NEW YORK CITY WATER & SEWER SYSTEM

2012

A COMPONENT UNIT OF THE CITY OF NEW YORK

A COMPREHENSIVE ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Cover image: Jamaica Bay
All photos are of Jamaica Bay and its environs – courtesy of DEP and Don Riepe/American Littoral Society.

THE WATERSHED OF JAMAICA BAY SPANS

142 SQUARE MILES

AND IS SURROUNDED BY BROOKLYN, QUEENS, AND NASSAU COUNTY.

LETTER OF TRANSMITTAL

DECEMBER 17, 2012

MEMBERS OF THE BOARD OF THE NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY, MEMBERS OF THE NEW YORK CITY WATER BOARD, THE COMMISSIONER OF THE NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION

We are pleased to submit to you this Comprehensive Annual Financial Report ("CAFR") of the New York City Water and Sewer System (the "System") for the year ended June 30, 2012. The financial section of this CAFR includes management's discussion and analysis, the general-purpose financial statements and the combining financial statements and schedules, as well as the independent auditors' report on these financial statements and schedules.

The System is responsible for the accuracy, completeness and fairness of the presentation, including all disclosures. The management's discussion and analysis provides an overview of the System's financial results.

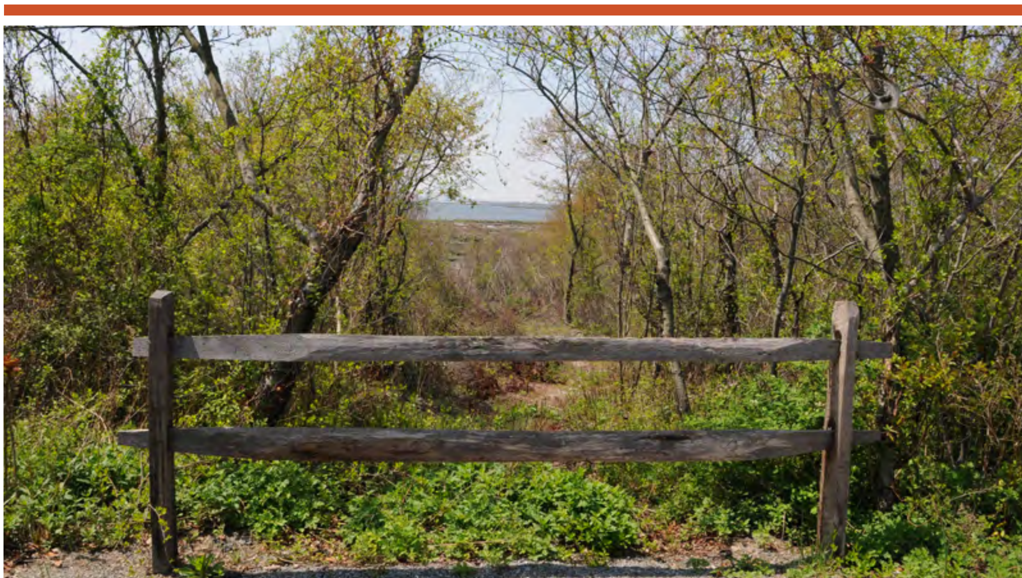
The reporting entity consists of two separate and independent corporate bodies that are combined for reporting purposes: the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"). In addition, the New York City Department of Environmental Protection ("DEP") operates the System. The passage of the New York City Municipal Finance Authority Act of 1984 (the "Act") by the New York State Legislature authorized this financing and operating relationship. The System is a component unit of the City of New York (the "City") for financial reporting purposes.

The Authority is authorized to issue bonds and other debt instruments for construction of and improvements to the System. The Authority also has the power to refund its bonds and notes and the general obligation bonds of the City issued for water and sewer purposes. The Authority is administered by a Board of Directors composed of seven members, four of whom serve ex-officio, two of whom are appointed by the Mayor of the City and one of whom is appointed by the Governor of the State of New York (the "State"). The staff of the Authority operates under the direction of an Executive Director.

The Water Board leases the operating system from the City, sets rates, and collects System revenue. The Lease Agreement dated July 1, 1985 (the "Lease"), provides for a lease term until all the bonds of the Authority are paid in full, or provision for payment has been made. The Lease requires the Water Board to make a payment to the City which is no more than the greater of: i) principal and interest for the fiscal year on City general obligation bonds issued for water and sewer purposes, or ii) fifteen percent of principal and interest on Authority debt for the fiscal year. The Water Board is obligated to first allocate the revenues of the System to debt service on Authority bonds and to the Authority's expense budget, after which revenues are allocated to the Water Board's expenses, DEP's cost of operating and maintaining the System, and to the rental payment paid to the City under the terms of the Lease.

The Water Board consists of seven members who are appointed by the Mayor. The Act requires that at least one member have experience in the science of water resource development. Members of the Water Board cannot be members of the Board of Directors of the Authority. The Mayor appoints the Chairman. The staff of the Water Board operates under the direction of an Executive Director.

The operation and maintenance of the water and sewer system is performed by DEP. DEP is managed by a Commissioner who is appointed by the Mayor and oversees a workforce of over 5,700 people. DEP works to protect the environmental welfare and health of the City's residents and natural resources, manages the City's water supply, treatment, transmission and distribution system, and collects, treats, and disposes of waste and storm water. DEP supplies water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens and Staten Island, an area of over 300 square miles, and serves over 8.2 million people. The City is also required by State law to sell water in counties where its water supply facilities are located. The System currently provides water to approximately one million people located in Westchester, Putnam, Orange and Ulster Counties.



NEW YORK CITY HAS COMMITTED

$115 MILLION

TO REDUCE THE VOLUME OF NITROGEN DISCHARGED INTO JAMAICA BAY.

DEP WORKS TO PROTECT THE ENVIRONMENTAL WELFARE AND HEALTH OF THE CITY'S RESIDENTS AND NATURAL RESOURCES, MANAGES THE CITY'S WATER SUPPLY, TREATMENT, TRANSMISSION AND DISTRIBUTION SYSTEM, AND COLLECTS, TREATS, AND DISPOSES OF WASTE AND STORM WATER.

The System provides an average of approximately 1 billion gallons per day of water. In addition to a system of dams, reservoirs, aqueducts, and water tunnels, DEP maintains approximately 6,700 miles of water mains. DEP also maintains approximately 7,400 miles of sewers that collect and transport waste and storm water for treatment at the City's 14 wastewater treatment plants. Additionally, the System operates four combined sewer overflow retention facilities, wastewater pump stations, laboratories, sludge dewatering facilities and inner-harbor vessels which transport sludge between facilities. The System collects and treats an average of approximately 1.3 billion gallons per day of sewage. Sewer service is provided to virtually the entire City, except for parts of the Borough of Staten Island, and the Borough of Queens communities of Breezy Point and Douglaston Manor. Sewer service is also provided to certain upstate communities in System watershed areas.

CREDIT RATINGS

The Authority's bonds continue to be highly rated by all three rating agencies. The Authority's ratings reflect the credit strengths resulting from the strong legal protections provided to bondholders and structural features, which provide a true gross pledge of System revenue to bondholders for debt payments. Standard and Poor's Ratings Services rates the Authority's first (general) resolution debt "AAA", their highest rating. The Authority's second general resolution debt is rated AA+ by Standard and Poor's. Fitch Ratings rates both the Authority's first and second general resolution debt "AA+". Moody's Investors Service rates the first and second general resolution debt "Aa1" and "Aa2" , respectively.

New York State Environmental Facilities Corporation ("EFC") Clean Water and Drinking Water Revolving Funds Revenue Bonds, issued for eligible projects are rated "AAA" from all three rating agencies. EFC's subordinated state revolving fund bonds are rated "AAA" by Standard & Poor's, "AAA" by Moody's and "AA+" by Fitch. The Bonds that the Authority places with EFC are an element of security for EFC's bonds, but are unrated second general resolution bonds of the Authority.

INTERNAL CONTROLS

The management of the Water Board and the Authority is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that the assets of the System are protected from loss, theft or misuse, and that accounting policies are complied with and the preparation of financial statements conform with accounting principles generally accepted in the United States of America. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Internal control cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control involves human diligence and compliance; it is subject to human failures and may be circumvented. Because of such limitations, the Authority and the Board have designed into the process safeguards to reduce, though not eliminate, this risk.

DEP is subject to the internal control directives and memorandums that originate from the New York City Comptroller's Office. These directives establish internal controls and accountability, which safeguard City assets. In addition, DEP is subject to audit by the City Comptroller's Office, whose auditors periodically audit the City's agencies adherence to internal control policies and procedures.

BUDGETARY CONTROLS

The Water Board and the Authority maintain separate control structures for their specific areas of responsibility. The Water Board and the Authority establish separate operating budgets approved by their respective Boards.

CAPITAL PROGRAM GOALS

The goals of the System's capital program are:

- To maintain the quality of the water in the City's watersheds and, where necessary, treat the supply to ensure its high quality and compliance with federal and State water quality standards;
- To maintain and improve the transmission and distribution capacity and the condition of the City's water supply system;
- To improve the quality of the surrounding waters by upgrading the City's wastewater treatment facilities, by complying

JAMAICA BAY IS HOME TO

325 SPECIES OF BIRDS

100 SPECIES OF FINFISH

60 SPECIES OF BUTTERFLIES

with federal and State standards for treatment and by reducing pollution caused by combined sewer overflows; and

- To maintain and improve the condition of the sewer system and prevent flooding by replacing failing sewers and extending service to underserved areas of the City.

DEP's capital and operation and maintenance budgets are appropriated through the City's annual capital and operating budgets, respectively. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control. The Authority and the Board adopt their budgets conterminously with the City's operating budget cycle.

CAPITAL IMPROVEMENT PROGRAM AND FINANCING PROGRAM

The City updates its Ten Year Capital Strategy (the "Strategy") every two years. The City released the Strategy in May 2011. The Strategy included the projected capital improvements to the System for Fiscal Years 2011 through 2021. The City's Current Capital Plan, which covers Fiscal Years 2013 through 2016, was updated in October 2012. It is updated three times each fiscal year and the October 2012 release supersedes the Strategy for Fiscal Years 2013 through 2016. The Strategy, together with the Current Capital Plan, comprises the Capital Improvement Program (the "CIP").

The CIP is designed to maintain a satisfactory level of service and improve the operation of the System. The CIP establishes long-range programmatic goals for the System and reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP also incorporates the System's requirements for meeting legal mandates, the present replacement cycle for System facilities, extensions to the present service area, and programs to enhance and optimize the operation and dependability of the System. Allowances are included in the CIP for emergency repair and replacement. An annual allowance for cost escalation due to inflation is also included. The total capital commitments projected to be provided from System funds, most of which will come from the proceeds of notes and bonds of the Authority, is $11.3 billion for Fiscal Years 2013 – 2021. The following table reflects the CIP as of October 2012, and is the basis for the System's annual cash flow requirements. For a number of reasons, including unforeseen cost inflation and changes in plans, actual costs may vary from the CIP set forth below. The CIP is divided into five project types, each discussed below. The capital commitments shown in each year represent capital contracts authorized to be entered into in each year that will be paid from City funds and reimbursed by the Authority, largely from bond proceeds. Actual expenditures from such capital contracts and the issuance of Authority bonds to fund such expenditures occur in the current and subsequent years.

