

Joint Audit Committee Meeting of
The New York City Municipal Water Finance Authority
and
The New York City Water Board

June 23, 2026

Agenda

1. Resolution: Approval of Minutes of Meeting of October 6, 2025
2. Resolution: Annual Self-Evaluation and Review of Annual Report of the Audit Committee
3. Review of Internal Controls Procedures and Policies Manuals
4. Presentation of Audit Plan Including Discussion of New Accounting and Auditing Standards

Joint Audit Committee Meeting of
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Approval of Minutes

WHEREAS, the Joint Audit Committee has reviewed the minutes of its meeting held on October 6, 2025; it is therefore

RESOLVED, that the minutes of the meeting of October 6, 2025 be, and they hereby are, approved.

**JOINT AUDIT COMMITTEE OF
THE NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY
AND
NEW YORK CITY WATER BOARD
October 6, 2025**

A meeting of the Joint Audit Committee (the “Committee”) of the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Water Board”) was held at 10:01 a.m. in Conference Room 6-SE1, 255 Greenwich Street, New York, NY 10007, on October 6, 2025. The following members of the Committee were present in person:

Max Von Hollweg;

James McSpiritt;

Selvin Southwell (by designation of Authority Director Amanda Lefton); and

Adam Freed;

constituting a quorum of the Committee. Mr. Von Hollweg served as Chair of the meeting, and Deborah Cohen served as Secretary of the meeting.

Approval of Minutes of Previous Committee Meeting

The first item on the agenda was approval of the minutes of the meeting of July 16, 2025. There being no discussion, the following resolution was approved by unanimous vote of the members present:

WHEREAS, the Joint Audit Committee has reviewed the minutes of its meeting held on July 16, 2025; it is therefore

RESOLVED, that the minutes of the meeting of July 16, 2025 be, and they hereby are, approved.

Presentation by management and independent auditors regarding the audited annual financial statements of the Water and Sewer System of the City of New York (the “System”) for Fiscal Year 2025

The second item on the agenda was a presentation by management and the System’s independent auditors, Grant Thornton, regarding the audited annual financial statements of the System for Fiscal Year 2025. Mr. Von Hollweg introduced Raymond Lee, the Authority’s Comptroller, who briefly discussed the System’s audited financial statements, and introduced Nicholas Lazzaruolo from Grant Thornton. Mr. Lazzaruolo provided the required communications related to the independent audit of the System’s financial statements for the fiscal years ended June 30, 2025 and June 30, 2024, and responded to Committee member questions related to new accounting standards, generative artificial intelligence and other items of note. Further discussion ensued.

Recommendation to the Authority Board of Directors and the Water Board the acceptance of the independent auditors’ report on the audited financial statements of the System for the fiscal years ended June 30, 2025 and June 30, 2024, and the issuance of such financial statements

The third item on the agenda was a resolution which would recommend to the Board of Directors of the Authority and the Water Board approve of the audited financial statements, subject to non-material changes acceptable to the Comptroller of the Authority. There being no discussion, the following resolution was approved by unanimous vote of the members present:

WHEREAS, the Joint Audit Committee of the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Water Board”) has met with the independent auditors of the water and sewer system of the City of New York (the “System”) and has reviewed the independent auditors’ report on the audited financial statements of the Authority for the fiscal years ended June 30, 2025 and June 30, 2024 and such financial statements, as submitted to the Committee; and

WHEREAS, the Joint Audit Committee believes the independent auditors’ report and the financial statements are reasonable and appropriate; it is therefore

RESOLVED, that the Joint Audit Committee recommends to the Board of Directors of the Authority and the Water Board the acceptance of the independent

auditors' report and the authorization of the release of the audited financial statements of the System for the fiscal years ended June 30, 2025 and June 30, 2024; provided that both the independent auditors' report and the audited financial statements may be amended to reflect non-material changes acceptable to the Comptroller of the Authority.

Review and Approval of the Audit Committee Charter

The fourth item on the agenda was a resolution to approve the Committee's Charter, as required annually by Section III(r) of the Charter. Mr. Von Hollweg noted that no changes to the Charter were proposed at this time. There being no discussion, upon unanimous vote of the members present, the following resolution was approved.

WHEREAS, the Joint Audit Committee Charter was adopted by the New York City Water Board (the "Water Board") on January 28, 2008 and by the Board of Directors of the New York City Municipal Water Finance Authority (the "Authority") on February 4, 2008 and amended on October 7, 2009 by the Authority and October 30, 2009 by the Water Board;

WHEREAS, pursuant to the Joint Audit Committee Charter, section III(s), the Joint Audit Committee of the Water Board and the Authority is required annually to review the Audit Committee Charter, reassess its adequacy, and recommend any proposed changes to the Authority and the Water Board; and

WHEREAS, the Audit Committee has reviewed the Audit Committee Charter, as amended and attached hereto¹, and finds it to be reasonable and appropriate; it is hereby

RESOLVED, that the Audit Committee hereby approves the Audit Committee Charter as adopted and attached hereto.

Review of Audit Committee Schedule of Dates

The fifth and final item on the Agenda was a review of the Audit Committee's Schedule of Dates. Mr. Von Hollweg explained the Schedule of Dates provide a guideline for items the Committee will review throughout the year. He noted no changes were proposed to the previously established Schedule of Dates. He also noted that this was a review only, and no vote was necessary.

¹ Filed with the meeting minutes.

Adjournment

There being no further business before the Committee, upon unanimous vote, the Joint Audit Committee meeting was adjourned.

Assistant Secretary of the Authority

Secretary of the Water Board

Joint Audit Committee Meeting of
The New York City Municipal Water Finance Authority
and
The New York City Water Board

June 23, 2026

Annual Self-Evaluation and Report of the Audit Committee

WHEREAS, Section III(k) of the Audit Committee Charter and Section 6.3 of Directive 22 of the City of New York Office of the Comptroller require the Audit Committee to issue an annual report, which details the activities and decisions of the Committee for the prior calendar year;

WHEREAS, the Audit Committee has reviewed the Annual Report of the Audit Committee, as attached hereto, and finds it to be reasonable;

WHEREAS, Section III(j) of the Audit Committee Charter requires the Audit Committee to conduct an annual self-evaluation of its performance, including its effectiveness and compliance with the Audit Committee Charter; and

WHEREAS, the Audit Committee finds its performance to be satisfactory, effective, and in compliance with the Audit Committee Charter; it is therefore

RESOLVED, that the Annual Report of the Audit Committee is hereby approved and shall be presented to the Board of Directors of the New York City Municipal Water Finance Authority and the New York City Water Board and filed with the minutes of the Audit Committee.

Joint Audit Committee Meeting of
The New York City Municipal Water Finance Authority
and
The New York City Water Board

Annual Report of the Joint Audit Committee

June 23, 2026

During calendar year 2025, the Joint Audit Committee of the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Water Board”) met twice. The Joint Audit Committee’s actions at these meetings were as follows:

July 16, 2025:

- Conducted a self-evaluation and approved an annual report of the Committee’s activities;
- Reviewed the Water Authority and Water Board Internal Control Policies; and
- Met with the independent auditors to review the auditors’ audit plan for the fiscal year 2025 audit and discuss new accounting and auditing standards.

October 6, 2025:

- Met with the independent auditors and management of the Authority to discuss the annual audited financial statements for the fiscal years ended June 30, 2025 and June 30, 2024, and recommended to the Authority Board of Directors and the Water Board the acceptance and release of such financial statements; and
- Reviewed and approved the Audit Committee Charter and Schedule of Dates.

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY POLICIES AND PROCEDURES MANUAL

INTERNAL CONTROLS

The New York City Municipal Water Finance Authority's ("NYW") internal control objectives include, but are not limited to, the safeguarding of assets (including preventing the intentional or unintentional misapplication of funds), ensuring the accuracy and reliability of accounting data and financial reporting (including ensuring proper documentation of transactions), promoting the effectiveness and efficiency of operations and ensuring compliance with applicable laws and regulations.

