

New York City Municipal Water Finance Authority Fiscal Year 2012 Investment Report

- I. Investment Guidelines (See Schedule 1)
- II. Explanation of the Investment Guidelines

The New York City Municipal Water Finance Authority (the “Authority”) originally adopted Investment Guidelines on April 10, 1986, with subsequent amendments of August 10, 1993, February 18, 1998, April 17, 1998 and March 20, 2009. The Investment Guidelines specify the policies and procedures relating to the investment, monitoring and reporting of funds of the Authority. For purposes of the Investment Guidelines, funds of the Authority are all moneys and other financial resources available for investment by the Authority on its own behalf or on behalf of any other entity or individual. All such moneys shall be invested at all times to the fullest extent practicable, and in accordance with the requirements and restrictions set forth in the Investment Guidelines.

- III. Results of the annual independent audit of the investments (See Schedule 2)
- IV. Investment Income record of the Authority (See Schedule 3)
- V. List of total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment services to the Authority (See Schedule 3)

SCHEDULE 1

New York City Municipal Water Finance Authority Investment Guidelines

Adopted April 10, 1986
Amended August 10, 1993
Amended February 18, 1998
Amended April 17, 1998
Amended March 20, 2009

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I. Purpose

A. Adoption. These Guidelines are adopted by the Board of Directors of the New York City Municipal Water Finance Authority (the "Authority"), pursuant to Section 2925 of the Public Authorities Law of the State of New York, and have been amended by the Board of Directors as of August 10, 1993, February 18, 1998 and April 17, 1998.

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

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

II. Permitted Obligations

A. Bond Resolution Funds. Article V of the Authority's Water and Sewer System General Revenue Bond Resolution adopted November 14, 1985, as amended (the "General Resolution"), and Article V of the Authority's Water and Sewer System Second General Revenue Bond Resolution adopted March 30, 1994, as amended (the "Second General Resolution" and, together with the General Resolution, the "Bond Resolutions"), each established the following funds: Construction Fund, Revenue Fund, Debt Service Fund, Authority Expense Fund, Debt Service Reserve Fund, Subordinated Indebtedness Fund, Surplus Fund and Arbitrage Rebate Fund. Section 514(a) of the General Resolution and Section 515(a) of the Second General Resolution permit monies held in each of the respective Debt Service Funds to be invested in any securities described in paragraphs 2, 3 or 6(a) below. Subject to 508(d) of the General Resolution and Section 509(d) of the Second General Resolution, monies held in each of the Debt Service Reserve Funds may be invested in any securities described in paragraphs 1 through 9 below. The Resolutions permit monies held in any other funds created by the General Resolution and the Second General Resolution (including the Subordinated Indebtedness Funds) to be invested in any securities described in paragraphs 1 through 9 below. Notwithstanding the more liberal provisions of the Resolutions, the Authority has determined that (i) investments in the Subordinated Indebtedness Funds shall be limited to investments described in paragraphs 2, 3 or 6(b) below and (ii) investments from the Debt Service Funds in Repurchase Agreements shall be subject to the provisions set forth in paragraph 6(b) below.

- 1) Direct obligations of, or obligations guaranteed as to principal and interest by, the State of New York (the "State") or direct obligations of any agency or public authority thereof, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by each Rating Agency then maintaining a rating on Outstanding Bonds (the "State Guaranteed Securities");
- (2) (a) Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as any agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (b) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in paragraph (a) of this paragraph (2) ("Federally Guaranteed Securities");
- (3) Obligations of any agency, subdivision, department, division or instrumentality of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America ("Federal Agency Securities");
- (4) Banker's acceptances or certificates of deposit issued by a commercial bank with its principal place of business within the State and having capital and surplus of more than \$100,000,000 ("Banker's Acceptance/Certificates of Deposit");
- (5) Corporate securities, including commercial paper and fixed income obligations, which are, at the time of purchase, rated by a Rating Agency in its highest rating category for comparable types of obligations ("Corporate Securities"); and
- (6)(a) For Funds other than the Debt Service Funds and Subordinated Indebtedness Funds: Repurchase agreements ("Repurchase Agreements") collateralized by securities described in paragraphs (2) or (3) above, with any government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and included in the then current "List of the Government Securities Dealers Reporting to the Federal Reserve Bank of New York" (a "Primary Dealer") or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency then maintaining a rating on the Bonds, provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;
- (6)(b) For the Debt Service and Subordinated Indebtedness Funds: Repurchase Agreements collateralized by securities described in paragraph (2) above, with any Primary Dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency then maintaining a rating on the Bonds, provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%;
- (7) investment agreements or guaranteed investment contracts with any financial institution whose senior 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 (at the time such agreement or contract is entered into) in one of the two highest rating

categories for comparable types of obligations by each Rating Agency then maintaining a rating on the bonds ("Investment Agreements");

(8) money market funds rated in the highest rating category for comparable types of obligations by each Rating Agency then maintaining a rating on the Bonds ("Money Market Funds")

(9) municipal obligations, the payment of principal and redemption price, if any, and interest on which is irrevocably secured by obligations of the type referred to in paragraphs (1), (2) or (3) above and which obligations have been deposited in an escrow arrangement which is irrevocably pledged to the payment of such municipal obligations and which municipal obligations are rated in the highest rating category for comparable types of obligations by each Rating Agency then maintaining a rating on the Bonds ("Prerefunded Municipal Obligations").