Water Supply & Transmission

This component of the CIP includes approximately $503 million for Stages I and II of the City's Water Tunnel No. 3. Water Tunnel No. 3 will augment the transmission capacity from the watersheds into the City, permit the inspection and rehabilitation of Tunnel 1, and provide delivery

Capital Improvement Program

($ in 000's)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Water Supply And Transmission	$ 447,391	$ 42,093	$ 312,859	$ 39,911	$123,467	$217,475	$ 2,482	$ 2,000	$302,000	$ 1,489,678
Water Distribution	993,073	483,657	183,919	292,021	162,368	183,313	104,922	417,266	102,041	2,922,580
Water Pollution Control	834,048	820,761	546,261	364,058	481,819	386,670	513,687	375,492	211,711	4,534,507
Sewers	480,357	282,346	158,434	190,939	83,666	70,814	188,520	71,518	172,061	1,698,655
Equipment	192,956	78,200	71,366	86,772	48,810	48,798	26,338	39,500	28,162	620,902
Total City Funds	$2,947,825	$1,707,057	$1,272,839	$973,701	$900,130	$907,070	$835,949	$905,776	$815,975	$11,266,322

alternatives to the City in the event of a disruption in Tunnel 1. Stage I of Tunnel No. 3 commenced operation in July 1998. Construction of Stage II continues towards its expected operational date of 2021.

Stage II will extend from the end of Stage I to supply Queens, Brooklyn and the Richmond Tunnel servicing Staten Island and from the valve chamber at Central Park into Lower Manhattan. When Stage II comes on line, DEP will have achieved full redundancy of Tunnel No. 1. This will allow DEP to inspect and repair this tunnel for the first time since it was put into operation in 1917.

The CIP includes $1.0 billion for water conveyance projects. Funds included in the CIP for conveyance include DEP's Water for the Future program. Water for the Future includes the research and development of alternate conveyance conduits and water supplies for the City, the construction of a three-mile bypass tunnel around a portion of the Rondout-West Branch Tunnel section of the Delaware Aqueduct, and the repair of the lining in other sections of the tunnel.

Water Distribution & Treatment

The System's drinking water is among the best in the country. The CIP includes approximately $2.9 billion for the protection, expansion, and distribution of the City's water supply, including nearly $929 million for trunk and distribution water main replacements and extensions. Additionally, $205 million is included for completion of construction of a full-scale filtration plant for the treatment of water from the Croton watershed, along with $463 million for the reconstruction of Gilboa Dam.

THE UV FACILITY WAS COMPLETED IN 2012 AND IS THE LARGEST FACILITY OF ITS KIND IN THE WORLD.

The program also calls for $1.2 billion to be committed to on-going water quality preservation and protection. To ensure its continuing quality and to comply with federal and State standards, DEP is pursuing a comprehensive program to protect the relatively pristine Catskill and Delaware watersheds. Water quality preservation projects include an ultraviolet (UV) light disinfection facility for treatment of water from the Catskill and Delaware systems. The UV facility was completed in 2012 and is the largest facility of its kind in the world. DEP will also continue to acquire and manage environmentally sensitive property in the upstate watershed and to undertake other ongoing projects in partnership with watershed residents as part of the Filtration Avoidance Determination ("FAD") issued by the US Environmental Protection Agency ("USEPA"). The FAD allows the City to avoid filtering water from the Catskill and Delaware Systems. In July 2007, USEPA issued, for the first time, a 10-year FAD to the City. USEPA has previously issued a series of FADs to the City for shorter terms since 1993.

Water Pollution Control

To improve the quality of the City's estuaries and surrounding waterways and to comply with federal Clean Water Act mandates, $4.5 billion is included in the CIP for water pollution control programs.

The CIP allocates $2.2 billion for the replacement or reconstruction of components at the City's wastewater treatment facilities to ensure their continuous and reliable operations including nitrogen removal upgrades at eight wastewater treatment plants, four of which discharge into the Upper East River and four of which discharge into Jamaica Bay. Additionally, the CIP includes funds to complete mandated projects at the System's largest treatment plant, Newtown Creek. As a result of the substantial capital investment in upgrades to the Newtown Creek Wastewater Treatment Plant, it now meets the secondary treatment requirements under the Clean Water Act along with all of the System's other city water pollution control plants.

DEP's CIP also includes $1.7 billion for mandated projects, including those projects which will reduce combined sewer overflows ("CSO"). CSOs are currently a source of pollution in the waterways surrounding the City. CSO events occur during and after heavy rainstorms, when the flow of wastewater and storm water in the sewers exceeds the treatment capacity of a wastewater treatment plant and enters surrounding waterways untreated. In September 2010, DEP released a green infrastructure plan presenting an alternative approach to reducing CSOs. The plan uses a mix of green infrastructure to prevent storm water from reaching the sewers and cost-effective traditional infrastructure that will reduce sewer overflows into waterways. On March 8, 2012, DEP signed a groundbreaking agreement with the New York State Department of Environmental Conservation to reduce CSOs which incorporated the goals of this innovative plan.

Sewers

Approximately $1.7 billion is projected in the CIP to be committed to replace existing sewers in areas requiring increased capacity, to extend sewers to unserved or underserved areas, and to replace failing, flawed, or collapsed sewer mains.

Equipment

Programs in this category of the CIP include water meter installation, automated meter reading systems, the procurement of vehicles and equipment, management information systems, and utility relocation for sewers and water mains. A total of $621 million is included in the CIP for these projects.

ALL CUSTOMERS WHOSE ACCOUNTS HAVE BEEN UPGRADED FOR AUTOMATED METER READING CAN NOW ACCESS DETAILS OF THEIR WATER USAGE THROUGH DEP'S WEBSITE.

The automated meter reading system will transmit water usage information by radio signal to DEP. DEP has installed over 820,000 transmitters, covering 96% of all customers. DEP also has installed over 430,000 new water meters. All customers whose accounts have been upgraded for automated meter reading can now access details of their water usage through DEP's website.

RISK MANAGEMENT

In accordance with the Lease, the Water Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, the yearly payment made to the City is limited to 5% of the aggregate revenues shown on the last year-end audited financial statements of the System. In addition, the System is required to reimburse the City to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. The City has agreed, subject to certain conditions, to indemnify the Authority and the Water Board against any and all liability in connection with any act done or omitted in good faith.

CASH MANAGEMENT

Both the Authority and the Water Board invest funds. The Authority's investments must conform to the policies set forth in the Authority's investment guidelines, dated March 20, 2009. The Authority employs various methods for the investment of its funds. The Authority's management is responsible for the investment of certain funds, including investments in investment agreements. The Authority also uses an investment manager for the active management of some funds. The Water Board makes its own investments through the City Comptroller's investment group.

Funds are invested based upon cash flow requirements and subject to the restrictions on investments set forth in the Authority's bond resolutions and its investment guidelines. Daily cash from customer payments is received into a lock box by the Water Board and is transferred daily to the Authority for debt service payments and to the City Comptroller to pay for the operation and maintenance of the System until these obligations are satisfied. The Water Board retains no cash until all requirements for debt service, Authority and Board expenses, operation and maintenance, and the rental payment are met. The Water Board retains any surplus cash over these requirements for use in the following year to pay required deposits held by the Authority's trustee, including Authority debt service and expenses.

INDEPENDENT AUDIT

Section 6.11 (b) of the Financing Agreement by and among the City, the Authority and the Water Board dated as of July 1, 1985, requires that the Authority shall submit to the Mayor, the Comptroller and the Director of Management and Budget of the City, audited annual financial statements of the Authority and the Water Board. The financial section of the 2012 Comprehensive Annual Financial Report begins with the report of our independent auditors, Deloitte & Touche LLP. This report expresses an unqualified opinion as to the fairness of the presentation of our financial statements.

Respectfully submitted,

Thomas G. Paolicelli
Executive Director

Michele Mark Levine
Comptroller

ORGANIZATIONAL CHART

NYC MUNICIPAL WATER FINANCE AUTHORITY

- BOARD OF DIRECTORS
  6 Members
  - CHIEF EXECUTIVE OFFICER
    - EXECUTIVE DIRECTOR
      - SECRETARY
      - COMPTROLLER
      - TREASURER

NYC WATER BOARD

- BOARD OF DIRECTORS
  7 Members
  - EXECUTIVE DIRECTOR
    - SECRETARY
    - TREASURER

NYC DEPARTMENT OF ENVIRONMENTAL PROTECTION

- COMMISSIONER
  - SUSTAINABILITY
    - ENVIRONMENTAL COMPLIANCE
    - ENVIRONMENTAL PLANNING
  - ENVIRONMENTAL HEALTH & SAFETY
  - POLICE & SECURITY
  - OPERATIONS
    - WATER SUPPLY
    - WATER & SEWER OPERATIONS
    - WASTE WATER TREATMENT
  - ENGINEERING DESIGN & CONSTRUCTION
  - GOVERNMENT & COMMUNITY AFFAIRS
  - CHIEF FINANCIAL OFFICER
    - CUSTOMER SERVICES
    - HUMAN RESOURCES & ADMINISTRATION
  - COMMUNICATIONS

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York City Water and Sewer System New York

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill

President

Jeffrey R. Esser

Executive Director

SYSTEMS OFFICIALS

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY

Board of Directors

Mark Page, ex officio Member
David M. Frankel, ex officio Member
Joseph J. Martens, ex officio Member
Carter H. Strickland, Jr. ex. officio Member
Max Von Hollweg, Member
Marc V. Shaw, Member

Staff

Alan L. Anders, Chief Executive Officer
Thomas G. Paolicelli, Executive Director
Marjorie E. Henning, Secretary
Michele Mark Levine, Comptroller
Robert L. Balducci, Deputy Comptroller
Prescott D. Ulrey, Assistant Secretary
Jeffrey M. Werner, Assistant Secretary
Valerie Mehallow, Finance Manager

Raymond J. Orlando
Director of Media and Investor Relations

NEW YORK CITY WATER BOARD

Members

Alan M. Moss, Chairman
Marcia Bystryn, Member
Donald A. Capoccia, Member
Alfonso L. Carney Jr., Member
Mehul J. Patel, Member
Arlene M. Shaw, Member
Benjamin A. Tisdell, Member

Staff

Steven W. Lawitts, Executive Director
Mathilde O. McLean, Treasurer
Greg L. Ascierto, Deputy Treasurer
Albert F. Moncure, Jr. Secretary

NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION

Carter H. Strickland, Jr., Commissioner
Steven W. Lawitts, Chief Financial Officer
Kathryn Garcia, Chief Operating Officer

Legal Affairs

John Rousakis, General Counsel

Water and Sewer Operations

James Roberts, P.E., Deputy Commissioner

Engineering Design and Construction

Kathryn Mallon, P.E., Deputy Commissioner

Wastewater Treatment

Vincent Sapienza, P.E., Deputy Commissioner

Water Supply

Paul Rush, P.E., Deputy Commissioner

Customer Services

Joseph Singleton, Deputy Commissioner

Sustainability

Angela Licata, Deputy Commissioner

Human Resources & Administration

ZoeAnn Campbell, Deputy Commissioner

Police and Security

Kevin McBride, Deputy Commissioner

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combining balance sheets of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of The City of New York, New York, as of June 30, 2012 and 2011, and the related combining statements of revenues, expenses and changes in net assets (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2012 and 2011, and the respective changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the other postemployment benefit plan on pages 15-21 and 52 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the System's financial statements. The introductory section and statistical section are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

October 10, 2012

Member of
Deloitte Touche Tohmatsu

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2012 and 2011. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The System is a component unit of The City of New York ("The City").

