 2011 which represented capital contributed by The City.
The Board received capital assets of $284 in 2011 which represented capital contributed by Westchester County.

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(In thousands)

	New York City Water Board	New York City 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)
Net cash provided by (used in) operating activities	1,034,225	(29,231)	1,004,994
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)
Net cash (used in) provided by capital and related financing activities	(1,039,425)	(480,058)	(1,519,483)
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
Net cash provided by (used in) investing activities	66,547	401,462	468,009
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

(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	New York City 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	$ 1,034,225	$ (29,231)	$ 1,004,994

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)

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 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:

Component Unit — The System is a component unit of The City. The System leases the water and sewer related properties from The City, which is responsible for the operations, maintenance and capital improvement of the system. The System reimburses The City for costs incurred for operations and maintenance and issues debt to pay for capital improvements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of cash flows and statement of net assets, the System generally considers all highly liquid debt instruments purchased with an original 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 Liens — 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:

	Years
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 other operating expenses in the statements of revenues, expenses and changes in net assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Bond Refunding Costs — Deferred bond refunding costs represent the 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.

New Accounting Standards — In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011. The System has not completed the process of evaluating GASB Statement No. 60, but it does not expect it to have an impact on its financial statements.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus — An Amendment of GASB Statement No. 14 and No. 34*. The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The statement is effective for financial statement periods beginning after June 15, 2012. The System has not completed the process of evaluating GASB Statement No. 61, but it does not expect it to have an impact on its financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The Statement incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The statement is effective for financial statement periods beginning after December 15, 2011. The System has not completed the process of evaluating GASB Statement No. 62, but it does not expect it to have an impact on its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the statement of net assets to statement of net position, as well as reported net assets, and components thereof, to net position. The Statement is effective for financial statements for periods beginning after December 15, 2011. The System has not completed the process of evaluating GASB Statement No. 63, but it is expected to change only the formatting and naming of The System's statement of position and components thereof, with no overall financial impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2011, GASB issued Statement No, 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. The Statement is effective for financial statements for periods beginning after June 15, 2011. The System has not completed the process of evaluating GASB Statement No. 64, but it does not expect it to have an impact on its financial statements.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2011 and 2010 (in thousands):

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Nondepreciable assets/ utility construction	$ 5,072,496	$2,439,493	$1,399,627	$ 6,112,362	$2,569,789	$877,588	$ 7,804,563
Depreciable assets/ utility plant in service							
Buildings	24,193	-	-	24,193	10,684	-	34,877
Equipment	1,375,904	162,547	-	1,538,451	185,577	121	1,723,907
Vehicles	155,318	1,861	-	157,179	6,826	13,414	150,591
Water supply and wastewater treatment systems	14,382,432	1,042,196	-	15,424,628	518,895	-	15,943,523
Water distribution and sewage collection systems	8,165,612	193,023	42,445	8,316,190	155,605	8,133	8,463,662
Total depreciable assets	24,103,459	1,399,627	42,445	25,460,641	877,587	21,668	26,316,560
Less accumulated depreciation for:							
Buildings	(16,138)	(306)	-	(16,444)	(2,003)	-	(18,447)
Equipment	(499,543)	(74,052)	-	(573,595)	(94,080)	-	(667,675)
Vehicles	(93,242)	(5,610)	-	(98,852)	5,766	-	(93,086)
Water supply and wastewater treatment systems	(4,701,459)	(354,742)	-	(5,056,201)	(395,118)	-	(5,451,319)
Water distribution and sewage collection systems	(2,726,335)	(104,297)	(19,190)	(2,811,442)	(90,318)	-	(2,901,760)
Total accumulated depreciation	(8,036,717)	(539,007)	(19,190)	(8,556,534)	(575,753)	-	(9,132,287)
Total utility plant in service — net	16,066,742	860,620	23,255	16,904,107	301,834	21,668	17,184,273
Total capital assets — net	$21,139,238	$3,300,113	$1,422,882	$23,016,469	$2,871,623	$899,256	$24,988,836

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 other 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 $546 million and $750 thousand respectively, on deposit at June 30, 2011 and 2010, which was covered by Federal depository insurance. The remaining balances at June 30, 2010 were uncollateralized and uninsured.