Internal controls exist in each area of NYW where financial activities take place and may be categorized as (A) controls related to funds received, held, invested, and disbursed by NYW's bond Trustee ("Trustee"), and (B) other control measures including record keeping activities. These types of controls are discussed in this Manual.

The control measures used by NYW are periodically reviewed by NYW managers and changed as deemed necessary and this Manual will be reviewed and, if appropriate, updated at least annually. While not part of NYW's system of internal controls, NYW is subject to audit annually by independent auditors. Any comments or recommendations pertaining to NYW's internal controls made by the independent auditors are considered and, if deemed to be cost-beneficial, incorporated into NYW's internal controls.

In accordance with the New York City Comptroller's Directive 1, once every four years, NYW prepares a Financial Integrity Statement based upon a current Directive 1 Checklist with respect to management's assessment of NYW's internal control environment.

Organization

Overseen by its Board of Directors ("Board") and directed by its Chief Executive Officer and Executive Director, NYW's internal operations are carried out by three functional areas within the organization. While all activities of NYW require close coordination and cooperation among all units and with the New York City Office of Management and Budget ("OMB"), the following are the primary responsibilities of each:

1. Secretary's Office – Directed by the NYW Secretary and the Assistant Secretaries and their staff, the Secretary's Office is responsible for all legal affairs of NYW, including providing staff support for the operations of the Board and committees of the Board, drafting and interpretation of all contracts, agreements, and legal documents and dissemination of new or revised Board-approved policies to staff.
2. Treasurer's Office – Directed by the NYW Treasurer and his or her staff, the Treasurer's Office is responsible for the finance function, including working with

all parties on structuring and executing bond issuances, modeling debt service requirements, and directing the investment of NYW funds. If the Treasurer's position is vacant, the responsibilities will be assumed by the Executive Director.

3. Accounting Unit – Directed by the NYW Comptroller, Deputy Comptroller, and Assistant Comptroller (collectively, the “Accounting Managers”), the Accounting Unit is responsible for maintaining accounting books and records, the preparation of financial statements and other financial reports, on-going monitoring of NYW resources, and coordination with and oversight of the Trustee.

The Unit's Accounting Staff are responsible for various accounting tasks, including preparing payments, preparing journal entries, monitoring accounting activity, entering payment and journal entries into NYW's electronic accounting system, and maintaining schedules and analyses necessary for the preparation of year-end financial statements and other recurring ad-hoc financial and non-financial reports.

Throughout this Manual, when one Accounting Manager is unavailable to perform a noted function on a timely basis, another Accounting Manager can perform that function. When one Accounting Staff is unavailable to perform a noted function on a timely basis, another Accounting Staff or one of the Accounting Managers can perform that function or delegate it to another Accounting Staff who has performed no conflicting duties pertaining to that matter. Where an Accounting Manager performs a staff function, review and approval will be performed by another Accounting Manager. In summary, regardless of the availability of staff members usually tasked with performing or reviewing specific functions, all functions that require review will be performed by one person and reviewed by another.

NYW is prepared to provide uninterrupted delivery of its operations in the face of business disruptions. Its emergency preparedness plan is designed to provide personnel, equipment, and technology to operate remotely with minimum interruption.

Relationship of NYW's Operations to Other Entities

The New York City Water Board (the “Water Board”) collects customer payments and remits funds for debt service and administrative expenses to NYW in accordance with an agreement among the Water Board, NYW and the City of New York (the “City”) dated July 1, 1985 (as amended, the “Financing Agreement”). The New York City Department of Environmental Protection (“DEP”) operates and maintains the Water and Sewer System (the “System”) and manages customer billing on behalf of the Water Board. Internal controls over the operation of the System, customer account management and collections, and other operations of the Water Board and DEP are outside of the scope of responsibility of NYW and are not included in this policies and procedures Manual.

RECEIPTS

Transfers from the New York City Water Board

NYW, at least annually, certifies to the Water Board its requirements for debt service and operating expenses for the fiscal year. The certification is prepared by the Treasurer's Office staff and approved by the Executive Director and sent to the Treasurer of the Water Board. The certification sets forth the projected total debt service, interest and principal, and all projected operating expenses.

The Water Board emails to the NYW Treasurer's Office, the Accounting Unit, and the Trustee a daily report detailing the amount of money wired to NYW's account from daily customer collections to meet its annual debt service requirement and operating expenses. The Water Board also sends a monthly schedule of all receipts and transfers. Operating expense requirements are paid in equal monthly installments over the fiscal year. These payments are made in accordance with Section 4.2 of the Financing Agreement. The Accounting Staff verifies that the correct amounts were deposited by the Trustee into the Revenue Fund, as defined in the Water and Sewer System General Revenue Bond Resolution adopted November 14, 1985 ("Revenue Fund"). At month end, an Accounting Manager compares the Water Board monthly schedule with the amount received in NYW's Revenue Fund for accuracy.

The Accounting Staff updates the daily spreadsheet receipt report, which includes all the monies received by the Water Board and transfers of those monies. Monthly reconciliation of the receipts and transfers is done by the Accounting Staff by comparing the NYW receipt report with the Water Board monthly schedule and the respective bank statements.

Bond Proceeds/Commercial Paper/Bond Anticipation Notes

The Treasurer or his or her designee instructs the Trustee to open new accounts for bond proceeds, costs of issuance ("COI"), commercial paper ("CP") proceeds, Bond Anticipation Notes ("BANs") proceeds, or escrow accounts if there is a defeasance escrow established. At bond closings or after issuance of CP or BANs, the Treasurer or his or her designee instructs the Trustee to transfer proceeds into the appropriate accounts. The amount of proceeds deposited into the construction fund are confirmed by the Accounting Staff who prepares a report of the available construction fund amounts and their maturity dates. This report is updated after each construction fund drawdown by the City and is sent to the City Comptroller's Office prior to each drawdown request.

At the end of the month, the Accounting Staff records new bonds or notes payable, COI, any discount or premium, and the reissuance of CP via journal entry, as approved by an Accounting Manager. The Accounting Manager reviews the trial balance to determine that the amounts recorded match the transaction worksheets used to prepare the journal entries.

EFC Subsidy

The New York State Environmental Facilities Corporation (“EFC”) subsidizes bond interest on bonds issued by NYW to EFC through a direct reduction in the amount of interest payable to EFC in December and June of each year. EFC sends a debt service invoice and an Excel spreadsheet with a list of all outstanding bonds, the amount of gross interest due, the amount of subsidy, and the amount of interest net of subsidy. The Treasurer’s Office checks the invoice and the spreadsheet against NYW’s records for accuracy. The Accounting Staff records the interest reductions as interest subsidy in the Accounting System. The Accounting Manager reviews the journal entry against the EFC worksheet prior to approving the journal entry.

BABs Subsidy

NYW issued taxable municipal bonds under the federal Build America Bonds (“BABs”) program, which initially offered a 35% interest subsidy payable to issuers of BABs. The subsidy was subsequently reduced as a result of a federal sequester.

The Treasurer’s Office prepares and sends to the Internal Revenue Service Form 8038-CP for each then outstanding BABs no earlier than 90 days and no later than 45 days before each interest payment on the BABs is due. The Water Board is advised of the impending wire transfers of subsidy payments from the US Treasury. The Water Board advises NYW when the funds are received and the Treasurer’s Office staff checks that the amounts received matches the amounts on the filed forms, or, if applicable, the amounts reduced by the federal sequester. The Accounting Staff then prepares a journal entry to record the receipt of the subsidy in the Accounting System (see the *Journal Entries* section of this Manual for the journal entry process).

Interest Income

All interest income is posted to the individual bank accounts and reported on the monthly bank statements by the financial institutions. The bank statements are reviewed and recorded through monthly journal entries prepared by the Accounting Staff as described in the *Journal Entries* section of this Manual. At year-end, the Accounting Staff will prepare journal entries to record the fair market value adjustments for financial reporting purposes.