B. Additional Restrictions. In addition to the restrictions set forth in the Bond Resolutions which are reflected in Section II(A) hereof, (i) Investments in Banker's Acceptances/Certificates of Deposit shall mature within two years of the date of investment and shall be limited to banks having the highest short-term rating from at least two firms identified by the Securities and Exchange Commission as "nationally recognized statistical rating organizations" and (ii) Corporate Securities shall mature in less than one year.

C. Other Funds. Subject to the restrictions set forth in Section II(B) above, monies in any other funds which may be established by the Authority may be invested in any of the securities described in paragraphs 1 through 9 of Section II(A) hereof.

III. Conditions of Investment

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

B. Diversification. Investments of Authority monies in the funds specified below shall be subject to the diversification restrictions set forth below:

Debt Service Reserve Funds:

1.	State Guaranteed Securities	0-60%
2.	Federally Guaranteed Securities	0-100%
3.	Federal Agency Securities	0-100%
4.	Banker's Acceptances	0-60%
5.	Certificates of Deposit	0-60%
6.	Corporate Securities	0-60%
7.	Repurchase Agreements	0-50%
8.	Collateralized Investment Agreements	0-50%
9.	Uncollateralized Investment Agreements	0-40%
10.	Money Market Funds	0-50%
11.	Prerefunded Municipal Obligations	0-100%

Debt Service Funds and Subordinated Indebtedness Funds: Up to 100% of the amounts on deposit in the Debt Service Funds and the Subordinated Indebtedness Funds may be invested in Federally Guaranteed Securities, Federal Agency Securities or Repurchase Agreements. Amounts on deposit in the Debt Service Funds and the Subordinated Indebtedness Funds are disbursed to pay interest at least once every six months and substantially all of such amounts are withdrawn annually to pay principal. Accordingly, the period of time during which there may be some exposure to the credit of a counterparty under a Repurchase Agreement is limited to no longer than one year. In light of this relatively short time period, and the requirement in the Resolutions and these Guidelines that Repurchase Agreements be collateralized, the Authority has determined that it is appropriate to permit up to 100% of these funds to be invested in Repurchase Agreements described in paragraph 6(b) of Section II(A) hereof, subject to the concentration restrictions set forth in Section III(C) hereof.

Construction Funds and all other Funds in which the amount on deposit at the time of making the investment exceeds \$5 million:

1. State Guaranteed Securities

0-

		60%
2.	Federally Guaranteed Securities	0- 100%
3.	Federal Agency Securities	0- 100%
4.	Banker's Acceptances	0- 60%
5.	Certificates of Deposit	0- 60%
6.	Corporate Securities	0- 60%
7.	Repurchase Agreements	0- 100%
8.	Collateralized Investment Agreements	0- 100%
9.	Uncollateralized Investment Agreements	0- 50%
10.	Money Market Funds	0- 50%
11.	Prerefunded Municipal Obligations	0- 100%

Amounts on deposit in these Funds, although available for payment of debt service on Bonds and Notes in the event of a default, are not expected to be used to pay debt service. Also, amounts in the Construction Funds are generally disbursed to pay the costs of Projects within six months of the date of deposit therein and would virtually always be disbursed within two years. In light of the foregoing, the Authority has determined that it is appropriate to permit up to 100% of the amounts on deposit in these Funds to be invested in Repurchase Agreements and Collateralized Investment Agreements.

C. Concentration.

1. For the Debt Service and Subordinated Indebtedness Funds: If more than 50% of the amounts on deposit (determined at the time of investment) in either Debt Service Fund or in either Subordinated Indebtedness Fund are invested in Repurchase Agreements, there must be at least two separate Repurchase Agreements with different counterparties for each such Fund.

2. For the Reserve Funds: No more than 20% of each Reserve Fund (determined at the time of investment) shall be invested in Repurchase Agreements or collateralized Investment Agreements with a single counterparty and no more than 15% of each such Fund (determined at the time of investment) shall be invested in uncollateralized Investment Agreements with a single counterparty.

3. For all Funds in which the amount on deposit at the time of making the investment exceeds \$5 million: Except for Repurchase Agreements, collateralized Investment Agreements, Prerefunded Municipal Obligations, Federal Agency Securities and Federally Guaranteed Securities, no more than 15% (determined at the time of investment) of the investments made from such fund or account may be invested in securities of a single issuer or in an uncollateralized Investment Agreement with a single counterparty.

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

E. Custodial Arrangements.

1. All securities held by any depository designated by the Authority in bearer or book-entry form (the "Custodial Bank") are held solely as agent to the Trustee on behalf of various accounts involved. Any securities held in registered form shall be registered in the name of the Authority or the Trustee. Securities positions at the Custodial Bank will be audited by the Authority's external auditors. Payment for purchases is not to be released until the purchased securities are received by the Custodial Bank.