Cash and cash equivalents, including restricted and unrestricted balances were comprised of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Cash	$ 546,833	$ 53,966
Cash equivalents	686,797	1,069,996
Cash and cash equivalents	$1,233,630	$1,123,962

The System had the following investments at June 30, 2011 and 2010 (in thousands):

	Fair Value	
Investments	**2011**	**2010**
U.S. government sponsored entities	$ 673,660	$ 1,050,994
New York State instrumentalities	232,649	169,947
New York City authority securities	-	38,282
Government money market	39,497	64,781
Guaranteed investment contracts	92,913	95,052
Forward purchase agreements market value adjustment	14,835	27,120
Total investments including cash equivalents	1,053,554	1,446,176
Less amounts reported as cash equivalents	(686,797)	(1,069,996)
Investments	$ 366,757	$ 376,180

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

The System 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. Reserves for operations and maintenance are invested as permitted by the Board's investment guidelines

Credit Risk — Investments held by the System at June 30, 2011 and 2010 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.

Interest Rate Risk — Approximately 40 % of the System's investments at June 30, 2011 are Agreements to purchase securities or Guaranteed Investment Contracts with guaranteed fixed rates of return. The fair value of the Agreements to purchase securities is highly susceptible to changes in market interest rates; however the System does not expect these Agreements to terminate. Additionally, approximately 14 % 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, 2011; 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, 2011 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	$ (197)	A2/A/A
Synthetic fixed rate	240,600,000	10/26/2007	6/15/2036	Pay 3.439% receive 67% of 1-month LIBOR	(31,811)	Aa1/AAA/NR
Synthetic fixed rate	160,400,000	10/26/2007	6/15/2036	Pay 3.439% receive 67% of 1-month LIBOR	(21,208)	Aa3/A+/A+
Investment Derivative						
Synthetic variable rate	200,000,000	12/23/2003	6/15/2014	Pay SIFMA Index receive 3.567%	15,742	Aa2/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 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 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-.

5. DERIVATIVE INSTRUMENTS (CONTINUED)

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 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 are lower than they were at the time the transaction was entered into, the Authority may 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.

5. DERIVATIVE INSTRUMENTS (CONTINUED)

Financial Statements Effect — The market value of derivatives at June 30, 2011 and June 30, 2010, was $37.5 million and $55.0 million, respectively. The market value of hedge derivatives at June 30, 2011 and June 30, 2010, was $53.2 million and $71.9 million, respectively. These amounts are shown as deferred outflows in the balance sheet. The increase/decrease in market value of the non-hedge derivative at June 30, 2011 and June 30, 2010 was $1.2 million and $6.0 million, respectively.

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 has 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):

	2011	2010
Water transmission and distribution	$ 402,603	$ 420,880
Sewer collection systems	494,740	697,095
City agency support cost	62,181	67,413
Fringe benefits	117,961	171,438
Judgments and claims	11,658	11,859
Operations and maintenance	1,089,143	1,368,685
Rental payments to The City	205,390	171,161
Total operations maintenance and rental payments	$1,294,533	$1,539,846

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2011 and 2010, all utility construction and other projects financed by Authority debt recorded by the System which have not been reimbursed to The City have 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, 2011 and 2010, the System had a net payable of $646.1 million and $879.7 million, respectively, to The City for payments of utility construction and for overpayment of operations and maintenance expense.

8. OTHER OPERATING EXPENSES

A summary of other operating expenses for the year ended June 30, is as follows (in thousands):

	2011	2010
Pollution remediation	$ 47,294	$ 204,390
Payments for watershed improvements	56,040	85,599
Total other operating expenses	$ 103,334	$ 289,989

The City's Department of Environmental Protection manages both the System's operations and its capital program, and it also manages other projects with long-term benefits to the System which do not result in capital assets of the System and which are paid for using Authority debt proceeds, similarly to capital projects. Such long-term benefit projects include payment for environmental protection and related improvement in the watershed areas, and pollution remediation projects throughout the System.