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board (GASB) standards. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2012, 2011 and 2010 (in thousands):

				Variance	
	2012	2011	2010	2012 v 2011	2011 v 2010
REVENUES:					
Water supply and distribution	$ 1,238,352	$ 1,158,977	$ 1,005,045	$ 79,375	$ 153,932
Sewer collection and treatment	1,857,527	1,797,777	1,562,777	59,750	235,000
Other operating revenues	140,595	111,552	190,251	29,043	(78,699)
Total operating revenues	3,236,474	3,068,306	2,758,073	168,168	310,233
Subsidy income	196,241	180,986	128,110	15,255	52,876
Investment income	48,936	38,313	65,760	10,623	(27,447)
Total revenues	3,481,651	3,287,605	2,951,943	194,046	335,662
EXPENSES:					
Operations and maintenance	1,373,038	1,294,533	1,539,846	78,505	(245,313)
Other operating expenses	73,814	103,334	289,989	(29,520)	(186,655)
Bad debt expense	28,541	76,799	14,032	(48,258)	62,767
Administration and general	47,402	40,424	40,257	6,978	167
Depreciation and amortization	733,425	628,339	574,483	105,086	53,856
Capital distribution	42,005	53,591	32,580	(11,586)	21,011
Loss on retirement of capital assets	1,646	3,426	23,254	(1,780)	(19,828)
Interest expense	1,196,647	1,178,226	1,019,633	18,421	158,593
Total expenses	3,496,518	3,378,672	3,534,074	117,846	(155,402)
Net loss before capital contributions	(14,867)	(91,067)	(582,131)	76,200	491,064
CAPITAL CONTRIBUTIONS	26,903	18,696	30,424	8,207	(11,728)
CHANGE IN NET ASSETS	12,036	(72,371)	(551,707)	84,407	479,336
NET ASSETS — Beginning	(352,888)	(280,517)	271,190	(72,371)	(551,707)
NET (DEFICIT) ASSETS — Ending	$ (340,852)	$ (352,888)	$ (280,517)	$ 12,036	$ (72,371)

OPERATING REVENUE

2012 – 2011

Operating revenues increased by $168.2 million or 5.5% due predominantly to a rate increase of 7.5%.

2011 – 2010

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

The following summarizes other operating revenues for fiscal years 2012, 2011, and 2010 (in thousands):

							Variance			
		2012		2011		2010		2012 v 2011		2011 v 2010
Upstate water fees	$	60,891	$	64,737	$	40,876	$	(3,846)	$	23,861
Late payment fees		44,069		30,270		29,107		13,799		1,163
Change in residual interest in sold liens		12,777		(1,734)		2,156		14,511		(3,890)
Release of escrow/trust		7,353		4,406		98,820		2,947		(94,414)
Federal funding		2,632		2,504		2,733		128		(229)
Litigation settlement receipt		–		–		8,867		–		(8,867)
Connection fees and permits		12,873		11,369		7,692		1,504		3,677
Total other operating revenues	$	140,595	$	111,552	$	190,251	$	29,043	$	(78,699)

OTHER OPERATING REVENUE

2012 – 2011

In fiscal year 2012, the New York State Department of Environmental Conservation ("DEC") returned $7.4 million of escrowed funds to the System, as the New York City Department of Environmental Protection ("DEP") met the requirement for secondary treatment at its Newtown Creek Wastewater Treatment Plant in advance of the established milestone date. The escrow fund had been established in 2009 to cover potential penalties that would be incurred in the event DEP missed mandated construction milestones.

Upstate water fees decreased by $3.8 million or 5.9% compared to 2011. The decrease is due primarily to a reduction in consumption.

The change in residual interest in sold liens increased by $14.5 million as a bond sale transaction by the purchasing trust had not been completed as of June 30, 2012.

Connection fees and permits increased by $1.5 million or 13.2% due to a special initiative to bring buildings into compliance with the New York State Sanitary Code regarding backflow prevention.

Late payment fees increased by $13.8 million or 45.6% primarily due to the rate increase and a decrease in billing adjustments. The substantial completion of DEP's installation of its wireless meter reading system has increased the number of actual readings and reduced the number of estimated readings that had previously resulted in billing adjustments.

Federal funding of $2.6 million was received by the Water Board in fiscal 2012 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

2011 – 2010

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

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

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

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

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

INVESTMENT INCOME

2012 – 2011

Investment income increased by $10.6 million or 27.7%. The increase was due to a reduction of the unrealized loss on the agreements to purchase securities in fiscal 2012 of $6.1 million compared to a loss of $14.4 million in fiscal 2011. The reduction is primarily due to the maturity of a portion of the agreements to purchase securities. The fair values of the contracts change as a result of changes in market interest rates.

2011 – 2010

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

OPERATING EXPENSES

2012 – 2011

Operations and maintenance expenses increased by $78.5 million or 6.1% due primarily to an increase in the fringe benefit rate applicable to City employees from 30% in fiscal year 2011 to 46% in fiscal year 2012. Water Board general and administrative expenses increased by approximately $2.5 million, primarily due to expenditures incurred under new contracts. Water Authority general and administrative expenses increased by $4.5 million primarily due to remarketing and liquidity fees in connection with new variable rate debt.

2011 – 2010

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

NON-OPERATING EXPENSES

2012 – 2011

Interest expense increased by $18.4 million or 1.6%, primarily due to an increase in bonds outstanding of $1.5 billion or 5.5%.

2011 – 2010

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

CHANGES IN NET ASSETS

2012 – 2011

The change in net assets represents the net total of operating income, non-operating losses, and capital contributions. Net assets increased by $12.0 million in fiscal year 2012.

2011 – 2010

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

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

				Variance	
	2012	2011	2010	2012 v 2011	2011 v 2010
Current assets	$ 2,496,428	$ 2,251,021	$ 2,132,321	$ 245,407	$ 118,700
Residual interest in sold liens	51,777	39,000	40,734	12,777	(1,734)
Deferred outflows from hedging	134,752	53,216	71,930	81,536	(18,714)
Deferred bond and financing expenses	176,618	176,139	163,703	479	12,436
Capital assets	26,474,776	24,988,836	23,016,469	1,485,940	1,972,367
Total assets	$ 29,334,351	$ 27,508,212	$ 25,425,157	$ 1,826,139	$ 2,083,055
Long-term liabilities	$ 27,914,458	$ 26,115,749	$ 23,549,533	$ 1,798,709	$ 2,566,216
Current liabilities	1,760,745	1,745,351	2,156,141	15,394	(410,790)
Total liabilities	29,675,203	27,861,100	25,705,674	1,814,103	2,155,426
Net assets (deficit):					
Invested in capital assets — net of related debt	(372,021)	(215,322)	920,728	(156,699)	(1,136,050)
Restricted for debt service	687,656	573,461	239,192	114,195	334,269
Restricted for operations and maintenance	212,885	199,636	191,772	13,249	7,864
Unrestricted (deficit)	(869,372)	(910,663)	(1,632,209)	41,291	721,546
Total net (deficit) assets	(340,852)	(352,888)	(280,517)	12,036	(72,371)
Total liabilities and net assets	$ 29,334,351	$ 27,508,212	$ 25,425,157	$ 1,826,139	$ 2,083,055

2012 – 2011

Current assets increased by $245.4 million or 10.9%. The increase is due to an increase in monies held by the Authority for debt service in fiscal 2013.

Deferred outflows from hedging increased by $81.5 million due to a decrease in the fair value of the hedging derivative instruments.

Long term liabilities increased by $1.8 billion primarily due to the increase in long term portion of bonds payable of $1.5 billion.

Pollution remediation obligations have increased by $5.6 million.

Current liabilities increased by $15.4 million or less than 1%, primarily due to an increase of $15.9 million in the service credits on customer accounts.

2011 – 2010

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

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

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

Pollution remediation obligations have increased by $28.4 million.

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

CAPITAL ASSETS

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

				Variance	
	2012	2011	2010	2012 v 2011	2011 v 2010
Nondepreciable assets — Utility plant under construction	$ 8,422,470	$ 7,804,563	$ 6,112,362	$ 617,907	$ 1,692,201
Utility plant in service:					
Buildings	34,877	34,877	24,193	–	10,684
Equipment	2,014,704	1,723,907	1,538,451	290,797	185,456
Vehicles	150,531	150,591	157,179	(60)	(6,588)
Water supply, treatment and distribution, and sewage collection, treatment and disposal systems	25,669,088	24,407,185	23,740,818	1,261,903	666,367
Total utility plant in service	27,869,200	26,316,560	25,460,641	1,552,640	855,919
Less accumulated depreciation for:					
Buildings	(19,820)	(18,447)	(16,444)	(1,373)	(2,003)
Equipment	(790,180)	(667,675)	(573,595)	(122,505)	(94,080)
Vehicles	(98,639)	(93,086)	(98,852)	(5,553)	5,766
Water supply, treatment and distribution, and sewage collection, treatment and disposal systems	(8,908,255)	(8,353,079)	(7,867,643)	(555,176)	(485,436)
Total accumulated depreciation	(9,816,894)	(9,132,287)	(8,556,534)	(684,607)	(575,753)
Total — net utility plant in service	18,052,306	17,184,273	16,904,107	868,033	280,166
Total capital assets — net	$ 26,474,776	$ 24,988,836	$ 23,016,469	$ 1,485,940	$ 1,972,367

The increase in the System's capital assets, net of depreciation during fiscal 2012 was $1.5 billion or 5.9%. Capital asset additions for fiscal 2012 were $2.3 billion. See Note 3 (Utility Plant) for further details.

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

DEBT ADMINISTRATION

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

The debt program of the Authority includes commercial paper, long-term debt of the Authority and a bond anticipation note and subsidized bonds issued through the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program is the main source of financing to reimburse The City for payments made for water and sewer projects. The Authority then issues long-term debt of its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher-coupon debt. See Note 9 (Short Term Debt) and Note 10 (Long-Term Debt) for further details.

At June 30, 2012, the total outstanding debt of the System was $28.4 billion, of which $400 million was commercial paper and $108.1 million was outstanding against bond anticipation notes issued to EFC. The remaining $27.9 billion consisted of variable and fixed-rate bonds maturing in varying installments through 2045.

The total outstanding long-term debt at June 30, 2012 was as follows (in thousands):

Issue Date	
2012	$ 3,735,182
2011	4,541,205
2010	3,114,624
2009	3,481,104
2008	2,813,339
2007 and prior	10,292,825
Total long-term debt	$ 27,978,279

In the summary above, bonds retired through refunding in fiscal 2012 are removed from the year in which the refunded bonds were issued, and the refunding bonds are included in the fiscal 2012 amount.

In fiscal 2012, the Authority issued $3.0 billion of water and sewer revenue bonds directly to the public, including $857.4 million of refunding bonds and $2.2 billion of new money bonds. The Authority also issued $669.3 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, all of which were refunding bonds. The Authority also drew down an additional $55.7 million against its Fiscal 2010 Series 1 bond anticipation note issued to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of commercial paper notes, which had previously financed capital improvements to the system, and to pay the costs of issuance on the bonds.

On September 22, 2011, the Authority issued $450.9 million of new money and refunding tax-exempt fixed rate Second General Resolution bonds, Fiscal 2012 Series AA General Bonds. The new money bonds included a term bond maturing in 2044. The Authority used the new money bond proceeds to pay for capital improvements to the System and to pay the costs of issuance of the bonds. The refunding bonds refunded portions of the Authority's outstanding First Resolution 2001C and 2002G bonds. The refunding bonds included serial bonds maturing from 2032 through 2034.

On September 29, 2011, the Authority issued $200 million of new money tax-exempt adjustable rate bonds under its First General Resolution, Fiscal 2012 Series A-1 and A-2 bonds. The bonds are backed by a standby bond purchase agreement from a bank. These bonds will mature in 2044 and were used to refund the Authority's commercial paper notes.

Additionally, on September 29, 2011, EFC entered into an agreement to provide the Authority a direct loan in an amount up to $30 million. The Authority expects to receive these funds to pay for certain capital projects over the next several years. As of June 30, 2012, the Authority has not drawn on this loan.