Interest earnings on debt service funds are used to offset the required monthly deposits. After June 15th debt service payments, all remaining interest earnings in the debt service funds are moved to the Revenue Fund in accordance with the bond resolution.

Interest earnings on debt service reserve funds are transferred to the Revenue Fund and the Arbitrage Fund on July 1st of each year. Interest earnings on construction funds are transferred to the Water Board Local Water Fund on the 15th of October, January or April following the satisfaction of the Authority’s annual debt service requirement for that

fiscal year. Interest earnings on expense funds are transferred to the Revenue Fund on or about June 20th of each year.

Interest earnings on the Revenue Funds established under the bond resolutions are used for debt service requirements and are accumulated in the accounts.

Miscellaneous Cash Receipts

NYW may receive cash from sources other than the ones listed previously. These receipts may come as check receipts or wire/ACH receipts.

1. Check Receipts

When a check is received, the receipt is recorded in the Check Control Log by the Accounting Staff responsible for the log, detailing the date, amount, payer, and other relevant information. The Accounting Staff then gives the check to an Accounting Manager, who in turn gives the check to the appropriate Accounting Staff to research the reason for the receipt and to determine the proper accounting for the receipt. Any checks received by OMB or another department of NYW are delivered to the Accounting Staff responsible for the Check Control Log. The Accounting Staff follows the same procedures detailed above for recording the check. Checks are endorsed immediately and secured in a locked area until deposit.

Checks that need to be deposited in NYW's operating account are deposited by the Accounting Unit at a nearby local branch of the bank. Checks that need to be deposited in a Trustee account are mailed to the Trustee representative along with a letter prepared by the Accounting Staff and signed by an Accounting Manager. The letter details the amount, payer of the check, and bank account for the deposit.

The deposit receipt along with all supporting documentation is filed and a journal entry recording the cash receipt is made in the Accounting System. At month end, an Accounting Manager confirms that the deposit is reflected in the bank statement and in the Accounting System.

2. Wire/ACH Receipts

When a miscellaneous wire/ACH is received, the Accounting Staff researches the reason for the receipt to determine the proper accounting for the receipt. Receipts are transferred to the appropriate account(s) as deemed necessary. Once a determination is made, a journal entry recording the cash receipt is made in the Accounting System.

DISBURSEMENTS

Debt Service Deposits and Payments

At the end of the month, the Treasurer or his or her designee emails a monthly letter, which is signed by the Executive Director, to the Trustee (the “Minimum Monthly Balance Letter” or “MMBL”), which indicates, among other things, the minimum amounts that must be held in each debt service fund for the following month. The Trustee determines if the amounts agree with the Trustee’s own calculation of the amounts to be held for each debt service fund. Amounts needed to meet the minimum requirements are transferred from the Revenue Fund on the first day of the month. The Accounting Staff confirms that the amounts transferred are correct and records the amounts in the Accounting System during the subsequent month.

Fixed Rate Bonds - Interest and Principal Payments

All fixed interest rate bonds pay interest semi-annually on December 15th and June 15th. Principal payments are made annually on June 15th. At the beginning of the fiscal year, the Treasurer or his or her designee sends NYW’s schedule of payments to the Trustee. The Trustee compares their records of payments with NYW’s schedule of payments for accuracy.

Variable Rate Bonds - Interest and Principal Payments and Payments Under Swap Contracts

Variable rate bonds and swap contracts are paid monthly. Variable interest rates are compiled in an excel tracking spreadsheet by the Accounting Staff. Prior to making the interest payment, the Trustee sends their spreadsheet, “Monthly Variable Rate Calculation Confirmation Request”, detailing the amount of interest to be paid per issue. The Accounting Staff or Accounting Manager reviews and compares the amounts with NYW’s tracking spreadsheet. Any discrepancies are resolved prior to payment of debt service by the Trustee. Principal payments are made annually on June 15th.

For swap transactions, a swap confirmation is received from each counterparty to the active swap agreements (if any). The confirmations are checked and recorded in the “Swap Worksheet” file by the Treasurer’s Office staff. A letter of direction prepared by the Treasurer’s Office staff and signed by the Executive Director is emailed to the Trustee authorizing the payment.

At month end, the Accounting Staff will prepare the necessary journal entries as described in the *Journal Entries* section of this Manual.

Cash Defeasance

NYW periodically uses operating revenue to defease certain outstanding bonds (“Cash Defeasance”). Bonds for defeasance are selected in consultation with NYW’s rate

consultant and financial advisors. In a defeasance, the Treasurer's Office instructs the Trustee to apply funds to redeem bonds or to deposit funds into an escrow account and invest the funds pursuant to an escrow agreement. Such escrow should be sufficient to retire the principal of and interest on the defeased bonds. There are two types of defeasances: legal defeasance and economic defeasance. In a legal defeasance, a bond counsel opinion is obtained, which states that the defeased bonds no longer constitute an obligation of NYW. In an economic defeasance, the defeased bonds remain a legal obligation of NYW.

In case of a legal defeasance or an economic defeasance that meets certain criteria defined in governmental accounting standards, the defeased bonds are no longer required to be reported by NYW on its financial statements. After a legal defeasance or applicable economic defeasance, the Accounting Staff prepares a journal entry to remove defeased bonds to remove any discount or premium associated with the defeased bonds, and to record any gain or loss from the defeasance. The process for defeasance journal entries follows the same process as described for monthly journal entries (see the *Journal Entries* section in this Manual).

In an economic defeasance that does not meet the aforementioned criteria defined in governmental accounting standards, the defeased bonds and the escrow continue to be reported on NYW's financial statements until they are redeemed or paid off. At the end of the year, the Accounting Manager verifies the amount of outstanding bonds that were defeased in this manner with the Treasurer's Office and the Trustee for accuracy.

Construction Payments

At least once a month, and in recent years twice a month, the City requests reimbursement for construction expenditures incurred on behalf of the System. The funds used to reimburse the City include proceeds of long-term and short-term debt, operating revenue (pay-as-you-go funding), and grants. The requests are emailed to NYW and are based on an up-to-date Construction Fund balance report maintained by the Accounting Unit that records disbursements and receipts of funds. The Accounting Staff prepares a letter to the Trustee requesting transfer to the City. The Accounting Manager confirms the amounts in the letter with the request from the City and the letter is signed by two authorized signers and emailed to the Trustee, who transfers the funds on the date designated in the transfer letter.

Vendor Payments

All invoices are routed for review and approval to the NYW officer/manager (or his or her designee) with the most direct knowledge of and/or responsibility for the goods or services for which payment is to be made. In addition to checking for mathematical accuracy of all invoices, when applicable, the reviewer compares the invoices to the orders, reviews the receiving reports or contracts for the correct pricing of goods and services, and verifies that no sales tax has been included on the invoices.

After an invoice is approved by the applicable officer/manager, it is entered by the Accounting Staff into NYW's Accounting System. A digital copy of the invoice is also attached in the Accounting System. In order to release and post invoices in the Accounting System, the system requires that Accounting Staff request an approval from an Accounting Manager. After approving and releasing the invoices, the Accounting Staff posts the invoices.

After the invoices are reviewed and posted, the Accounting Staff uses pre-numbered company checks, wire/ACH, or the company purchasing card to generate payment

1. Check Payments

All unused checks are kept in a locked file cabinet under the control of an Accounting Manager. To confirm that there is no break in the sequential order of checks, each time a check run is generated the check register is included in the package containing the checks and supporting documentation for review and approval. All invoices paid by checks are entered in the Accounting System, which generates the check details for printing. The checks are presented to the authorized check signers along with the check register for review and signature. All checks must have two authorized signatures. The checks are placed in a windowed envelope and mailed via the mailroom operations of OMB.

2. Wire and ACH Payments

For most vendor payments, wires/ACH are created by the Accounting Staff in the online JPMorgan Access Banking portal. The Accounting Manager reviews the payment support and electronically approves the online wires or ACH. A second Accounting Manager reviews and electronically releases the online payment.