9. SHORT TERM DEBT

In fiscal 2011 and 2010, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Commercial paper (1)	$700,000	$1,200,000	$1,300,000	$600,000	$1,800,000	$2,000,000	$400,000

(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.

9. SHORT TERM DEBT (CONTINUED)

Commercial paper activity is comprised of the following for the year ended June 30, 2011(in thousands):

	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
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	-	200,000	-
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	-	600,000	600,000	-
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	200,000	400,000	400,000	200,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	200,000	400,000	400,000	200,000
Total commercial paper payable	$600,000	$ 1,800,000	$ 2,000,000	$400,000

10. LONG-TERM DEBT

In fiscal 2011, the changes in long-term debt were as follows (in thousands):

Bonds Payable	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
First resolution	$10,398,518	$ -	$1,584,841	$ 8,813,677
Second resolution	13,579,197	4,570,266	454,271	17,695,192
Total bonds payable	23,977,715	4,570,266	2,039,112	26,508,869
Due within one year	(364,562)			(430,452)
Less: discounts (net)	(115,844)	(72,852)	8,661	(197,357)
Less: deferred refunding costs	309,288	17,307	(25,745)	300,850
Total long-term bonds payable	$23,419,709	$4,625,811	$2,056,196	$25,974,924

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.

As part of the American Recovery and Reimbursement Act of 2009, the System has and will receive funding through EFC of $217.5 million for certain projects. Each project included is tracked for spending, and funding is received from EFC after submission of required documentation. The funding is in the form of a bond anticipation note payable by the Authority. The total $217.5 million note is expected to be forgiven by EFC after the note is fully drawn. Based on the expected length of projects, the note is a long-term liability.

10. LONG-TERM DEBT (CONTINUED)

During fiscal 2011, the Authority issued $1.56 billion of bonds to refund $1.43 billion of outstanding bonds and $200 million of commercial paper 5. These refundings resulted in a loss of $17.3 million. The Authority in effect reduced its aggregate debt service for principal and interest by $139 million.

During fiscal 2011, the Authority defeased $243.97 million of outstanding bonds using current revenue. This resulted in a gain of $3.3 million.

During fiscal 2010, the Authority issued $577.9 million of bonds to refund $614.97 million outstanding bonds. These refundings resulted in a loss of $16.6 million. The Authority in effect reduced its aggregate debt service by $72.2 million.

The Authority has defeased cumulatively $13.1 billion and $11.6 billion of outstanding bonds as of June 30, 2011 and 2010, 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. As of June 30, 2011 and 2010, $11.7 billion and $11.1 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, 2011 are as follows (in thousands):

	Principal (1)	Interest (2)	Total
2012	$ 830,452	$ 971,313	$ 1,801,765
2013	370,027	951,279	1,321,306
2014	406,004	942,258	1,348,262
2015	367,563	933,238	1,300,801
2016	453,192	922,301	1,375,493
2017–2021	2,900,452	4,359,690	7,260,142
2022–2026	3,223,570	3,873,035	7,096,605
2027–2031	3,894,410	3,234,943	7,129,353
2032–2036	4,875,975	2,477,054	7,353,029
2037–2041	6,132,820	1,421,641	7,554,461
2042–2046	3,454,404	163,030	3,617,434
	$26,908,869	$20,249,782	$47,158,651

(1) Includes $400 million of commercial paper due in 2012.

(2) Includes interest for variable rate bonds estimated at 0.19%, which is the rate at the end of the fiscal year. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

10. LONG-TERM DEBT (CONTINUED)

Bonds, notes payable, and commercial paper are comprised of the following for the year ended June 30, 2011 (in thousands):