2. The Custodial Bank will, upon instructions of the Trustee, release to the Treasurer of the Authority all purchased securities including those subject to repurchase. This will permit the Authority to sell such securities, if necessary.

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

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

1. Brokers, Agents, Dealers

a. In Government Securities: any bank or trust company organized or licensed under the laws of any state of the United States of America or of the United States of America or any national banking association or any registered broker/dealer.

b. In Municipal Securities: any broker, agent or dealer registered with the Municipal Securities Rulemaking Board (the "MSRB").

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

3. Investment Bankers: firms retained by the Authority to serve as senior managing underwriters for negotiated sales must be registered with the MSRB.

4. Custodians: any bank or trust company organized under the laws of any state of the United States of America or any national banking association which qualifies as a Depository under Section 512 of the General Resolution and Section 513 of the Second General Resolution.

G. Contracts. There is not a regular business practice of written contracts for the purchase on a current basis of the investments described in Section II (A) hereof, other than those described in paragraphs 6 and 7. The Authority shall, in the case of investments described in paragraphs 6 and 7, enter into written contracts with the permitted providers. In addition, when the Authority agrees to purchase securities on a forward delivery basis of more than six months, the Authority shall enter into written contracts providing for such forward purchase and delivery.

IV. Reports

A. Quarterly. The Executive Director shall prepare and deliver to the Board of Directors once for each quarter of the Authority's fiscal year a report setting forth a summary of new investments made during that quarter, the inventory of existing investments and the selection of investment bankers, brokers, agents, dealers, investment advisors and auditors.

B. Annually.

1. Audit. The Authority's independent accountants shall conduct an annual audit of the Authority's investments for each fiscal year of the Authority, the results of which shall be made available to the Board of Directors at the time of its annual review and approval of these Guidelines.

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

a. The Investment Guidelines and amendments thereto since the last report;

b. An explanation of the Guidelines and any amendments made since the last report;

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

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

e. A list of fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Authority since the last report. The Investment Report shall be submitted to the New York State Department of Audit and

Control, and to the Mayor and Comptroller of the City of New York. Copies of the annual report shall also be made available to the public upon reasonable request.

V. Applicability

These Guidelines shall govern all investments initiated by the Authority on and after April 17, 1998 and shall not apply to any investments initiated by the Authority prior to April 17, 1998. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.

* Unless otherwise indicated, all capitalized terms shall have the meaning set forth in the General Resolution or the Second General Resolution, as appropriate.

SCHEDULE 2



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INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements 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, 2012 and have issued our report thereon dated October 10, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the Resolutions and Investment Guidelines, insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of non-compliance with such Resolutions and Guidelines.

This report is intended solely for the information and use of the members of the Joint Audit Committee and management of the System, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

October 10, 2012

SCHEDULE 3

New York City Municipal Water Finance Authority Annual Investment Report As of and for the year ended June 30, 2012
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Investment Income for FY 2012 (accrual basis)	\$ 48,697,299
Investment Fees for FY 2012 (accrual basis)	
Payee:	
Cutwater Investor Services Corp	383,443
Bank Of New York	29,441
	\$ 412,884

Investment and Cash Equivalent by Funds	
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<u>Fund</u>	<u>Fair Value</u>
Debt Service Reserve Fund	\$ 361,361,369
Revenue Fund	492,267,000
Construction Fund	170,373,533
Investment and Cash Equivalent	1,024,001,902
Cash	526,192,365
Total Cash, Cash Equivalents and Investments	\$ 1,550,194,267

Investment and Cash Equivalent by Security Types				
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<u>Description</u>	<u>Fair Value</u>	<u>Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Treasury Bill	\$ 602,188,678	\$ 602,188,678	\$ -	\$ -
Dreyfus Gov't Money Market	9,310,385	9,310,385	-	-
Federal National Mortgage Association	14,477,855	14,477,855	-	-
Federal Farm Credit Bank	6,189,000	6,189,000	-	-
Dormitory Authority	30,510,906	-	25,922,480	4,588,426
Metropolitan Transn Authority	15,863,138	-	15,863,138	-
NYS Housing Finance Agency	6,705,000	-	-	6,705,000
NYS Environmental Facs	32,016,727	-	32,016,727	-
NYS General Obligation	2,176,507	-	-	2,176,507
NYS TWY Authority	15,410,470	-	15,410,470	-
NYS Urban Dev. Corp	56,829,553	-	3,676,778	53,152,775
NYS Nassau County	44,050,000	-	-	44,050,000
NYS Triborough Bridge & Tunnel Authority	71,355,076	-	-	71,355,076
NYS Long Island Power Authority	10,475,000	-	-	10,475,000
NYS Local Government	4,800,000	-	-	4,800,000
Guaranteed Investment contracts	90,354,395	-	-	90,354,395
Forward Purchase Agreement Market Adjustment	11,289,211	-	-	11,289,211
Total Investment and Cash Equivalent	1,024,001,901	632,165,918	92,889,593	298,946,390
Cash	526,192,366			
Total Cash, Cash Equivalents and Investments	\$ 1,550,194,267	\$ 632,165,918	\$ 92,889,593	\$ 298,946,390