For vendor payments paid from bond proceeds (i.e., bond issuance costs) or vendor payments paid directly from Trustee accounts, the Accounting Staff prepares instruction letters to the Trustee with payment instructions. The instruction letters are reviewed and signed by two NYW authorized signers and emailed to the Trustee.

3. Purchasing Card Payments

Vendor invoices may be paid using the company purchasing card if other forms of electronic payment are not readily available (e.g., paying for newspaper subscriptions, professional organization membership dues, travel expenses). While Purchasing Cards may be issued to any individual authorized by NYW management, NYW's policy is to restrict the issuance to one card that is in the custody of and secured by the Comptroller. Individual cards may be issued to a specific staff if they frequently make in-person purchases.

All uses of the purchasing card require requestors to submit to the Accounting Managers a completed *Purchasing Card Expense Authorization Form* along with any required documentation. The form must be approved by the requestor's supervisor who must also be an officer of NYW. If the requestor's supervisor is not an officer of NYW, approval must be obtained from an officer who does not report to the requestor. Payments above \$1,000 require a secondary approval from the Chief Executive Officer, Executive Director, Treasurer, or Secretary. For purchasing card payments made on behalf of other bond financing entities, Receipts must be sent to the Accounting Unit immediately after purchase or as soon as receipts are available.

The Accounting Unit is notified by the purchasing card provider system for every transaction, regardless of the amount, when using the purchasing card. Transactions made without proper approved forms sent to the Accounting Managers or any discrepancies are immediately investigated and appropriate actions taken as necessary.

On a weekly basis, the Comptroller will send the Chief Executive Officer, Executive Director, Treasurer, and Secretary a report of new purchasing card transactions made during the preceding week. The report will detail the vendor, amount, requestor, and approver(s) for each transaction.

In parallel with or following all payments, the Accounting Staff enters payment journals in NYW's Accounting System to record the payments and close previously entered and approved invoices. Payment journals must be reviewed and approved by an Accounting Manager before they can be posted to the Accounting System.

Supporting documentation must be electronically attached to the invoice records and payment journals in the Accounting System. For invoice records, at a minimum, the approved invoice should be attached. For payment journals, digital copies of the wire/ACH templates from the banking portal and digital copies of the approval history from the banking portal should be attached. If payments were made through the Trustee via instruction letters, the instruction letters should be attached to the payment journals.

1099 Preparation and Issuance

All vendors must complete and sign an Internal Revenue Service ("IRS") Form W-9 (or its equivalent) and send it to the Accounting Unit before payment can be made to the vendor. This information is required to determine if any Forms 1099 must be issued to the vendor for payments made during each calendar year.

Starting with calendar year 2023 reporting, NYW is required to submit Forms 1099 electronically to the IRS. Recipient (payee) copies of Forms 1099 may continue to be mailed to recipients or transmitted electronically with the recipients' permission.

Although there are several types of 1099 forms, NYW generally uses only the Form 1099-MISC to report gross proceeds paid to attorneys and Form 1099-NEC for payments to entities for services performed by non-employees.

To prepare the Forms 1099, the Accounting Staff compiles a schedule showing all payments from January 1st to December 31st of the year, by vendor, for all disbursements to vendors. The Accounting Staff then enters the disbursement information for each vendor and form type into the IRS Information Return Intake System (“IRIS”). PDFs of each Form 1099 are then generated by IRIS for each vendor and form type. Prior to mailing to recipients, the Forms 1099 are checked by the Accounting Staff for accuracy before being submitted to an Accounting Manager for review.

While deadlines to distribute Forms 1099 to recipients and e-filing with the IRS depend on the form type, most of NYW’s Forms 1099 (specifically, Forms 1099-NEC) are due to recipients by January 31st. Similarly, e-filing with the IRS is also generally due by January 31st.

Payroll

The New York City Office of Payroll Management (“OPA”) acts as a service bureau for processing NYW’s bi-weekly payroll. For every payroll period, the OPA-generated payroll reports are distributed by OMB to NYW’s Accounting Managers. The payroll reports are reviewed for accuracy by comparing the bi-weekly total gross pay to base period bi-weekly total gross pay and explaining any variances. These reports also include NYW’s share of fringe benefits (e.g. FICA, health insurance). An Accounting Manager prepare a letter instructing an Accounting Staff to prepare a wire to transfer funds from NYW’s operating accounting to the City’s payroll.

Payroll payments to the City are treated as vendor payments and follow the same procedures for posting invoices and payments to the Accounting System (see the *Vendor Payments* section).

Internal Funds Transfers

Instruction letters for wire transfers among NYW’s Trustee bank accounts are signed by one authorized signer except for activities for NYW’s operating accounts which require two authorized signers.

The signed letters are e-mailed to the Trustee, and copies are submitted with the monthly bank statements and the proposed journal entries for review by an Accounting Manager.

INVESTMENTS

The universe of allowable investments for NYW is defined in the Bond Resolutions. Additionally, NYW has Investment Guidelines adopted by the Board of Directors. All investments are made within the constraints imposed by the Resolutions and Investment

Guidelines. Based upon instructions received from the Treasurer or his or her designee, investment letters are prepared authorizing the Trustee to invest funds on behalf of NYW. The direction letter for the purchase, sale, or roll-over of investments instructs the Trustee how the funds are to be invested including the investment vehicle and the required maturity date of the investments. The letter is signed by one authorized signer, either the Treasurer or his or her designee or an Accounting Manager.

Investments take into consideration when the moneys will be needed. Construction funds are invested to mature in time to reimburse the City for expected capital expenditures incurred on behalf of the System. The moneys in the Debt Service Reserve Fund, which has a multiyear investment horizon, are invested to further out maturity dates.

NYW typically employs an investment manager for its Debt Service Fund and Revenue Fund accounts. The investment manager invests monies in accordance with the annual investment plan reviewed and approved by NYW Treasurer's Office.

FINANCIAL ACCOUNTING AND REPORTING

The recording of NYW's financial transactions into the Accounting System is through purchase invoices for vendor payments and through journal entries for all other transactions.

Recording of Bond Issuance Costs

Bond issuance costs may either be paid directly at the time of the closing or paid at a later date through the invoice process. For payments made at the closing, the closing documents are forwarded to the Accounting Unit for recording in the Accounting System as part of the recording of the bond issuance. Payments requested by invoice are processed as detailed in the *Vendor Payments* section of this Manual.

Journal Entries

Journal entries are prepared by the Accounting Staff to record all transactions other than vendor payments, as part of the monthly journal entry preparation process.

Each month, the Accounting Staff reconciles the Trustee bank account statements and verifies that all transactions reported were made in accordance with NYW direction letters for transfers between accounts, investment of funds, and disbursements. Any discrepancies are immediately investigated and resolved with the Trustee. Activity in each account is summarized by the Accounting Staff and the transaction summaries are used by the Accounting Staff to prepare journal entries for the month.

The entries are reviewed by an Accounting Manager, who approves and signs the journal entries. The Accounting Staff then enters the journal entries into the Accounting System. In order to post the journal entries in the Accounting System, Accounting Staff must request approval from an Accounting Manager. After approving the entries, the

Accounting Staff posts the journal entries and verifies that they were posted accurately in the general ledger and subledgers, as applicable. If adjusting journal entries are required, they are prepared by the Accounting Staff and are reviewed and approved by an Accounting Manager.

After posting, the new trial balance is reviewed by the Accounting Staff to verify that the amounts agree with the transaction summaries and bank statements used to prepare the journal entries.

Checking Account Reconciliation

NYW's Accounting System checkbook is reconciled each month to the bank account statement provided by the bank. Reconciliations are generally completed within 30 days after month end. Differences, if any, are promptly investigated and resolved. The reconciliation is prepared by the Accounting Staff and reviewed and approved by an Accounting Manager.