	Balance at June 30, 2010	Issued	Retired/ Defeased	Balance at June 30, 2011
1991 Fiscal Series B — 7.00% Serial and Term Bonds maturing in varying installments through 2012	$ 1,760	$ -	$ 1,145	$ 615
1992 Fiscal Series B — 6.66% to 6.81% Serial and Term Bonds maturing in varying installments through 2014	2,358	-	1,291	1,067
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	26,585	-	6,445	20,140
1995 Fiscal Series 1 — 6.88% Serial Bonds maturing in varying installments through 2016	15,110	-	3,335	11,775
1997 Fiscal Series A — 6.00% Serial Bonds maturing in varying installments through 2021	25,000	-	-	25,000
1998 Fiscal Series D — Capital Appreciation Bonds maturing in varying installments through 2020	110,330	-	-	110,330
1998 Fiscal Series 1 — 5.20% to 5.35% Serial Bonds maturing in varying installments through 2017	21,405	-	2,580	18,825
1998 Fiscal Series 3 — 6.00% Serial Bonds maturing in varying installments through 2012	87,765	-	43,850	43,915
1998 Fiscal Series 4 — 5.00% to 5.20% Serial Bonds maturing in varying installments through 2018	7,250	-	835	6,415
1999 Fiscal Series A — 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	181,270	-	181,270	-
2000 Fiscal Series C — Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 — 5.50% to 5.96% Serial Bonds maturing in varying installments through 2019	7,295	-	645	6,650
2001 Fiscal Series C — 5.13% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D — Capital Appreciation Bonds maturing in varying installments through 2021	232,060	-	152,215	79,845
2001 Fiscal Series E — 4.50% 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	170,455	-	170,455	-
2002 Fiscal Series C — 4.10% to 5.13% 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	41,215	-	41,215	-
2002 Fiscal Series E — 3.88% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	213,405	-	213,405	-
2002 Fiscal Series F — 3.88% to 5.00% Serial and Term Bonds maturing in varying installments through 2029	105,145	-	105,145	-
2002 Fiscal Series G — 5.00% Term Bonds maturing in varying installments through 2034	216,375	-	116,375	100,000
2002 Fiscal Series 1 — 5.06% to 5.25% Serial Bonds maturing in varying installments through 2031	157,276	-	157,276	-
2002 Fiscal Series 2 — 4.30% to 5.00% Serial Bonds maturing in varying installments through 2031	51,461	-	51,461	-
2002 Fiscal Series 3 — 4.04% to 5.22% Serial Bonds maturing in varying installments through 2031	402,707	-	15,833	386,874

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2010	Issued	Retired/ Defeased	Balance at June 30, 2011
2002 Fiscal Series 4 — 5.06% to 6.74% Serial Bonds maturing in varying installments through 2023	$ 165,504	$ -	$ 11,105	$ 154,399
2002 Fiscal Series 5 — 3.82% to 5.27% Serial Bonds maturing in varying installments through 2031	141,472	-	5,959	135,513
2002 Fiscal Series 6 — 3.71% to 5.40% Serial Bonds maturing in varying installments through 2019	60,443	-	5,832	54,611
2002 Fiscal Series 7 — 7.50% Serial Bonds maturing in varying installments through 2012	1,025	-	665	360
2003 Fiscal Series A — 4.13% to 5.38% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	672,015	-	181,855	490,160
2003 Fiscal Series D — 4.00% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	192,260	-	135,615	56,645
2003 Fiscal Series E — 5.00% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F — Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 — 4.62% to 4.89% Serial Bonds maturing in varying installments through 2032	117,827	-	5,081	112,746
2003 Fiscal Series 2 — 4.97% to 5.24% Serial Bonds maturing in varying installments through 2028	511,760	-	13,762	497,998
2003 Fiscal Series 3 — 0.48% to 5.75% Serial Bonds maturing in varying installments through 2025	16,895	-	805	16,090
2003 Fiscal Series 4 — 0.35% to 5.80% Serial Bonds maturing in varying installments through 2025	26,860	-	1,290	25,570
2003 Fiscal Series 5 — 3.36% to 5.00% Serial Bonds maturing in varying installments through 2032	241,169	-	9,411	231,758
2004 Fiscal Series A — 5.00% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B — 3.00% to 5.00% Serial and Term Bonds maturing in varying installments through 2023	336,720	-	3,560	333,160
2004 Fiscal Series C — 2.88% to 5.00% Serial and Term Bonds maturing in varying installments through 2035	593,375	-	625	592,750
2004 Fiscal Series 1 — 3.58% to 5.00% Serial Bonds maturing in varying installments through 2033	251,321	-	9,357	241,964
2004 Fiscal Series 2 — 1.70% to 4.84% Serial Bonds maturing in varying installments through 2026	217,384	-	8,229	209,155
2005 Fiscal Series A — 5.00% Term Bonds maturing in 2039	150,000	-	-	150,000
2005 Fiscal Series B — 3.25% to 5.00% Serial Bonds maturing in varying installments through 2036	916,670	-	1,160	915,510
2005 Fiscal Series C — 3.25% to 5.00% Serial Bonds maturing in varying installments through 2031	572,680	-	820	571,860
2005 Fiscal Series D — 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 — 3.98% to 5.00% Serial Bonds maturing in varying installments through 2034	196,693	-	6,923	189,770
2005 Fiscal Series 2 — 2.58% to 5.00% Serial Bonds maturing in varying installments through 2034	333,630	-	12,236	321,394
2006 Fiscal Series A — 3.50% to 5.00% Serial Bonds maturing in varying installments through 2039	517,755	-	405	517,350
2006 Fiscal Series B — 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Fiscal Series C — 4.50% to 4.75% Serial Bonds maturing in varying installments through 2033	350,345	-	-	350,345
2006 Fiscal Series D — 4.50% to 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 — 3.50% to 5.00% Serial Bonds maturing in varying installments through 2016	60,000	-	10,000	50,000
2006 Fiscal Series 1 — Adjustable rate bonds maturing in varying installments through 2035	199,453	-	7,168	192,285