On November 29, 2011, the Authority issued $450 million of new money tax-exempt fixed rate Second General Resolution Revenue bonds, Fiscal 2012 Series BB. This bond issue included term bonds maturing in 2039 and 2044. The Authority used proceeds to pay for capital improvements to the System, refund commercial paper notes, and to pay the costs of issuance of the bonds.

On January 30, 2012, the Authority issued $350 million of new money tax-exempt fixed rate Second General Resolution Revenue bonds, Fiscal 2012 Series CC and $50 million of Fiscal 2012 Series DD bonds. The Series CC bond issue included a term bond maturing in 2045 and the Series DD bond issue included two refundable principal installment bonds maturing in 2018 and 2027. The Authority used proceeds to pay for capital improvement to the System, refund commercial paper notes, and to pay the costs of issuance of the bonds.

On March 19, 2012, the Authority issued $522.5 million of new money and refunding tax-exempt fixed rate Second General Resolution Revenue Bonds, Fiscal 2012 Series EE bonds. The new money bonds included a term bond maturing in 2045. The refunding bonds refunded portions of the Authority's outstanding First Resolution 2001 A, 2004 B, and 2004 C bonds and the Authority's outstanding Second General Resolution 2007 DD bonds. The refunding bonds included serial bonds maturing from 2019 through 2039. The Authority used the new money bond proceeds to refund commercial paper issuance and to pay the costs of issuance of the bonds.

On March 27, 2012, the Authority issued $325 million of new money tax-exempt adjustable rate First Resolution Revenue Bonds, Fiscal 2012 Series B bonds. The bonds will mature in 2045. The Authority used the proceeds to pay for capital improvements to the System, refund commercial paper notes, and to pay the costs of issuance of the bonds.

On May 31, 2012, the Authority issued $669.4 million of Second General Resolution fixed-rate, refunding, Fiscal 2012 Series 2 and 3 bonds to EFC. The source of funds to the Authority for its Series 2 bonds was from tax-exempt bonds issued by EFC (2012 A). The source of funds for the Authority's Series 3 bonds was SRF program funds. All proceeds from the issuance will refund the entire par amount outstanding of EFC's 2002 B, D, and J bonds (except for the 2012 maturity in each series) and the Authority's Fiscal 2002 Series 3, 4 and 5 bonds and its 2003 Series 1 bonds, issued to EFC as security for EFC bonds being refunded.

On June 28, 2012, the Authority issued $611.7 million of new money and refunding tax-exempt fixed rate Second General Resolution Revenue Bonds, Fiscal 2012 Series FF and $50 million of new money tax-exempt fixed rate Fiscal 2012 Series GG bonds. The 2012 Series FF bond issue refunded $33.3 million of the Authority's outstanding First Resolution 2003 Series A, $41.3 million of its 2004 Series C, and $147.9 million of its 2005 Series B bonds. The 2012 Series GG bond issue included two refundable principal installment bonds maturing in 2017 and 2019. The Authority used the new money bond proceeds to finance capital improvements to the System, refund commercial paper notes, and to pay the costs of issuance of the bonds.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Rates are adopted each year by the Board in May for the following fiscal year. A rate increase of 7% for fiscal 2013, based on projected revenues and costs, became effective July 1, 2012.

REQUEST FOR INFORMATION

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Raymond Orlando, Director of Media and Investor Relations, New York City Municipal Water Finance Authority, 255 Greenwich Street, New York, New York 10007. His phone number is (212) 788-5875, and his fax number is (212) 788-9721.

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COMBINING BALANCE SHEETS

JUNE 30, 2012 (In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 5,453	$ 7	$ –	$ 5,460
Restricted cash and cash equivalents	49	1,158,351	–	1,158,400
Restricted investments	212,836	391,836	–	604,672
Accrued interest and subsidy receivable	–	27	–	27
Accounts receivable:				
Billed — less allowance for uncollectable water and sewer receivables of $339,317	370,643	–	–	370,643
Unbilled	294,855	–	–	294,855
Receivable from The City of New York	62,371	–	–	62,371
Total current assets	946,207	1,550,221	–	2,496,428
NON-CURRENT ASSETS:				
Utility plant in service — less accumulated depreciation of $9,816,893	18,052,306	–	–	18,052,306
Utility plant construction	8,422,470	–	–	8,422,470
Total capital assets	26,474,776	–	–	26,474,776
Residual interest in sold liens	51,777	–	–	51,777
Deferred outflows from hedging	–	134,752	–	134,752
Long-term deferred bond and financing expenses	–	176,618	–	176,618
Revenue required to be billed by and received from the Board	–	16,044,536	(16,044,536)	–
Total non-current assets and deferred items	26,526,553	16,355,906	(16,044,536)	26,837,923
TOTAL	$ 27,472,760	$ 17,906,127	$ (16,044,536)	$ 29,334,351

See notes to combining financial statements.

(Continued)

COMBINING BALANCE SHEETS

JUNE 30, 2012 (In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	$ –	$ 27,526,870	$ –	$ 27,526,870
Net premium on bonds and notes payable	–	465,991	–	465,991
Unamortized deferred bond refunding costs	–	(309,633)	–	(309,633)
Pollution remediation obligation	108,300	–	–	108,300
OPEB liability	–	790	–	790
Interest rate swap agreement — net	–	122,140	–	122,140
Revenue requirements payable to the Authority	16,044,536	–	(16,044,536)	–
Total long-term liabilities	16,152,836	27,806,158	(16,044,536)	27,914,458
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	45,524	54,358	–	99,882
Revenue received in advance	51,296	–	–	51,296
Commercial paper payable	–	400,000	–	400,000
Current portion of bonds and notes payable	–	451,409	–	451,409
Payable to The City of New York	–	677,880	–	677,880
Service credits on customer accounts	80,278	–	–	80,278
Total current liabilities	177,098	1,583,647	–	1,760,745
Total liabilities	16,329,934	29,389,805	(16,044,536)	29,675,203
NET ASSETS:				
Invested in capital assets — net of related debt	26,474,776	(26,846,797)	–	(372,021)
Restricted for debt service	–	687,656	–	687,656
Restricted for operations and maintenance	212,885	–	–	212,885
Unrestricted (deficit)	(15,544,835)	14,675,463	–	(869,372)
Total net assets	11,142,826	(11,483,678)	–	(340,852)
TOTAL	$ 27,472,760	$ 17,906,127	$ (16,044,536)	$ 29,334,351

See notes to combining financial statements.

(Concluded)

COMBINING BALANCE SHEETS

JUNE 30, 2011 (In thousands)

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

See notes to combining financial statements. (Continued)

COMBINING BALANCE SHEETS

JUNE 30, 2011 (In thousands)

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

See notes to combining financial statements.

(Concluded)

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012 (In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 1,238,352	$ –	$ 1,238,352
Sewer collection and treatment	1,857,527	–	1,857,527
Other operating revenues	140,595	–	140,595
Total operating revenues	3,236,474	–	3,236,474
OPERATING EXPENSES:			
Operation and maintenance	1,373,038	–	1,373,038
Bad debt expense	28,541	–	28,541
Administration and general	9,478	37,924	47,402
Other operating expenses	73,814	–	73,814
Total operating expenses	1,484,871	37,924	1,522,795
DEPRECIATION AND AMORTIZATION	692,296	41,129	733,425
OPERATING INCOME (LOSS)	1,059,307	(79,053)	980,254
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	–	(1,196,647)	(1,196,647)
Loss on retirement of capital assets	(1,646)	–	(1,646)
Subsidy income	–	196,241	196,241
Capital distribution	(42,005)	–	(42,005)
Investment income	239	48,697	48,936
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,015,895	(1,030,762)	(14,867)
CAPITAL CONTRIBUTION	26,903	–	26,903
CHANGE IN NET ASSETS	1,042,798	(1,030,762)	12,036
NET ASSETS (DEFICIT) — Beginning of year	10,100,028	(10,452,916)	(352,888)
NET ASSETS (DEFICIT) — End of year	$ 11,142,826	$ (11,483,678)	$ (340,852)

See notes to combining financial statements.

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)

YEAR ENDED JUNE 30, 2011 (In thousands)

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

See notes to combining financial statements.

COMBINING STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2012 (In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,147,038	$ –	$ 3,147,038
Payments for operations and maintenance	(1,399,122)	–	(1,399,122)
Payments for administration	(6,373)	(37,557)	(43,930)
Net cash provided by (used in) operating activities	1,741,543	(37,557)	1,703,986
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	–	5,039,373	5,039,373
Acquisition and construction of capital assets	293	(2,267,908)	(2,267,615)
Payments by the Board to the Authority	(1,738,239)	1,738,239	–
Repayments of bonds, notes and other borrowings	–	(3,344,945)	(3,344,945)
Interest paid on bonds, notes and other borrowings	–	(1,002,007)	(1,002,007)
Net cash (used in) provided by capital and related financing activities	(1,737,946)	162,752	(1,575,194)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	–	49,541	49,541
Purchase of investments	(187,260)	(105,823)	(293,083)
Interest on investments	1,023	43,957	44,980
Net cash used in investing activities	(186,237)	(12,325)	(198,562)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(182,640)	112,870	(69,770)
CASH AND CASH EQUIVALENTS — Beginning of year	188,142	1,045,488	1,233,630
CASH AND CASH EQUIVALENTS — End of year	$ 5,502	$ 1,158,358	$ 1,163,860

See notes to combining financial statements.

(Continued)

COMBINING STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2012 (In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,059,307	$ (79,053)	$ 980,254
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	692,296	41,129	733,425
Operations and maintenance expense paid for with bond proceeds	44,092	–	44,092
Pollution remediation expense	24,074	–	24,074
Changes in assets and liabilities (net):			
Pollution remediation liability	5,648	–	5,648
Receivables — net	(51,176)	–	(51,176)
Receivable from The City	(26,083)	(25)	(26,108)
Residual interest in sold liens	(12,777)	–	(12,777)
Accounts payable	472	392	864
Revenues received in advance	(10,221)	–	(10,221)
Service credits on customer accounts	15,911	–	15,911
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,741,543	$ (37,557)	$ 1,703,986

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of $17,493 in 2012.
Capital expenditures in the amount $677,880 had been incurred but not paid at June 30, 2012.
The Board received capital assets of $26,611 in 2012 which represented capital contributed by The City.
The Board received capital assets of $292 in 2012 which represented capital contributed by Westchester County.

See notes to combining financial statements.

(Concluded)

COMBINING STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2011 (In thousands)

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

See notes to combining financial statements.

(Continued)

COMBINING STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2011 (In thousands)

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

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of ($979) in 2011.

Capital expenditures in the amount of $635,323 had been incurred but not paid at June 30, 2011.

The Board received capital assets of $18,412 in 2011 which represented capital contributed by The City.

The Board received capital assets of $284 in 2011 which represented capital contributed by Westchester County.

See notes to combining financial statements.

(Concluded)

1. ORGANIZATION

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

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

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

In accordance with Governmental Accounting Standards Board ("GASB") standards, the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Other significant accounting policies are:

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

Investments and Cash Equivalents – Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. All investments are carried at fair value with the exception of money market funds which are carried at cost plus accrued interest. For purposes of the statement of cash flows and statement of net assets, the System generally considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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

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

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

Utility Plant – Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board's policy to capitalize assets with a cost of $35,000 or more and a useful life of five years or longer. Contributed utility plant is recorded at its estimated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

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

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

Operating Revenues and Operating Expenses – Operating revenues consist of customer payments for services of the System. Revenues are based on billing rates imposed by the Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records estimated unbilled revenue at year-end. Operating expenses includes but is not limited to administration, maintenance, repair and operations of the System; administration costs of the Board and the Authority; rental payments to The City and bad debt expense.

Deferred Revenues – Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Customer account credit balances are included in service credits on customer accounts, not in accounts receivable.