Except in extraordinary circumstances, checks outstanding for six (6) months are cancelled through the bank and in the Accounting System. The Accounting Staff will attempt to contact the vendor to determine if NYW has the correct address and/or the reason for non-deposit of the check by the vendor in order to re-issue the check. Until there is a resolution resulting in reissuance, the outstanding liability remains on the books.

Fiscal Year-End Closing and Financial Reporting

Shortly after fiscal year-end, the Comptroller requests that the Secretary's Office and the Treasurer's Office contact all vendors and service providers and obtain invoices for goods and services provided through June 30th so that expenditures are accrued in the proper fiscal year. The Accounting Staff will request estimates and supporting information about amounts payable at fiscal year-end for construction costs from the City Comptroller's Office. Additionally, all project and vendor payments made between fiscal year-end and the conclusion of the annual audit are analyzed by the Accounting Staff for proper treatment as an expense of the current or prior fiscal year.

At year-end, the Accounting Unit and the Treasurer's Office prepare all closing schedules and analyses needed for adjusting entries, for disclosures, and for auditors, including but not limited to, amortization schedules for bond premiums and discounts, bond interest payable accruals, investment income accruals, deposit and investment categorization, fixed asset additions and deletions, accounts receivable and allowance for doubtful accounts. Where required due to technical complexity, select schedules and analyses may be prepared by an Accounting Manager.

NYW reports its financial statements jointly with the Water Board. The NYW Accounting Unit, with the assistance of Water Board and DEP staff, is responsible for preparing the adjusting entries and disclosures for the Water Board.

Schedules and analyses prepared by the Accounting Staff are provided to an Accounting Manager along with supporting documentation for review. Schedules and analyses pertaining to deposits, investments, outstanding bonds, and debt service are provided to NYW's Treasurer or his or her designee in draft form for review.

Adjusting journal entries are prepared, reviewed, approved, and posted under the same process as monthly journal entries (see the *Journal Entries* section of this Manual).

The adjusted trial balance is reviewed by the Accounting Staff to verify balances, and then exported into an Excel file for preparation of financial statements. Draft financial statements, notes, and management's discussion and analysis are prepared jointly by the Accounting Staff and an Accounting Manager for review by other members of NYW management and the independent auditors.

After the conclusion of the independent audit, any adjusting entries needed are prepared by the Accounting Staff and reviewed by an Accounting Manager, who approves and signs prior to the entry into the Accounting System. Before running the general ledger close process in the Accounting System, a final trial balance is run and the Accounting Staff verifies that all balances are in agreement with the audited financial statements. The final trial balance is approved by an Accounting Manager and retained in the fiscal year-end files.

An Accounting Manager instructs the Accounting Staff to close the fiscal year, which is done by the Accounting System when the close process is run. The Accounting System will automatically produce "closing entries" that must be retained in the year-end files. After the closing entries have been generated, reviewed, approved by an Accounting Manager, and posted by the Accounting Staff, the Accounting Staff runs the trial balance and verifies that the assets, liabilities, and net position have been properly updated.

All trial balances, work papers, journal entries, and supporting documentation are centrally filed for access by the external auditors. See *Record Retention* section of this Manual.

OTHER CONTROL MEASURES

Bank Accounts

When a new bank account is needed, the Treasurer or his or her designee will send an e-mail request to the Trustee, along with supporting documentation requested by the Trustee. After opening the new account, the Trustee will confirm the number and name of the account via e-mail to the Treasurer and the Accounting Staff. Subsequently, the Accounting Staff will add the new account to the bank account schedule.

All unneeded bank accounts are closed immediately following a letter to the Trustee, signed by one NYW officer.

The information on the opening and closing of all bank accounts is retained for auditors conducting the annual financial audit.

Incumbency Certificate

Periodically and any time there is a change of an officer for NYW, a new Incumbency Certificate is prepared listing the current officers. The Incumbency Certificate must be signed by the NYW Secretary and the original is sent to the Trustee. Similarly, new authorized signatory documents must be prepared, signed, approved, and forwarded to the Trustee.

Computer Equipment and System Usage

NYW personnel follow the current policies and guidelines of OMB. Staff are required to familiarize themselves with these policies and guidelines.

Overhead Allocation

NYW has entered into an Administrative Services Agreement with OMB and other financing entities, at the direction of the Board, which specifies how shared personal service and other than personal service costs are allocated among the entities. The OMB overhead allocation is calculated by the Accounting Unit, with assistance and information provided by OMB as needed. Staff are required to familiarize themselves with this Agreement.

Inventory

NYW does not own any capital assets or equipment. All equipment is owned, maintained and monitored by OMB. NYW personnel follow the current policies and guidelines of OMB. Staff are required to familiarize themselves with these policies and guidelines.

Procurement

The Board of Directors has adopted a *Policy on the Procurement of Goods and Services* (“*Procurement Policy*”). Staff are required to familiarize themselves with this policy. Any changes in the Procurement Policy, as adopted by the Board, are disseminated to staff by the Secretary’s Office.

Travel and Business Expense Reimbursement

The Board of Directors has adopted a *Policy on Travel Allowance* (“*Travel Policy*”) and a *Policy on Salary, Compensation, Reimbursements, Time and Attendance* (“*Reimbursement Policy*”). Staff are required to familiarize themselves with these policies. All internal control measures detailed above under *Vendor Payments* are followed in the issuance of a reimbursements to employees. Any changes in the Travel

Policy or Reimbursement Policy, as adopted by the Board, will be disseminated to staff by the Secretary's Office.

Disposition of Personal and Real Property

The Board of Directors has adopted a *Policy on the Disposition of Personal Property* ("Personal Property Policy") and a *Policy on the Acquisition and Disposition of Real Property* ("Real Property Policy" and together with the Personal Property Policy, the "Property Policies"). Staff are required to familiarize themselves with these policies. Any changes in the Property Policies, as adopted by the Board, will be disseminated to staff by the Secretary's Office.

RECORD RETENTION

Documents supporting NYW transactions recorded in the Accounting System and information on the opening and closing of all bank accounts are maintained and available for audit by various entities (e.g., independent auditors, State and City auditors, IRS). The support may be maintained in either paper or electronic form.

Bond documents (closing transcripts) are maintained by the Secretary's Office. Arbitrage rebate reports are maintained by the Accounting Unit.

Procurement records pertaining to contracts and all procurements other than Small Purchases (as defined by Procurement Policy) are maintained by NYW's contracting officer or the Secretary's Office.

Calculations of allocated costs (management fees, rent, and overhead costs incurred by OMB and the bond financing entities) are maintained by the Accounting Unit.

NEW YORK CITY WATER BOARD

POLICY ON INTERNAL CONTROLS

The New York City Water Board (the “Board”) internal control objectives include, but are not limited to: the safeguarding of assets (including preventing the intentional or unintentional misapplication of funds), ensuring the accuracy and reliability of accounting data and proper documentation of transactions, promoting the effectiveness and efficiency of operations and ensuring compliance with applicable laws and regulations.

Internal controls exist in each area of the Board where financial activities take place, and may be categorized as (A) controls related to funds received, held, invested and disbursed by the Board and (B) other control measures including record keeping activities. These types of controls are discussed in this manual.

The control measures used by the Board are periodically reviewed by the Board’s officers, and amendments are proposed to the Board for adoption as deemed necessary. This manual will be reviewed at least annually and updated if appropriate. While not part of the Board’s system of internal control, the Board is subject to audit annually by independent auditors. Any comments or recommendations pertaining to the Board’s internal controls made by the independent auditors are considered and, if deemed to be cost-beneficial or of a materially important nature with respect to making a complete and accurate presentation of the Board’s financial position, incorporated into the Board’s internal controls.

In accordance with the New York City Comptroller’s Directive 1, the Board prepares an annual Financial Integrity Statement based upon a current Directive 1 Checklist with respect to management’s assessment of the Board’s internal control environment.