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2010	Issued	Retired/ Defeased	Balance at June 30, 2011
2006 Fiscal Series 2 — Adjustable rate bonds maturing in varying installments through 2036	$ 183,809	$ -	$ 5,643	$ 178,166
2006 Fiscal Series 3 — Adjustable rate bonds maturing in varying installments through 2036	234,663	-	7,050	227,613
2007 Fiscal Series A — 4.25% to 4.75% Serial Bonds maturing in varying installments through 2039	587,975	-	-	587,975
2007 Fiscal Series AA — 4.50% to 5.00% Term Bonds maturing in 2037	199,910	-	-	199,910
2007 Fiscal Series BB — 3.75% to 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% to 5.00% Serial Bonds maturing in varying installments through 2039	395,000	-	-	395,000
2007 Fiscal Series 1 — 2.55% to 5.00% Serial Bonds maturing in varying installments through 2036	210,152	-	6,798	203,354
2007 Fiscal Series 2 — 2.60% to 4.80% Serial Bonds maturing in varying installments through 2036	267,830	-	8,487	259,343
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 — Adjustable rate bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C — 3.00% to 5.25% Serial Bonds maturing in varying installments through 2021	118,585	-	9,795	108,790
2008 Fiscal Series AA — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB — Adjustable rate bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series DD — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2037	250,643	-	12,721	237,922
2008 Fiscal Series 2 — 3.04% to 5.00% Serial Bonds maturing in varying installments through 2037	216,378	-	6,882	209,496
2009 Fiscal Series AA — 3.25% to 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% to 5.00% Serial Bonds maturing in varying installments through 2034	150,100	-	-	150,100
2009 Fiscal Series A — 5.00% to 5.63% Serial Bonds maturing in varying installments through 2040	536,030	-	-	536,030
2009 Fiscal Series DD — 5.25% to 6.00% Serial Bonds maturing in varying installments through 2040	325,580	-	-	325,580
2009 Fiscal Series EE — 2.50% to 5.50% Serial Bonds maturing in varying installments through 2040	645,455	-	-	645,455
2009 Fiscal Series FF — 3.00% to 5.50% Serial Bonds maturing in varying installments through 2040	362,830	-	-	362,830
2009 Fiscal Series 1 — 3.86% to 5.16% Serial Bonds maturing in varying installments through 2038	366,021	-	2,430	363,591
2009 Fiscal Series 2 — 4.87% Serial Bonds maturing in varying installments through 2038	79,333	-	3,292	76,041
2009 Fiscal Series GG — 4.13% to 5.25% Serial Bonds maturing in varying installments through 2040	500,000	-	-	500,000
2010 Fiscal Series AA — 5.75% to 6.25% Term Bonds maturing in 2041	504,240	-	-	504,240