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

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards – In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011. The System has not entered into any service concession agreements. GASB Statement No. 60 is not expected to have an impact on the System's financial statements.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognizes certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB Statement No. 65 are effective for financial statement for periods beginning after December 15, 2012. The System has not completed the process of evaluating GASB Statement No. 65, but it expects that the required accounting change will have an effect on debt issuance cost recognition and reporting in the statement of net assets upon implementation.

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62*. GASB Statement No. 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. The System has not completed the process of evaluating GASB Statement No. 66, but the system does not expect the statement to have an impact on the System's financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. GASB Statement No. 67 establishes standards of financial reporting for defined benefit pension plans. As the System is not a pension plan, GASB Statement No. 67 is not applicable to the System and will have no direct impact on its financial statements, other than the related implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, discussed below.

In June 2012, GASB also issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014. The System has not completed the process of evaluating GASB Statement No. 68, but because the System participates in a cost sharing multiple-employer pension system as defined by GASB Statement No. 68, implementation is expected to result in recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the System's proportionate share of those of the plan, calculated as specified in GASB Statement No. 68. Additional footnote and supplementary disclosures will also be required upon implementation. The System expects to implement GASB Statement No. 68 in the same year that The City does so.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Nondepreciable assets/ utility construction	$ 6,112,362	$ 2,569,789	$ 877,588	$ 7,804,563	$ 2,254,102	$ 1,636,195	$ 8,422,470
Depreciable assets/ utility plant in service							
Buildings	24,193	10,684	–	34,877	–	–	34,877
Equipment	1,538,451	185,577	121	1,723,907	290,946	149	2,014,704
Vehicles	157,179	6,826	13,414	150,591	–	60	150,531
Water supply, treatment and distribution, and sewage collection, treatment and disposal systems	23,740,818	674,500	8,133	24,407,185	1,345,248	83,345	25,669,088
Total depreciable assets	25,460,641	877,587	21,668	26,316,560	1,636,194	83,554	27,869,200
Less accumulated depreciation for:							
Buildings	(16,444)	(2,003)	–	(18,447)	(1,373)	–	(19,820)
Equipment	(573,595)	(94,080)	–	(667,675)	(122,535)	(30)	(790,180)
Vehicles	(98,852)	5,766	–	(93,086)	(5,611)	(58)	(98,639)
Water supply, treatment and distribution, and sewage collection, treatment and disposal systems	(7,867,643)	(485,436)	–	(8,353,079)	(572,646)	(17,470)	(8,908,255)
Total accumulated depreciation	(8,556,534)	(575,753)	–	(9,132,287)	(702,165)	(17,558)	(9,816,894)
Total utility plant in service — net	16,904,107	301,834	21,668	17,184,273	934,029	65,996	18,052,306
Total capital assets — net	$23,016,469	$ 2,871,623	$ 899,256	$24,988,836	$ 3,188,131	$ 1,702,191	$ 26,474,776

4. INVESTMENTS AND CASH DEPOSITS

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

Cash Deposits – The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of The City and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each

4. INVESTMENTS AND CASH DEPOSITS (Continued)

bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least $100 million. The System had $532 million and $546 million respectively, on deposit at June 30, 2012 and 2011, which was covered by Federal depository insurance.

Cash and cash equivalents, including restricted and unrestricted balances were comprised of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Cash	$ 531,694	$ 546,833
Cash equivalents	632,166	686,797
Cash and cash equivalents	$ 1,163,860	$ 1,233,630

The System had the following investments at June 30, 2012 and 2011 (in thousands):

	Fair Value	
Investments	2012	2011
U.S. Government Sponsored Entities	$ 835,692	$ 673,660
New York State Instrumentalities	290,192	232,649
Dreyfus Government Money Market	9,311	39,497
Guaranteed Investment Contracts	90,354	92,913
Repurchase agreements market value adjustment	11,289	14,835
Total investments including cash equivalents	1,236,838	1,053,554
Less amounts reported as cash equivalents	(632,166)	(686,797)
Investments	$ 604,672	$ 366,757

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

Credit Risk – Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. Investments held by the System at June 30, 2012 and 2011 include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, and shares of money market funds, all of which are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's. Also held by the Authority are direct obligations of, or obligations guaranteed by the State of New York or direct obligations of any agency or public authority thereof, which are rated, at the time of purchase, in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and guaranteed investment contracts with financial institutions whose long-term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long-term debt obligations have a rating in one of the two highest rating categories for comparable types of obligations by each rating agency then maintaining a rating on the Authority's bonds at the time such agreement or contract was entered into.

Interest Rate Risk – The System has no formal policy relating to interest rate risk. Approximately 35% of the System's investments are agreements to purchase securities or Guaranteed Investment Contracts ("GIC") with guaranteed fixed rates of return. The par value of the agreements to purchase securities and interest earned are held as cash on June 30, 2012. The fair value of the agreements to purchase securities is susceptible to changes in market interest rates.

Segmented Time Distribution on Investments and Cash Equivalents (in thousands)

Maturity Date	Fair Value Amount
Under 6 months[1]	$ 711,175
Over 6 months to 1 year	218,457
Over 1 year to 3 years	56,732
Over 3 years and beyond	148,831
Over 3 years and beyond (GIC and repurchase agreements)[2]	101,643
Total	$ 1,236,838

[1] Includes variable rate demand obligations with maturities greater than three years which can be tendered weekly at par.

[2] Includes the fair value of agreements to purchase securities and $90,354,000 GIC with a one-time option to terminate at par by the provider on 6/15/2013, which is expected to be exercised.

4. INVESTMENTS AND CASH DEPOSITS (Continued)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, The System may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's investments, other than repurchase agreements, are not collateralized. All investments are held in the Trustee's name by the Trustee or in the Board's name by its custodian bank.

5. DERIVATIVE INSTRUMENTS

As of June 30, 2012 the Authority had the following:

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value	Counterparty Credit Rating (Moody's/S&P/ Fitch)
HEDGING DERIVATIVES						
Muni-CPI	$ 20,000,000	7/9/02	6/15/13	pay 4.15% receive muni-CPI rate	$ (305)	Baa1/A-/A
Synthetic fixed rate	240,600,000	10/24/07	6/15/36	pay 3.439% receive 67% of 1-month LIBOR	(80,668)	Aa2/AAA/NR
Synthetic fixed rate	160,400,000	10/24/07	6/15/36	pay 3.439% receive 67% of 1-month LIBOR	(53,779)	A3/A/A
INVESTMENT DERIVATIVE						
Synthetic variable rate	$ 200,000,000	12/23/03	6/15/14	Pay SIFMA Index receive 3.567%	$ 12,612	A2/AA-/A+

Hedging Derivative Instruments – The Authority executed an interest rate exchange agreement (the "Muni-CPI agreement") effective July 9, 2002 in conjunction with its sale of $20 million of muni-CPI Bonds in the 2013 maturity of its Fiscal 2003 Series A Water and Sewer System Revenue Bonds (the "CPI Bonds"). The CPI Bonds pay the holder a floating rate tied to the consumer price index [a fixed spread of 1.53% plus a floating rate equal to the change in the Consumer Price Index – Urban ("CPI-U") for a given period]. Under the interest rate exchange agreement, the Authority pays the counterparty a fixed interest rate of 4.15% while it receives a floating interest rate matching the rate on the CPI Bonds. This allowed the Authority to achieve a fixed rate 10 basis points lower than conventional fixed rate debt in the 2013 maturity at the time of issuance. The interest rate exchange agreement terminates upon the maturity of the CPI Bonds on June 15, 2013. The Authority's obligations under the interest rate exchange agreement are payable as Authority expenses.

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

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

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

5. DERIVATIVE INSTRUMENTS (Continued)

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

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

Basis Risk – Since, during the term of the agreement, the rate on the CPI Bonds will exactly match the rate being paid by the counterparty, there is no basis risk for the Muni-CPI agreement. The Authority is exposed to basis risk on its synthetic fixed rate agreements because the amount the Authority receives under the synthetic fixed rate interest rate exchange agreement may be lower than the average monthly variable interest paid on the bonds associated with the agreement, which would require the Authority to make up the shortfall.

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

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

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

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

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

Financial Statements Effect – The market value of derivatives at June 30, 2012 and June 30, 2011, was negative $122.1 million and negative $37.5 million, respectively. The market value of hedge derivatives at June 30, 2012 and June 30, 2011, was negative $134.8 million and negative $53.2 million, respectively. These amounts are shown as deferred outflows in the balance sheet. The decrease in market value of the non-hedge derivative at June 30, 2012 and June 30, 2011 was $3.1 million and $1.2 million, respectively.

6. LEASE AGREEMENT

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

a. an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by The City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by The City;

b. an amount sufficient to reimburse The City for capital costs incurred by The City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

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

6. LEASE AGREEMENT (Continued)

of the Authority to be paid within such fiscal year. A summary of operation and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	2012	2011
Water supply, treatment, transmission and distribution	$ 441,726	$ 402,603
Sewer collection and treatment systems	477,381	494,740
City agency support cost	63,440	62,181
Fringe benefits	185,388	117,961
Judgments and claims	8,693	11,658
Operation and maintenance	1,176,628	1,089,143
Rental payments to the City	196,410	205,390
Total operations maintenance and rental payments	$ 1,373,038	$ 1,294,533

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2012 and 2011, all utility construction and other projects financed by Authority debt recorded by the System which have not been reimbursed to The City have been recorded as a payable to The City, net of the amount of any State or Federal capital grants received by The City.

As of June 30, 2012 and 2011, the System had a net payable of $615.5 million and $646.1 million, respectively, to The City for payments of utility construction and for overpayment of operations and maintenance expense.

8. OTHER OPERATING EXPENSES

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

	2012	2011
Pollution remediation	$ 29,722	$ 47,294
Payments for watershed improvements	44,092	56,040
Total other operating expenses	$ 73,814	$ 103,334

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

9. SHORT-TERM DEBT

In fiscal 2012 and 2011, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Commercial paper[1]	$600,000	$1,800,000	$2,000,000	$400,000	$1,778,300	$1,778,300	$400,000

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

Commercial paper activity is comprised of the following for the year ended June 30, 2012 (in thousands):

	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	$ —	$ 586,700	$ 586,700	$ —
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	—	400,000	200,000	200,000
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	200,000	400,000	400,000	200,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	200,000	391,600	591,600	—
Total commercial paper payable	$ 400,000	$ 1,778,300	$ 1,778,300	$ 400,000

10. LONG-TERM DEBT

In fiscal 2012, the changes in long-term debt were as follows (in thousands):

Bonds Payable	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
First resolution	$ 8,813,677	$ 525,000	$ 1,098,733	$ 8,239,944
Second resolution	17,695,192	3,210,182	1,167,039	19,738,335
Total bonds payable	26,508,869	3,735,182	2,265,772	27,978,279
Due within one year	(430,452)	—	—	(451,409)
Less discounts (net)	(197,357)	(298,721)	(30,087)	(465,991)
Less deferred refunding costs	300,850	36,649	(27,866)	309,633
Total long-term debt payable	$25,974,924	$ 3,473,110	$ 2,263,551	$27,683,228

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

In the detailed listing of bonds payable, the bonds issued through EFC are differentiated by their numerical bond serial designation.

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

10. LONG-TERM DEBT (Continued)

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

The System also will receive funding through EFC of $30 million for certain projects. Each project is tracked for spending and funding is received from EFC after submission of required documentation. The funding is in the form of a bond anticipation note payable by the Authority. The total $30 million note is expected to be forgiven by EFC after the note is fully drawn. Based on the expected length of projects the note is a long-term liability.