ORGANIZATION

Pursuant to the Board’s By-Laws, the Board has officers who are appointed by resolution of the members of the Board and who are involved in the day-to-day operations of the Board: the Executive Director, the Treasurer, the Secretary, and the Deputy Treasurer. The Board’s internal operations are carried out principally by the Executive Director, the Treasurer, and the Deputy Treasurer, who are employed by the New York City Department of Environmental Protection (“DEP”). By convention, the Secretary is employed by the New York City Law Department, and provides legal counsel to the Board, but is not generally involved in the Board’s day-to-day financial operations, except in circumstances where advice of legal counsel is requested. While all activities of the Board require close coordination and cooperation, there are three functional areas of the Board’s operations, all of which report through the Treasurer to the Executive Director:

1. Treasurer's Office – Directed by the Treasurer and his or her staff, the Treasurer's Office is responsible for the finance function, including working with all parties on rate setting, budgeting and collections, and directing the investment of the Board's funds. If the Treasurer's position is vacant the responsibilities will be assumed by the Executive Director.
2. Deputy Treasurer's Office – Directed by the Deputy Treasurer and his or her staff, the Deputy Treasurer's Office oversees the legal affairs of the Board, in conjunction with the New York City Law Department and DEP's Bureaus of Legal Affairs and Customer Service, including providing support for the operations of the Board and committees of the Board, drafting and interpreting contracts, agreements, and legal documents, and disseminating Board-approved policies to staff. If the Deputy Treasurer's position is vacant the responsibilities will be assumed by the Treasurer or Executive Director.
3. Fiscal Unit – Directed by the Board's Chief of Financial Operations, the Fiscal Unit is responsible for maintaining accounting books and records for the preparation of financial reports, on-going monitoring of the Board's resources, and accounts payable. If the Chief of Financial Operations position is vacant, these responsibilities will be assumed by the Treasurer or Deputy Treasurer.

Relationship of the Board's Operations to those of Other Entities

The New York City Municipal Water Finance Authority (the "Authority") issues bonds to pay for capital improvements to the system in accordance with an agreement among the Board, the Authority, and the City of New York (the "City") dated July 1, 1985 (as amended, the "Financing Agreement"). DEP operates and maintains the water and sewer system (the "System") and manages customer billing and collections. Internal controls over the operation of the System, customer account management, bond issuance, and other operations of the Authority and DEP are outside of the scope of responsibility of the Board and are not included in this manual.

RECEIPT OF REVENUE AND DAILY ALLOCATION OF FUNDS

Customer Payments

On a daily basis, customers remit payments directly to the Board's accounts, and DEP collects payments and deposits them in the Board's accounts. The Board records receipts from all customer payment venues and aggregates all revenues collected for deposit in the Local Water Fund. The Fiscal Unit updates the daily receipt report, which includes all customer payments.

Miscellaneous Receipts and Upstate Payments

The Board also receives some payments directly. An associate with no accounting responsibilities opens all mail and distributes it to the appropriate person. If a check for a regular customer payment is received, the check is given to DEP's remittance unit to be handled as a customer payment as noted above. If a check for a miscellaneous payment

or an upstate customer payment is received, the check is given to a staff analyst with no accounting responsibilities for deposit into the Local Water Fund. The staff analyst notifies the Fiscal Unit of deposits, and the Fiscal Unit updates the daily receipt report, which includes all miscellaneous receipts and upstate payments received by the Board.

Interest Income

All interest income is posted to the individual bank accounts and reported on the monthly bank statements by the financial institutions. The bank account statements are reviewed by the Board's staff. Additionally, all activity in the Operations and Maintenance Reserve Fund is reviewed and recorded through a monthly log and quarterly reports prepared by the Treasurer. Interest earnings on the Operations and Maintenance Reserve Fund accumulate in the account and are used to offset the required annual deposit.

Allocation of Funds

Prior to the start of the fiscal year, the Authority certifies its requirements for debt service and operating expenses, the City certifies its requirements for operation and maintenance and System rental, and the Board certifies its operating expenses. These amounts are incorporated in the Board's annual budget. On a daily basis, the Board transfers all funds available in the Local Water Fund pursuant to its budget based on the priorities established in the Financing Agreement.

The Fiscal Unit prepares a daily allocation report, which reflects the disposition of funds from the Local Water Fund. Likewise, the Board emails a daily report detailing the amount of money to be transferred by wire transfer from the Local Water Fund to the parties receiving such funds. A monthly allocation report is also prepared by the Fiscal Unit.

Funds Transfers

The Treasurer and Deputy Treasurer have established pre-determined wiring instructions that are utilized for the required daily transfers and other repetitive transfers of funds or payments. All other wire or automated clearing house ("ACH") transfers must be dually authorized by the Treasurer and Deputy Treasurer.

DISBURSEMENTS

Vendor Payments

All invoices are initially approved by the Board's staff person or DEP project manager with the most direct knowledge of and/or responsibility for the goods or services for which payment is to be made. Following such approval, the Fiscal Unit confirms the mathematical accuracy of all invoices, reviews the order and receiving report for goods purchased or the applicable contract for the pricing of services provided, and verifies that no sales tax has been included in the invoice. After this review is satisfactorily completed, the invoice is preliminarily approved by the Fiscal Unit.

The approved invoice is entered by the Fiscal Unit into the accounts payable module of the Board's electronic vendor payments system, and the data entry is reviewed for accuracy of posting codes, amounts, vendor name, and other relevant information. After the invoices are reviewed and posted, the Fiscal Unit uses pre-numbered checks or the online banking system of the Board's Expense Fund to prepare payment.

1. Check Payments

All checks are kept in a locked file cabinet under the control of the Chief of Financial Operations. To confirm that there is no break in the sequential order of checks, each time a batch of check payments is generated, the check register is printed to show the number of the last check that had been printed. The check register is included in the package containing the checks for review and approval.

2. Electronic Wire or ACH Payments

If electronic payments are utilized, the Fiscal Unit prepares a voucher for each proposed payment and enters the wiring instructions in the online banking program of the Board's Expense Fund.

For each proposed payment, a payment authorization form and a check or electronic payment voucher is prepared for review and approval. The Fiscal Unit preparer notes the payment date and the check number or electronic payment number on the original invoice and signs and dates a copy of the payment authorization form. This copy, along with all backup information, is submitted to the Chief of Financial Operations and the Executive Director for review and approval. Once approved, two Board officers must sign the check and/or authorize the electronic release of funds. Once signed, the checks are placed in a windowed envelope and mailed via the mailroom operations of DEP; or once authorized, the electronic payment is released according to the Funds Transfers section above. The check stub or a copy of the wire and all supporting documentation is retained in the Board's files.

All vendors must complete and sign an Internal Revenue Service ("IRS") Form W-9 (or its equivalent) and send it to the Board's Fiscal Unit before payment can be made to the vendor. This information is used to determine if a 1099 must be issued to the vendor for payments from the Board.

Payroll

Pursuant to Section 1045 of New York State Public Authorities Law, Board members receive a per diem payment in the amount of \$150, which is capped at a fiscal year maximum payment of five thousand dollars. Pursuant to IRS ruling, this statutory per diem is considered to be an employee payment. Accordingly, Board members must submit IRS forms W-4 and I-9 to the Fiscal Unit, which prepares the per diem payments. Board meetings are generally held on a monthly basis, and committee meetings and public hearings are held as needed. Subsequent to each meeting or hearing, the Fiscal Unit verifies the Board member attendees and prepares per diem payments for those members. The per diem payments are reviewed for accuracy, approved and authorized

according to the payment process noted above for vendor payments. Once checks have been signed, the Fiscal Unit mails payroll checks to the Board members. For each payroll, the Fiscal Unit also calculates federal wage withholding amounts, which are approved according to the process for vendor payments above and electronically remitted to the IRS. Every payroll period, the Fiscal Unit generates a payroll report, which summarizes that period's per diem and withholding payments.