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2010	Issued	Retired/ Defeased	Balance at June 30, 2011
2010 Fiscal Series BB — 2.50% to 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% to 6.45% Term Bonds maturing in 2041 and 2042	400,000	-	-	400,000
2010 Fiscal Series EE — 6.01% to 6.49% Term Bonds maturing in 2041 and 2042	500,000	-	-	500,000
2010 Fiscal Series FF — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	359,110	-	-	359,110
2010 Fiscal Series 2 — 0.13% to 5.00% Serial Bonds maturing in varying installments through 2039	140,684	-	9,365	131,319
2010 Fiscal Series 3 — 3.61% Serial Bonds maturing in varying installments through 2039	67,420	-	990	66,430
2010 Fiscal Series 4 — 4.98% to 5.81% Serial Bonds maturing in varying installments through 2039	196,460	-	-	196,460
2010 Fiscal Series GG — 5.72% to 6.12% Term Bonds maturing in 2042	554,045	-	-	554,045
2011 Fiscal Series AA — 5.44% to 5.79% Term Bonds maturing in 2041 and 2043	-	750,000	-	750,000
2011 Fiscal Series BB — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	-	210,040	530	209,510
2011 Fiscal Series CC — 5.88% to 6.28% Term Bonds maturing in 2042 through 2044	-	750,000	-	750,000
2011 Fiscal Series DD — Adjustable rate bonds maturing in 2043	-	275,000	-	275,000
2011 Fiscal Series EE — 5.38% to 5.50% Term Bonds maturing in 2040 through 2043	-	450,000	-	450,000
2011 Fiscal Series FF — Adjustable rate bonds maturing in 2044	-	200,000	-	200,000
2011 Fiscal Series GG — 2.50% to 5.00% Serial Bonds maturing in varying installments through 2026	-	541,810	-	541,810
2011 Fiscal Series HH — 4.00% to 5.00% Serial Bonds maturing in 2026 through 2032	-	662,245	-	662,245
2011 Fiscal Series 1 and 2 — 3.58% Serial Bonds maturing in varying installments through 2041	-	678,761	-	678,761
2010 BAN	-	52,410	-	52,410
Total bonds payable	23,977,715	$4,570,266	$2,039,112	26,508,869
Current portion of bonds and notes payable	364,562			430,452
Bonds and notes payable — less current portion	$23,613,153			$26,078,417

(Concluded)

11. RESTRICTED ASSETS

As of June 30, 2011 and 2010, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2011	2010
The Board:		
Operation and maintenance reserve account	$ 199,626	$ 191,772
Operation and maintenance reserve general account	10	10
Subtotal — Board	199,636	191,782
The Authority:		
Revenue fund	363,608	239,192
Debt service reserve fund	865,727	883,851
Debt service fund	5,517	9,489
Construction fund	151,024	150,316
Escrow fund	-	19,370
Subtotal — Authority	1,385,876	1,302,218
Total restricted assets	$1,585,512	$1,494,000

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 First Resolution Bond 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.

12. COMMITMENTS AND CONTINGENCIES

a. **Construction** — The System has contractual commitments of approximately $7.5 billion and $6.6 billion at June 30, 2011 and 2010, 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 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, 2011, the potential future liability attributable to the System for claims outstanding against The City was estimated to be $182.3 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City's balance sheet. The potential future liability is The City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

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 2011 and 2010, the System paid $2.1 million and $0.54 million, respectively, in rebates. At June 30, 2011 and 2010, the Authority had a liability of $7.9 million and $8.2 million, respectively. These amounts are included in accrued payable expense in the balance sheets.

13. PENSION PLANS

During fiscal 2011, the Authority was billed and contributed $112.9 thousand for 11 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.

The following table shows the amount the Authority was billed and contributed (in thousands):

Date	Required Contribution	Actual Contribution	%
June 30, 2011	$ 113	$ 113	100 %
June 30, 2010	112	112	100
June 30, 2009	52	52	100

14. 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 an other 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, 2011 and 2010, the Authority had three retirees and made contributions of $5.7 thousand and $4.4 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, 2010, which was the basis for the fiscal 2011 ARC calculation.