During fiscal 2012, the Authority issued $1.5 billion of bonds to refund $1.7 billion of outstanding bonds. These refundings resulted in a loss of $36.7 million. The Authority in effect reduced its aggregate debt service for principal and interest by $267.6 million and obtained an economic benefit of $196.4 million.

During fiscal 2012, the Authority defeased $228.44 million of outstanding bonds using current revenue. This resulted in a loss of $4.5 million.

During fiscal 2011, the Authority issued $1.6 billion of bonds to refund $1.4 billion of outstanding bonds and $200 million of Commercial Paper Series 5. These refundings resulted in a loss of $17.3 million. The Authority in effect reduced its aggregate debt service by $139 million.

The Authority has defeased cumulatively $14.8 billion and $13.1 billion of outstanding bonds as of June 30, 2012 and 2011, respectively through the EFC and by placing proceeds of refunding bonds issued in an irrevocable escrow account to provide for all future debt service payments on defeased bonds. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's financial statements. As of June 30, 2012 and 2011, $13.2 billion and $11.7 billion of the defeased bonds, respectively, had been retired using the assets of the escrow accounts.

Debt service requirements to maturity, including amounts relating to commercial paper and the bond anticipation notes, at June 30, 2012 are as follows (in thousands):

June 30	Principal [1]	Interest [2]	Total
2013	$ 851,409	$ 1,298,110	$ 2,149,519
2014	355,304	1,329,160	1,684,464
2015	360,618	1,318,524	1,679,142
2016	432,912	1,303,344	1,736,256
2017	470,723	1,287,231	1,757,954
2018 – 2022	2,956,652	6,092,134	9,048,786
2023 – 2027	3,339,804	5,400,535	8,740,339
2028 – 2032	4,048,542	4,535,445	8,583,987
2033 – 2037	5,039,335	3,494,029	8,533,364
2038 – 2042	6,473,000	2,126,988	8,599,988
2043 – 2045	4,049,980	376,053	4,426,033
	$ 28,378,279	$ 28,561,553	$ 56,939,832

[1] Includes $400 million of commercial paper due in 2013.

[2] Includes interest for variable rate bonds at 3.00% for FY 2013, and 4.25% for FY 2014 and thereafter. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

10. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper are comprised of the following for the year ended June 30, 2012 (in thousands):

	Balance at June 30, 2011	Issued	Retired/ Defeased	Balance at June 30, 2012
1991 Fiscal Series B –7.00% Serial and Term Bonds maturing in varying installments through 2012	$ 615	$ –	$ 615	$ –
1992 Fiscal Series B – 6.80% to 6.81% Serial and Term Bonds maturing in varying installments through 2014	1,067	–	778	289
1993 Fiscal Series A – 5.50% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2012	–	–	–	–
1994 Fiscal Series 1 – 5.75% to 5.88% Serial Bonds maturing in varying installments through 2013	20,140	–	7,385	12,755
1995 Fiscal Series 1 – 6.88% Serial Bonds maturing in varying installments through 2016	11,775	–	3,560	8,215
1997 Fiscal Series A – 6.00% term Bonds maturing in 2021	25,000	–	–	25,000
1998 Fiscal Series D – Capital Appreciation Bonds maturing in varying installments through 2020	110,330	–	–	110,330
1998 Fiscal Series 1 – 5.25% to 5.35% Serial Bonds maturing in varying installments through 2017	18,825	–	2,715	16,110
1998 Fiscal Series 3 – 6.00% Serial Bonds maturing in varying installments through 2012	43,915	–	43,915	–
1998 Fiscal Series 4 – 5.00% to 5.20% Serial Bonds maturing in varying installments through 2018	6,415	–	855	5,560
1999 Fiscal Series A – 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	–	–	–	–
2000 Fiscal Series C – Adjustable Rate Term Bonds maturing in 2033	107,500	–	–	107,500
2000 Fiscal Series 2 – 5.60% to 5.96% Serial Bonds maturing in varying installments through 2019	6,650	–	680	5,970
2001 Fiscal Series C – 5.13% Term Bonds maturing in varying installments through 2033	112,040	–	112,040	–
2001 Fiscal Series D – Capital Appreciation Bonds maturing in varying installments through 2021	79,845	–	–	79,845
2001 Fiscal Series E – 4.50% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	–	–	–	–
2001 Fiscal Series F – Adjustable Rate Bonds maturing in varying installments through 2033	184,130	–	–	184,130
2002 Fiscal Series G – 5.13% Term Bonds maturing in varying installments through 2032	100,000	–	100,000	–
2002 Fiscal Series 3 – 4.04% to 5.22% Serial Bonds maturing in varying installments through 2031	386,874	–	386,874	–
2002 Fiscal Series 4 – 5.06% to 6.74% Serial Bonds maturing in varying installments through 2023	154,399	–	154,399	–
2002 Fiscal Series 5 – 3.82% to 5.27% Serial Bonds maturing in varying installments through 2031	135,513	–	135,513	–
2002 Fiscal Series 6 – 3.71% to 5.40% Serial Bonds maturing in varying installments through 2019	54,611	–	6,046	48,565
2002 Fiscal Series 7 – 7.50% Serial Bonds maturing in varying installments through 2012	360	–	360	–

(Continued)

10. LONG-TERM DEBT (Continued)

	Balance at June 30, 2011	Issued	Retired/ Defeased	Balance at June 30, 2012
2003 Fiscal Series A — 4.15% Muni-CP1 Bonds maturing in 2013	$ 490,160	$ –	$ 470,160	$ 20,000
2003 Fiscal Series D — 4.00% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	56,645	–	56,645	–
2003 Fiscal Series E — 5.00% Term Bonds maturing in 2034 and 2038	367,265	–	–	367,265
2003 Fiscal Series F — Adjustable Rate Bonds maturing in 2035	201,655	–	–	201,655
2003 Fiscal Series 1 — 4.62% to 4.89% Serial Bonds maturing in varying installments through 2032	112,746	–	112,746	–
2003 Fiscal Series 2 — 4.97% to 5.24% Serial Bonds maturing in varying installments through 2028	497,998	–	14,213	483,785
2003 Fiscal Series 3 — 0.48% to 5.75% Serial Bonds maturing in varying installments through 2025	16,090	–	840	15,250
2003 Fiscal Series 4 — 0.35% to 5.80% Serial Bonds maturing in varying installments through 2025	25,570	–	1,350	24,220
2003 Fiscal Series 5 — 3.36% to 5.00% Serial Bonds maturing in varying installments through 2032	231,758	–	9,577	222,181
2004 Fiscal Series A — 5.00% Term Bonds maturing in 2027 and 2035	217,000	–	–	217,000
2004 Fiscal Series B — 3.40% to 5.00% Serial bonds maturing in varying installments through 2023	333,160	–	115,205	217,955
2004 Fiscal Series C — 3.10% to 5.00% Serial and Term Bonds maturing in varying installments through 2035	592,750	–	82,980	509,770
2004 Fiscal Series 1 — 3.58% to 5.00% Serial Bonds maturing in varying installments through 2033	241,964	–	9,522	232,442
2004 Fiscal Series 2 — 1.70% to 4.84% Serial Bonds maturing in varying installments through 2026	209,155	–	8,393	200,762
2005 Fiscal Series A — 5.00% Term Bonds maturing in 2039	150,000	–	–	150,000
2005 Fiscal Series B — 3.38% to 5.00% Serial and term Bonds maturing in varying installments through 2036	915,510	–	149,110	766,400
2005 Fiscal Series C — 3.50% to 5.00% Serial Bonds maturing in varying installments through 2031	571,860	–	850	571,010
2005 Fiscal Series D — 5.00% Serial Bonds maturing in varying installments through 2039	559,205	–	–	559,205
2005 Fiscal Series 1 — 3.98% to 5.00% Serial Bonds maturing in varying installments through 2034	189,770	–	6,998	182,772
2005 Fiscal Series 2 — 2.58% to 5.00% Serial Bonds maturing in varying installments through 2034	321,394	–	12,362	309,032
2006 Fiscal Series A — 3.63% to 5.00% Serial Bonds maturing in varying installments through 2039	517,350	–	420	516,930
2006 Fiscal Series B — 5.00% Term Bonds maturing in 2036	150,000	–	–	150,000
2006 Fiscal Series C — 4.50% to 4.75% Serial Bonds maturing in varying installments through 2033	350,345	–	–	350,345
2006 Fiscal Series D — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2038	406,205	–	–	406,205
2006 Fiscal Series AA — Adjustable rate bonds maturing in varying installments through 2032	400,000	–	–	400,000

(Continued)

10. LONG-TERM DEBT (Continued)

	Balance at June 30, 2011	Issued	Retired/ Defeased	Balance at June 30, 2012
2006 Fiscal Series BB — 3.60% to 5.00% Serial Bonds maturing in varying installments through 2016	$ 50,000	$ –	$ 10,000	$ 40,000
2006 Fiscal Series 1 — Adjustable rate bonds maturing in varying installments through 2035	192,285	–	7,333	184,952
2006 Fiscal Series 2 — Adjustable rate bonds maturing in varying installments through 2036	178,166	–	5,738	172,428
2006 Fiscal Series 3 — Adjustable rate bonds maturing in varying installments through 2036	227,613	–	7,234	220,379
2007 Fiscal Series A — 4.25% to 4.75% Serial Bonds maturing in varying installments through 2039	587,975	–	–	587,975
2007 Fiscal Series AA — 4.50% to 5.00% Term Bonds maturing in 2037	199,910	–	–	199,910
2007 Fiscal Series BB — 3.75% to 5.00% Serial Bonds maturing in varying installments through 2021	131,745	–	–	131,745
2007 Fiscal Series CC — Adjustable rate bonds maturing in 2038	210,500	–	–	210,500
2007 Fiscal Series DD — 4.75% to 5.00% Serial Bonds maturing in varying installments through 2038	395,000	–	125,000	270,000
2007 Fiscal Series 1 — 2.55% to 5.00% Serial Bonds maturing in varying installments through 2036	203,354	–	6,918	196,436
2007 Fiscal Series 2 — 2.60% to 4.80% Serial Bonds maturing in varying installments through 2036	259,343	–	8,626	250,717
2007 Fiscal Series 3 — 4.17% to 6.42% Serial Bonds maturing in varying installments through 2024	149,330	–	–	149,330
2008 Fiscal Series A — 5.00% term Bonds maturing in 2037 and 2038	446,245	–	–	446,245
2008 Fiscal Series B — Adjustable rate bonds maturing in varying installments through 2025	535,000	–	–	535,000
2008 Fiscal Series C — 3.00% to 5.25% Serial Bonds maturing in varying installments through 2021	108,790	–	9,930	98,860
2008 Fiscal Series AA — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	400,000	–	–	400,000
2008 Fiscal Series BB — Adjustable rate bonds maturing in varying installments through 2036	401,000	–	–	401,000
2008 Fiscal Series DD — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	504,905	–	–	504,905
2008 Fiscal Series 1 — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2037	237,922	–	13,031	224,891
2008 Fiscal Series 2 — 3.04% to 5.00% Serial Bonds maturing in varying installments through 2037	209,496	–	7,057	202,439
2009 Fiscal Series AA — 3.25% to 5.00% Serial Bonds maturing in varying installments through 2022	334,075	–	–	334,075
2009 Fiscal Series BB — Adjustable rate bonds maturing in varying installments through 2039	200,870	–	–	200,870
2009 Fiscal Series CC — 4.75% to 5.25% Serial Bonds maturing in varying installments through 2034	150,100	–	–	150,100

(Continued)