Annual IRS Filings: Preparation and Issuance

Annually, the Fiscal Unit compiles a schedule showing all payments from January 1 to December 31 of each year and prepares IRS W-2 forms for the Board members and IRS 1099 forms for the vendors. The IRS W-3 and 1096 forms are used as transmittal documents when reporting W-2 and 1099 information, respectively, to the IRS. Although there are several types of 1099 forms, the Board uses only the 1099-MISC to report gross amounts paid for services performed. The IRS W-2, W-3, 1099, and 1096 forms are checked by the Fiscal Unit for accuracy before being submitted to a Board officer (generally the Treasurer) for his or her review and signature. All W-2 and 1099 forms are mailed out on or prior to January 31, and all W-3 and 1096 forms are mailed out on or prior to February 28.

INVESTMENTS

The universe of allowable investments for the Board is defined in the Board's *Investment Guidelines*, which were adopted by the Board. All investments are to be made within the constraints imposed by the *Investment Guidelines*. As authorized by the Board's *Investment Guidelines*, the New York City Comptroller invests funds on behalf of the Board, and such investment is based upon instructions received from the Treasurer or his or her designee by email. Each email regarding the purchase, sale or rollover of investments notes how the funds are to be invested, including the investment vehicle and the required maturity date of the investments.

FINANCIAL REPORTING

Daily Reports

Daily reports are prepared by the Fiscal Unit to record all transactions, other than vendor payments. Additionally, each day, the Fiscal Unit reconciles the bank account statements and verifies that all transactions reported were made. Any discrepancies are immediately investigated and resolved with the bank. Activity in each account is summarized by Fiscal Unit, and the summaries are used to prepare monthly reports, which are reviewed by the Treasurer for accuracy.

Checking Account Reconciliation

The Board's money management system is reconciled each month to the account statement provided by the bank. Reconciliations are generally completed within 30 days of month end. Differences, if any, are promptly investigated and resolved.

All checks outstanding for 6 months are cancelled through the bank and in the money management system. After such cancellation, staff attempt to contact the vendor to determine if the Board has the correct address and/or the reason for non-deposit of the check by the vendor in order to re-issue the check. Until there is a resolution as to the reissuance, only the check is cancelled with the outstanding liability remaining on the Board's books.

Fiscal Year End Closing and Financial Reporting

At year end, the Fiscal Unit prepares all closing schedules and analyses needed for adjusting entries, financial reporting, and auditor review. Where required due to technical complexity, selected schedules and analyses are prepared by the Treasurer.

OTHER CONTROL MEASURES

Bank Accounts

New accounts must be authorized by at least two of the Board's officers. All unneeded bank accounts are closed immediately by a letter to the bank, signed by the Treasurer or his or her designee. The information on the opening and closing of all bank accounts is retained in the Board's files.

Board Staff Payroll

The Board staff is comprised of employees of DEP. The human resource management functions, including payroll responsibilities (processing and timekeeping) for employees of DEP are performed by DEP's Bureau of Organizational Development and Human Resources. The City's Office of Payroll Administration ("OPA") processes the payroll, prepares, and files all required payroll returns, including W-2 forms, and makes all payments for the Board's staff from the City's general fund. Thus, controls over these areas of operations are maintained by DEP and OPA in accordance with City policies.

Computer Equipment and System Usage

The computer systems management, security, business continuity planning and related functions for the Board are carried out by DEP's Office of Business Information Technology. Thus, controls over these areas are maintained by DEP in accordance with City policies.

Inventory

The Board does not own any capital assets or equipment. All equipment is owned, maintained, and monitored by DEP. The Board may enter into lease agreements for

certain office equipment, such as photocopiers or printers. The Board's personnel are required to familiarize themselves with and follow the current policies and guidelines of DEP.

Procurement

The Board has adopted a *Policy on the Procurement of Goods and Services*. The Board's personnel are required to familiarize themselves with this policy. Any procurement policy changes adopted by the Board will be disseminated to staff by the Treasurer or Deputy Treasurer.

Travel and Business Expense Reimbursement

The Board has adopted a *Policy on Travel Allowance* and a *Policy on Reimbursements to Members, Officers and Administrative Staff Persons for Out-of-Pocket Expenses*. Board personnel are required to familiarize themselves with these policies. All internal control measures detailed above under Disbursements – Vendor Payments are followed in the issuance of a reimbursement check to an employee. Any reimbursement policy changes adopted by the Board will be disseminated to staff by the Treasurer or Deputy Treasurer.

Disposition of Personal and Real Property

The Board has adopted a *Policy on the Disposition of Personal Property* and a *Policy on the Acquisition and Disposition of Real Property*. Board personnel are required to familiarize themselves with these policies. Any property policy changes adopted by the Board will be disseminated to staff by the Treasurer or Deputy Treasurer.

Record Retention

All documents supporting the Board's transactions and information on the opening and closing balances of all bank accounts are maintained and available for audit by various entities (i.e., independent auditors, State and City auditors, and the IRS). The supporting documentation may be maintained in either paper or electronic form.

Records pertaining to contracts and all procurements are maintained by the Board's contracting officer or the Deputy Treasurer.



2026 Annual Audit Presentation

**Joint Audit Committee:
New York City Municipal Water Finance Authority
New York City Water Board**

June 2026

PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

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

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Our Responsibilities

We are responsible for:

- Performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* of the combining financial statements of the New York City Municipal Water Finance Authority and New York City Water Board (collectively, the “New York City Water and Sewer System” or the “System”) as of and for the year ended June 30, 2026.
- Forming and expressing an opinion about whether the combining financial statements are presented fairly, in all material respects, in accordance with US GAAP.
- Reading other information in the combining financial statements such as Management’s Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) and assessing whether it is materially consistent with the combining financial statements.
- Communicating fraud and/or abuse in connection with the combining financial statements.
- Communicating material weaknesses and/or significant deficiencies in internal control to you in a timely fashion; we do not design out audit for this purpose.
- Reporting material non-compliance related to laws, regulations, contracts, and grant agreements.

An audit provides reasonable, not absolute, assurance that the combining financial statements are free from material misstatements due to fraud or error. It does not relieve you or management of your respective responsibilities. Our responsibilities are described further in our contract/engagement letter.

Those Charged With Governance and Management Responsibilities

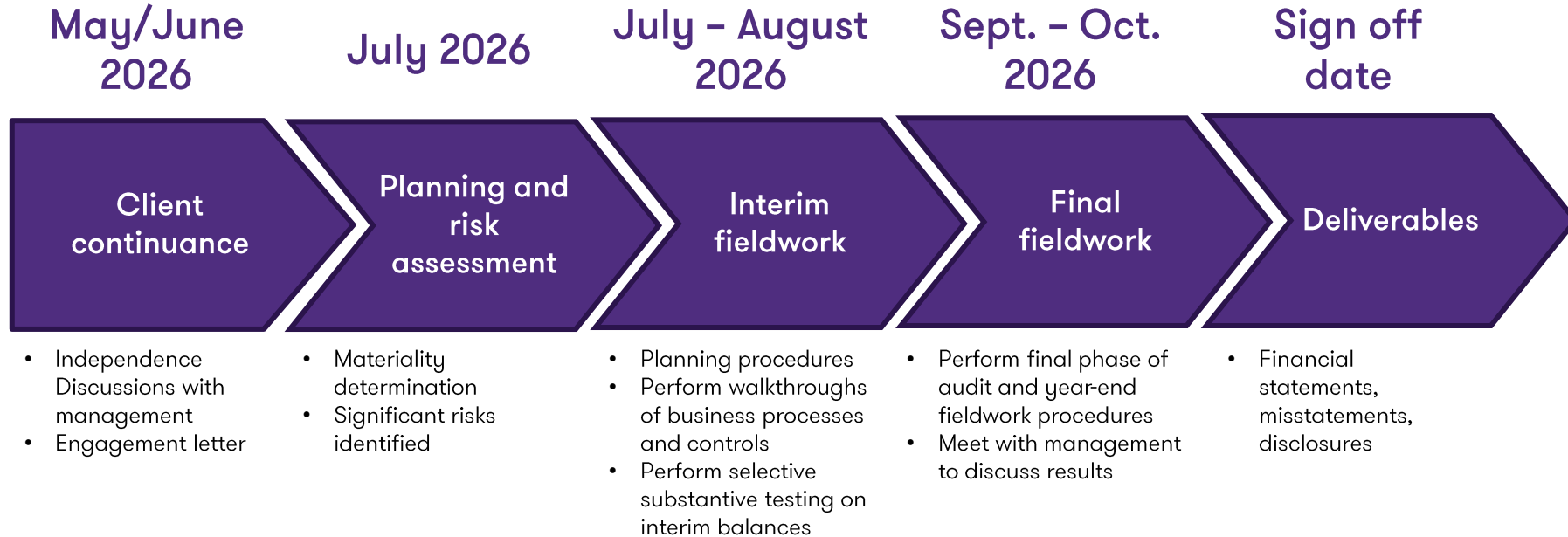
Those Charged With Governance are responsible for:

- Overseeing the financial reporting process
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including your views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
 - The System's objectives and strategies and related business risks that may result in heightened risks of material misstatement
 - Matters warranting particular audit attention
 - Significant communications with/from regulators
 - Matters related to the effectiveness of internal control and your oversight responsibilities
 - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the combining financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, abuse, illegal acts, and significant deficiencies, or material weaknesses in internal controls
- Adjusting the combining financial statements, including disclosures, to correct material misstatements
- Informing us of significant subsequent events
- Providing us with certain written representations

Audit timeline





Significant risks

The following provides an overview of significant risks based on our risk assessments.

Significant risk area	Planned audit response
Management override of internal controls Presumed fraud risk and therefore significant risk in all audits.	• Consider the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud. • Assess the ability of the System to segregate duties in its financial reporting, information technology, and at the activity-level. • Conduct interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period. • Perform risk assessment for journal entries and detail test selected journal entries based on our risk assessments to ensure propriety of the entries.
Billed and unbilled revenue and receivables: • Water and supply distribution • Sewer collection and treatment • Upstate water and late payments • Connection fees and permits • Service line protection program • Change in residual interest in sold items	• Perform reasonableness testing on related revenue and receivables • Perform detailed substantive testing of a sample of transactions, across various revenue streams, agreeing to source documentation • Gain an understanding of the allowance methodology and, policy(ies) governing additional charges • Ensure that all revenues recognized in fiscal 2026 were recorded in the proper period



Areas of audit focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Planned audit response
Utility Plant in-service and construction	• Obtain fiscal 2026 roll forwards for the System's in-service and construction utility plant assets • Test capital additions, disposals and transfers • Test depreciation for reasonableness
Bonds and notes payable	• Confirm all outstanding debt balances • Review fiscal 2026 debt related activity for reasonableness • Assess the adequacy of footnote disclosures
Expenses	• Test a sample of expenses for accuracy, recognition in the appropriate period, and proper support • Perform testing over select disbursements
Valuation of investments	• Test reasonableness of investment-related income, including unrealized appreciation/(depreciation) in fair market values. • Confirm investment positions as of June 30, 2026 • Ensure prioritization of inputs used to fair value investment assets is reasonable and in accordance with pertinent Fair Value Measurement standards



Technology support as part of the audit process



An important component of our audit approach is to understand how IT is used and deployed in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.



Required communications

Professional standards
require that we
communicate the
following matters to you,
as applicable

- Independence matters
- Acceptance/retention matters
- Engagement letter
- Planning matters
- Going concern matters
- Identified or suspected fraud and noncompliance with laws and regulations
- Material weaknesses and significant deficiencies
- Report to management other internal control deficiencies
- Audit adjustments, including uncorrected misstatements
- Use of other auditors
- Use of internal audit
- Related parties and related party transactions
- Significant unusual transactions
- Disagreements with management
- Management's consultation with other accountants
- Significant issues discussed with management
- Significant difficulties encountered during the audit
- Difficult or contentious matters for which we consulted outside the engagement team and that are, in our professional judgment, significant and relevant to you and your oversight responsibilities
- Other significant findings or issues that are relevant to you and your oversight responsibilities
- Material written communications with management
- Modifications to the auditor's report
- Results of procedures performed on other information presented with the financial statements
- Written representations requested from management
- Other matters as warranted

Auditor independence

Our firm applies ethical requirements relevant to the engagement, including those related to independence established by the AICPA Code, the IESBA Code, and applicable regulatory and state requirements. We maintain a robust quality control system supported by comprehensive policies and procedures that meet or exceed regulatory requirements. Our system enables us to evaluate and maintain our independence and serve audit clients with requisite integrity, objectivity, and independence. As you exercise your oversight responsibilities, you should understand the more significant aspects of this system:

Accumulating and communicating relevant information, including a restricted-entity list and use of a tracking system to monitor the financial interests of our worldwide personnel

.....

Obtaining annual written confirmations of compliance from personnel and member firms

.....

Monitoring individual compliance, including periodic audits and disciplinary mechanisms

.....

Conducting a domestic or international relationship check through a robust Relationship Checking System

.....

Evaluating relationships and circumstances that create threats to independence, including relationships identified through a domestic or international check

Monitoring independence for new opportunities

Only permitted nonaudit services or business relationships are cleared, and such services or relationships are monitored for scope creep. As necessary, our firm applies appropriate safeguards to eliminate or mitigate independence threat(s) to an acceptable level. As necessary, or as required by a regulator, the engagement partner will discuss with management and/or the audit committee any potential independence threats or where additional input is needed in relation to our firm's independence evaluation.

Managing Audit Quality: The System of Quality Management (SoQM)

How the firm designs, manages, and continuously evaluates audit quality.

Governed by global and U.S. standards

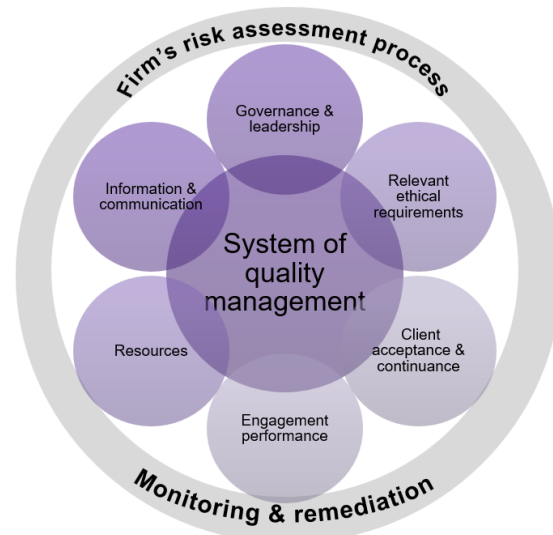
- ISQM 1 (global) and SQMS No. 1 (U.S.) frameworks are aligned
- Applicable to firms performing audits and attest engagements
- A system, not just policies, is required to manage audit quality

Designed using a risk-based approach

- Define quality objectives → identify risks → implement controls
- Create a connected system of controls across the audit practice
- Focus on preventing issues, not just detecting them

Ongoing evaluation and accountability for quality

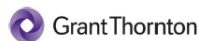
- Continuous monitoring and inspection
- Identification of deficiencies and root cause analysis
- Timely remediation and follow-up
- Annual conclusion on system effectiveness



The SoQM spans all aspects of the audit practice—from leadership and ethics to engagement performance and resources—with monitoring embedded throughout



Grant Thornton LLP SoQM 2025 conclusion



Where to find more SoQM details

The latest information related to the firm's SoQM can be found at the [Audit Quality page](#) at GrantThornton.com.

Our most recent conclusion is provided here in a letter from the firm's Chief Executive Officer.

April 1, 2026

To whom it may concern:

Grant Thornton LLP (the "firm") has implemented a system of quality management that is designed to meet the objectives of International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

As of December 15, 2025, based on the results of the firm's monitoring and remediation activities, including the evaluation of identified deficiencies and the effectiveness of related remediation activities, the firm has concluded that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

Sincerely,

Ron Messenger
Chief Executive Officer
Grant Thornton LLP

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