14. 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 years ended June 30, 2011and 2010 (in thousands):

	2011	2010
Annual required contribution	$ 705	$ 538
Interest on net OPEB obligations	21	16
Adjustment to annual required contribution	(555)	(411)
Annual OPEB cost	171	143
Payments	(6)	(4)
Net OPEB obligation — beginning of year	534	395
Net OPEB obligation — end of year	$ 699	$ 534

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, 2009 through 2011 were as follows (in thousands):

Fiscal Years	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 171	3.3 %	$ 699
June 30, 2010	143	3.1	534
June 30, 2009	86	8.6	395

Funded Status and Funding Progress — As of June 30, 2010, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was $562.5 thousand, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $562.5 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was $1,026 thousand, and the ratio of the UAAL to the covered payroll was 54.8%

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.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The System's funding progress information as of June 30, 2011 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$ 563	$ 563	- %	$ 1,026	54.8 %

The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

15. POLLUTION REMEDIATION OBLIGATIONS

The System reports pollution remediation obligations ("PROs") as required by GASB standards. 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, 2011 and 2010, the System reported $102.6 million and $74.3 million of liabilities for known PROs, respectively.

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.

16. RELATED PARTY TRANSACTIONS

During fiscal 2011 and 2010 the Authority bought $6.28 million and $31.90 million, respectively of New York City Transitional Finance Authority ("TFA") bonds. At June 30, 2011 and 2010, the Authority held $0 million and $38.30 million, respectively, in TFA bonds.

17. SUBSEQUENT EVENTS

On July 19, 2011 the Authority issued $200 million of commercial paper notes, Series 1, to pay for construction costs of the System.

On August 16, 2011 the Authority issued $200 million of commercial paper notes, Series 6, to pay for construction costs of the System.

On August 9, 2011 the Authority drew down $6.62 million of Fiscal 2010 Series 1 BANS.

On September 16, 2011 the Authority drew down an additional $4.87 million of Fiscal 2010 Series 1 BANS.

On September 13, 2011 the Authority issued Fiscal 2012 Series AA Bonds in the amount of $450.9 million to refund principal of $112.0 million and $100.0 million of Series 2001C and 2002G, respectively, to pay the costs of issuance of the bonds, and to deposit $267.2 million to the Construction Fund.

On September 29, 2011 the Authority issued Fiscal 2012 Series A Bonds in the amount of $200 million to pay for the Authority's commercial paper notes Series 8, to pay the costs of issuance of the bonds, and to deposit $8.1 million to the Debt Service Reserve Fund.

On September 29, 2011 the Authority closed on the Fiscal 2012 Series 1 BANS. The total amount of the BANS will be $30 million and no money has been drawn down as of October 7, 2011.

Impact of Hurricane Irene — On August 27 and 28, 2011, Hurricane Irene moved through the City and upstate watershed. The impact to in-City DEP facilities was relatively minor, but it was more extensive in the watershed. DEP immediately took steps to inspect and repair the damage. It is anticipated that the majority of the expenses incurred by DEP to return to normal operations will be reimbursable with federal emergency management agency funds for these counties in the watershed.

North River Wastewater Treatment Plant Fire/Notice of Violation — On July 20, 2011, a four-alarm fire in the North River wastewater treatment plant (the "Plant") caused a full evacuation of the plant and a shutdown of plant operations and resulted in discharges of untreated wastewater into the Hudson River. New York State Department of Environmental Conservation subsequently issued a Notice of Violation for the discharge, but has not made a specific penalty demand and DEP's potential liability is difficult to estimate at this time. The cost of bringing the plant back online and making needed repairs is approximately $30 million, which is not in the Capital Improvement Program.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY WATER AND SEWER SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)
JUNE 30, 2011 AND 2010
(In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	June 30, 2010	$ -	$ 563	$ 563	- %	$ 1,026	54.8 %
June 30, 2010	June 30, 2009	-	431	431	-	676	63.7
June 30, 2009	June 30, 2008	-	317	317	-	729	43.5