10. LONG-TERM DEBT (Continued)

	Balance at June 30, 2011	Issued	Retired/ Defeased	Balance at June 30, 2012
2009 Fiscal Series A — 5.00% to 5.75% Serial Bonds maturing in varying installments through 2040	$ 536,030	$ —	$ —	$ 536,030
2009 Fiscal Series DD — 5.25% to 6.00% Serial Bonds maturing in varying installments through 2040	325,580	—	—	325,580
2009 Fiscal Series EE — 2.50% to 5.50% Serial Bonds maturing in varying installments through 2040	645,455	—	—	645,455
2009 Fiscal Series FF — 3.00% to 5.50% Serial Bonds maturing in varying installments through 2040	362,830	—	—	362,830
2009 Fiscal Series 1 — 3.86% to 5.16% Serial Bonds maturing in varying installments through 2038	363,591	—	8,845	354,746
2009 Fiscal Series 2 — 4.87% Serial Bonds maturing in varying installments through 2038	76,041	—	4,623	71,418
2009 Fiscal Series GG — 4.13% to 5.25% Serial Bonds maturing in varying installments through 2040	500,000	—	—	500,000
2010 Fiscal Series AA — 5.75% to 6.25% Term Bonds maturing in 2041	504,240	—	—	504,240
2010 Fiscal Series BB — 2.50% to 5.00% Serial Bonds maturing in varying installments through 2027	218,820	—	2,795	216,025
2010 Fiscal Series CC — Adjustable rate bonds maturing in 2041	200,000	—	—	200,000
2010 Fiscal Series DD — 5.95% to 6.45% Term Bonds maturing in 2041 and 2042	400,000	—	—	400,000
2010 Fiscal Series EE — 6.01% to 6.49% Term Bonds maturing in 2041 and 2042	500,000	—	—	500,000
2010 Fiscal Series FF — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	359,110	—	—	359,110
2010 Fiscal Series 2 — 0.13% to 5.00% Serial Bonds maturing in varying installments through 2039	131,319	—	9,384	121,935
2010 Fiscal Series 3 — 3.61% Serial Bonds maturing in varying installments through 2039	66,430	—	3,620	62,810
2010 Fiscal Series 4 — 4.98% to 5.81% Serial Bonds maturing in varying installments through 2039	196,460	—	—	196,460
2010 Fiscal Series GG — 5.72% to 6.12% Term Bonds maturing in 2042	554,045	—	—	554,045
2010 Fiscal Series 1 Bond Anticipation Note	52,410	55,657	—	108,067
2011 Fiscal Series AA — 5.44% to 5.79% Term Bonds maturing in 2041 and 2043	750,000	—	—	750,000
2011 Fiscal Series BB — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	209,510	—	—	209,510
2011 Fiscal Series CC — 5.88% to 6.28% Term Bonds maturing in 2042 through 2044	750,000	—	—	750,000
2011 Fiscal Series DD — Adjustable rate bonds maturing in 2043	275,000	—	—	275,000
2011 Fiscal Series EE — 5.38% to 5.50% Term Bonds maturing in 2040 through 2043	450,000	—	—	450,000
2011 Fiscal Series FF — Adjustable rate bonds maturing in 2044	200,000	—	—	200,000
2011 Fiscal Series GG — 3.13% to 5.00% Serial Bonds maturing in varying installments through 2043	541,810	—	2,155	539,655

(Continued)

10. LONG-TERM DEBT (Continued)

	Balance at June 30, 2011	Issued	Retired/ Defeased	Balance at June 30, 2012
2011 Fiscal Series HH — 4.00% to 5.00% Serial Bonds maturing in 2026 through 2032	$ 662,245	$ —	$ —	$ 662,245
2011 Fiscal Series 1 and 2 — 3.58% Serial Bonds maturing in varying installments through 2041	678,762	—	26,377	652,385
2012 Fiscal Series A — Adjustable rate bonds maturing in 2044	—	200,000	—	200,000
2012 Fiscal Series B — Adjustable rate bonds maturing in 2045	—	325,000	—	325,000
2012 Fiscal Series 2 and 3 — 2.00% to 5.00% Serial Bonds maturing in varying installments through 2029	—	669,375	—	669,375
2012 Fiscal Series AA — 5.00% Serial Bonds maturing in varying installments through 2034; 5.00% Term Bond maturing in 2044	—	450,900	—	450,900
2012 Fiscal Series BB — 4.13% to 5.25% Term Bonds maturing in 2039 and 2044	—	450,000	—	450,000
2012 Fiscal Series CC — 5.00% Term Bonds maturing in 2045	—	350,000	—	350,000
2012 Fiscal Series DD — 3.00% to 4.00% Refundable Principal Installment due in 2018; 5.00% Refundable Principal Installment due in 2027	—	50,000	—	50,000
2012 Fiscal Series EE — 3.00% to 5.25% Serial Bonds maturing in varying installments through 2039; 4.00% Term Bond maturing in 2045	—	522,505	—	522,505
2012 Fiscal Series FF — 3.25% to 5.00% Serial Bonds maturing in varying installments between 2020 and 2033; 3.75% to 5.00% Term Bond maturing in 2034 and 2045	—	611,745	—	611,745
2012 Fiscal Series GG — 5.00% Refundable Principal Installments maturing in 2017 and 2019	—	50,000	—	50,000
2012 Series 1 Bond Anticipation Note	—	—	—	—
Total bonds payable	$ 26,508,869	$ 3,735,182	$ 2,265,772	$ 27,978,279
Current portion of bonds and notes payable	430,452			451,409
Bonds and notes payable, less current portion	$ 26,078,417			$ 27,526,870

(Concluded)

11. RESTRICTED ASSETS

As of June 30, 2012 and 2011, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2012	2011
THE BOARD:		
Operation and maintenance reserve account	$ 212,836	$ 199,626
Operation and maintenance reserve fund	49	10
Subtotal – Board	212,885	199,636
THE AUTHORITY:		
Revenue fund	492,391	363,608
Debt service reserve fund	887,262	865,727
Debt service fund	–	5,517
Construction fund	170,534	151,024
Subtotal – Authority	1,550,187	1,385,876
Total restricted assets	$ 1,763,072	$ 1,585,512

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

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

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

12. COMMITMENTS AND CONTINGENCIES

a. **Construction –** The System has contractual commitments of approximately $4.7 billion and $7.5 billion at June 30, 2012 and 2011, respectively, for water and sewer projects.

b. **Risk Financing Activities –** The System is self-insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Authority. Any claims made against the System are resolved through The City's legal support, and the amounts of the maximum liability for such judgments are described in (c) below. The System is subject to claims for construction delays, property damage, personal injury and judgments related to delays in construction deadlines under consent agreements.

c. **Claims and Litigation –** In accordance with the Lease, the Board is required to reimburse The City for any judgment or settlement paid by The City arising out of a tort claim to the extent that The City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to The City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. In addition, the System is required to reimburse The City, to the extent requested by The City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements of the System. In addition, The City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers, which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, The City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against The City arising out of alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of law. As of June 30, 2012, the potential future liability attributable to the System for claims outstanding against The City was estimated to be $168.6 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City's balance sheet. The potential future liability is The City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

12. COMMITMENTS AND CONTINGENCIES (Continued)

d. **Arbitrage Rebate –** To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all non-purpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During fiscal 2012 and 2011, the System paid $3.5 million and $2.1 million, respectively, in rebates. At June 30, 2012 and 2011, the Authority had a liability of $2.1 million and $7.9 million, respectively. These amounts are included in accrued payable expense in the balance sheets.

13. PENSION PLANS

During fiscal 2012 and 2011, the Authority was billed and contributed $157.3 thousand and $112.9 thousand, respectively, for 11 employees who participate in the defined benefit pension plan. All other personnel are employees of The City and are covered under The City's pension plan. The System pays the costs of The City employees' pension through an allocation of fringe benefit costs, which is included principally within operations and maintenance expenses in the accompanying financial statements.

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

Date	Required Contribution	Actual Contribution	%
June 30, 2012	$157	$157	100 %
June 30, 2011	113	113	100
June 30, 2010	112	112	100

14. OTHER POST-EMPLOYMENT BENEFITS

Plan Description – The Authority's policy is to provide certain health and related benefits to eligible retirees of the Authority, which constitutes an other postemployment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, ("GASB 45") *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

Funding Policy – The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2012 and 2011, the Authority had three retirees and made contributions of $8.7 thousand and $5.7 thousand respectively. Members are not required to contribute; although, retirees may elect basic health insurance programs and/or optional coverage that require contributions.

Annual OPEB Cost and Net OPEB Obligation – The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2011, which was the basis for the fiscal 2012 ARC calculation.

14. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Annual required contribution	$ 799	$ 705
Interest on net OPEB obligations	28	21
Adjustment to annual required contribution	(727)	(555)
Annual OPEB cost	100	171
Payments	(9)	(6)
Net OPEB obligation — beginning of year	699	534
Net OPEB obligation — end of year	$ 790	$ 699

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2010 through 2012 were as follows (in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost contributed	Net OPEB Obligation
June 30, 2012	$100	8.8 %	$790
June 30, 2011	171	3.3	699
June 30, 2010	143	3.1	534

Funded Status and Funding Progress – As of June 30, 2011, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was $662.4 thousand, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $662.4 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was $918.6 thousand, and the ratio of the UAAL to the covered payroll was 72.0%.

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

The System's funding progress information as of June 30, 2012 is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$—	$662	$662	— %	$919	72.0 %

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

15. POLLUTION REMEDIATION OBLIGATIONS

The System reports pollution remediation obligations (“PROs”) as required by GASB standards. The System’s PROs may arise as a result of: (1) federal, state and local laws and regulations, (2) violations of pollution-related permits or licenses, (3) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2012 and 2011, the System reported $108.3 million and $102.6 million of liabilities for known PROs, respectively.

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

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

16. RELATED PARTY TRANSACTIONS

During fiscal 2012 and 2011 the Authority bought $0 million and $6.3 million, respectively of New York City Transitional Finance Authority (“TFA”) bonds. The Authority held no TFA bonds at June 30, 2012 and 2011.

17. SUBSEQUENT EVENTS

On July 12, 2012 the Authority issued Fiscal 2013 Series 1 Bonds to EFC in the amount of $316.79 million to refund principal of $48.6 million and $323.2 million of Fiscal 2002 Series 6 and Fiscal 2003 Series 2 bonds respectively, and to pay the costs of issuance of the bonds.

On July 17, 2012 the Authority issued $200 million of commercial paper notes, Series 1, to pay for construction costs of the System.

On August 22, 2012 the Authority issued $200 million of commercial paper notes, Series 8, to pay for construction costs of the System.

On August 19, 2012 the Authority drew down $5.4 million of Fiscal 2010 Series 1 BANS.

On September 27, 2012 the Authority issued Fiscal 2013 Series 2 Bond Anticipation Notes (BANs) to EFC in the amount of $217 million. The Authority has not drawn on this BAN.

On October 4, 2012 the Authority issued Fiscal 2013 Series AA new money tax-exempt adjustable rate bonds in the amount of $200 million to refund its commercial paper notes series 6.

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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)

JUNE 30, 2012 AND 2011 (In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded ALL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	June 30, 2011	$—	$662	$662	— %	$ 919	72.0 %
June 30, 2011	June 30, 2010	—	563	563	—	1,026	54.8
June 30, 2010	June 30, 2009	—	431	431	—	676	63.7

STATISTICAL SECTION

This part of the New York City Water and Sewer System's (the "System") Comprehensive Annual Financial Report presents detailed information as a context to understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

CONTENTS

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the System's primary revenue source, customer's utility payments.

Debt Capacity

These schedules present information to help the reader assess the affordability of the System's current level of outstanding debt and the System's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the System's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the System's financial report relates to the services the System provides.

Sources: Unless otherwise noted, the information in these schedules is derived from the System's Comprehensive Annual Financial Reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

Net Assets by Category – Ten Year Trend

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003 Restated
Invested in capital assets net of related debt	($372,021)	($215,322)	$920,728	$1,253,882	$1,737,181	$2,056,879	$2,556,766	$2,803,031	$3,368,355	$3,271,440
Restricted for:										
Debt service	687,656	573,461	239,192	285,348	209,130	161,661	171,859	152,544	179,106	203,695
Operations and maintenance	212,885	199,636	191,772	195,844	200,438	175,161	157,806	145,693	135,701	132,107
Unrestricted (deficit)	(869,372)	(910,633)	(1,632,209)	(1,474,823)	(980,858)	(667,418)	12,950	53,836	(128,979)	147,223
Total net assets	($340,852)	($352,858)	($280,517)	$260,251	$1,165,891	$1,726,283	$2,899,381	$3,155,104	$3,554,183	$3,754,465

Changes in Net Assets – Ten Year Trend

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003 Restated
Operating Revenues										
Water Supply and distribution	$1,238,352	$1,158,977	$1,005,045	$920,033	$784,856	$796,404	$735,200	$755,693	$713,097	$690,093
Sewer collection and treatment	1,857,527	1,797,777	1,562,777	1,430,588	1,220,653	1,238,612	1,143,424	1,043,575	984,753	952,985
Other operating revenues	140,595	111,552	190,251	97,946	97,778	98,061	100,306	85,459	75,283	68,842
Total operating revenues	3,236,474	3,068,306	2,758,073	2,448,567	2,103,287	2,133,077	1,978,930	1,884,727	1,773,133	1,711,920
Operating Expenses										
Operation and maintenance	1,446,852	1,397,867	1,829,835	1,448,268	1,320,439	1,147,157	1,056,379	944,919	933,736	875,762
Bad debt expense	28,541	76,799	14,032	36,060	–	226,028	87,222	114,702	116,108	89,400
Administration and general	47,402	40,424	40,257	50,581	44,027	35,493	26,727	23,168	19,853	15,181
Total operating expenses	1,522,795	1,515,090	1,884,124	1,534,909	1,364,466	1,408,678	1,170,328	1,082,789	1,069,697	980,343
Depreciation and amortization	733,425	628,339	574,483	696,345	646,377	579,860	500,161	515,325	451,585	389,626
Operating income	980,254	924,877	299,466	217,313	92,444	144,539	308,441	286,613	251,851	341,951
Nonoperating revenue (expenses)										
Interest expense	(1,196,647)	(1,178,226)	(1,019,633)	(929,333)	(834,085)	(771,656)	(731,563)	(668,675)	(612,054)	(584,347)
Loss on retirement of fixed assets	(1,646)	(3,426)	(23,254)	(299,450)	(14,598)	(23,257)	(7,046)	(7,971)	(25,214)	–
Subsidy income	196,241	180,986	128,110	108,708	104,234	90,601	88,447	78,834	68,311	65,816
Capital distribution	(42,005)	(53,591)	(32,580)	(51,921)	(24,619)	(33,133)	–	–	–	–
Investment income	48,936	38,313	65,760	99,122	108,892	98,132	105,239	97,362	86,949	96,236
Net income (loss) before capital contributions	(14,867)	(91,067)	(582,131)	(855,561)	(567,732)	(494,774)	(236,482)	(213,837)	(230,157)	(80,344)
Capital contributions	26,903	18,696	30,424	11,529	7,340	12,357	(19,241)	(185,242)	29,875	7,233
Change in net assets	12,036	(72,371)	(551,707)	(844,032)	(560,392)	(482,417)	(255,723)	(399,079)	(200,282)	(73,111)
Net assets—beginning of year	(352,888)	(280,517)	260,251	1,165,891	1,726,283	2,899,381	3,155,104	3,554,183	3,754,465	3,827,576
	–	–	10,939	(61,608)	–	(690,681)	–	–	–	–
Net assets—end of year	($340,852)	($352,888)	($280,517)	$260,251	$1,165,891	$1,726,283	$2,899,381	$3,155,104	$3,554,183	$3,754,465

REVENUE CAPACITY INFORMATION

Water and Sewer Rate Increases – Ten Year Trend

Effective Date	Changes in Flat-Rate Water/ Metered Water	Metered Water Rate (per ccf)[1]	Change in Sewer[2]
July 1, 2003	Increased 5.5%	1.52	No change
July 1, 2004	Increased 5.5%	1.60	No change
July 1, 2005	Increased 3.0%	1.65	No change
July 1, 2006	Increased 9.4%	1.81	No change
July 1, 2007	Increased 11.5%	2.02	No change
July 1, 2008	Increased 14.5%	2.31	No change
July 1, 2009	Increased 12.9%	2.61	No change
July 1, 2010	Increased 12.9%	2.95	No change
July 1, 2011	Increased 7.5%	3.17	No change
July 1, 2012	Increased 7.0%	3.39	No change

(1)ccf equals 100 cubic feet or approximately 748 gallons

(2)For the period shown, the sewer charge has been a constant 159% of the water charge.

Average Daily Water Consumption – Ten Year Trend

Fiscal Year	Total (mgd)[1]	Upstate Counties (mgd)[1]	City (mgd)[1]	Per Capita (gals/day)[2]
2003	1,232	119	1,113	138
2004	1,221	118	1,103	137
2005	1,215	118	1,097	136
2006	1,210	122	1,088	136
2007	1,218	120	1,098	137
2008	1,235	119	1,116	139
2009	1,152	114	1,038	129
2010	1,127	112	1,016	126
2011	1,152	117	1,035	127
2012	1,117	109	1,009	123

(1)mgd = millions of gallons used per day

(2)Population source: U.S. Department of Commerce, Bureau of the Census.

SCHEDULES OF DEBT CAPACITY INFORMATION

Revenue Bond Coverage Last Ten Fiscal Years

Years Ended June 30, 2003 – 2012 (in thousands)

Year	Cash Receipts	Debt Service Requirements[1] Principal	Debt Service Requirements[1] Interest	Debt Service Requirements[1] Total	First Resolution Debt Service Coverage	Second Resolution Debt Service Coverage
2003	$1,653,733	$196,036	$300,688	$ 496,724	3.33	3.33
2004	1,754,336	152,132	338,216	490,348	3.58	3.58
2005	1,829,806	175,729	335,408	511,137	3.91	3.58
2006	1,931,927	197,602	439,839	637,441	3.76	3.03
2007	1,994,909	200,780	483,661	684,441	3.83	2.91
2008	2,236,541	201,791	556,627	758,418	4.23	2.95
2009	2,400,849	204,530	575,476	780,006	4.66	3.07
2010	2,622,290	249,093	592,194	841,287	5.24	3.12
2011	3,039,374	345,591	778,235	1,123,826	5.77	2.70
2012	3,270,827	378,042	700,658	1,078,700	7.51	3.03

[1]Debt service requirements include First Resolution debt service and Second Resolution debt service, net of subsidy from the NYS Environmental Facilities Corporation and surplus revenues carried forward from the prior fiscal year.

Ratio of Debt Outstanding – Ten Year Trend

Years Ended June 30, 2003 – 2012

Year	Total Debt Outstanding[1] (in thousands)	Debt per Capita
2003	$13,483,150	$1,660
2004	14,032,917	1,720
2005	15,434,051	1,880
2006	16,285,351	1,970
2007	18,071,184	2,170
2008	20,018,937	2,400
2009	22,534,797	2,690
2010	24,577,715	3,010
2011	26,908,869	3,260
2012	28,378,279	N/A

[1]Includes both short and long term debt outstanding

Ten Largest Customers

Name	Fiscal 2012 Billed
New York City Housing Authority	$155,076,010
The City of New York	90,666,150
Columbia University	13,585,069
Consolidated Edison Inc.	13,103,335
New York City Health and Hospital Corp.	12,139,528
Port Authority of NY and NJ	10,587,507
Peter Cooper Village/Stuyvesant Town	7,189,270
New York Presbyterian Hospital	5,054,376
NYS Office of Mental Health	4,453,294
Visy Paper	3,196,664

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population – Ten Year Trend

Year	United States	Percentage Change from Prior Period	City of New York	Percentage Change from Prior Period
2002	287,625,193	0.93 %	8,092,749	0.37 %
2003	290,107,933	0.86	8,126,718	0.42
2004	292,805,298	0.93	8,169,940	0.53
2005	295,516,599	0.93	8,213,839	0.54
2006	298,379,912	0.97	8,250,567	0.45
2007	301,231,207	0.96	8,310,212	0.72
2008	304,093,966	0.95	8,346,794	0.44
2009	306,771,529	0.88	8,391,881	0.54
2010	308,745,538	0.64	8,175,133	-2.58
2011	311,591,917	0.73	8,244,910	0.71

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Income – Ten Year Trend

	Personal Income			Per Capita		
Year	United States ($ billions)	City of New York ($ billions)	New York City as a Percentage of the United States	United States	City of New York	New York City as a Percentage of the United States
2002	$ 9,055	$ 299.5	3 %	$ 31,481	$ 37,107	117.9 %
2003	9,369	305.7	3	32,295	37,895	117.3
2004	9,929	327.6	3	33,909	40,732	120.1
2005	10,477	351.6	3	35,452	43,876	123.8
2006	11,257	386.7	3	37,725	48,374	128.2
2007	11,901	416.5	4	39,506	51,978	131.6
2008	12,452	427.9	3	40,947	53,037	129.5
2009	11,917	403.2	3	38,846	49,588	127.7
2010	12,354	425.6	3	39,937	51,989	130.2
2011	12,982	N/A	N/A	41,663	N/A	N/A

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

DEMOGRAPHIC AND ECONOMIC INFORMATION (Continued)

Ten Largest Employers

Name	2011
City of New York	148,898
New York City Department of Education	119,410
Metropolitan Transportation Authority	66,804
United States Government	50,700
New York City Health and Hospitals Corp.	36,244
J.P. Morgan Chase & Co	27,157
State of New York	25,441
Citigroup Inc.	24,809
North Shore-LIJ Health System	20,775
Mount Sinai Medical Group	18,999

Source: Crain's New York Business - April 9 -15, 2012

OPERATING INFORMATION

Water Pollution Control Plants Daily Flow

Plant	Design Flow (mgd)[1]	12 Month Avg. (mgd)[1] July 10 – June 11	12 Month Avg. (mgd)[1] July 11 – June 12
Wards Island	275	200	209
North River	170	124	121
Hunts Point	200	126	134
26th Ward	85	48	52
Coney Island	110	86	94
Owls Head	120	92	96
Newtown Creek	310	226	228
Red Hook	60	29	30
Jamaica	100	79	78
Tallmans Island	80	56	60
Bowery Bay	150	111	115
Rockaway	45	18	17
Oakwood Beach	40	30	32
Port Richmond	60	27	30
Total	1,805	1,252	1,296

[1]mgd=millions of gallons of water

Water System Tunnels and Aqueducts Length Diameter Transmission In Service

	Connections	Length (miles)	Diameter (feet)[1]	In Service Date
Tunnels Upstate				
Shandanken		18.1	11.5 x 10.25[1]	1924
West Delaware		44.0	11.33	1964
East Delaware		25.0	11.33	1955
Neversink		6.0	10	1954
Aqueducts				
New Croton	New Croton to Jerome Park	24.0	3.5 x 13.6[1]	1893
	Jerome Park to 135 St. Gatehouse	9.0	12.25-10.5[2]	1893
Catskill	Ashokan to Kensico	75.0	17 x 17.5[1]	1915
	Kensico to Hillview	17.0	17 x 18[1]	1915
Delaware	Rondout to West Branch	44.2	13.5	1944
	West Branch to Kensico	27.2	15	1943
	Kensico to Hillview	13.6	19.5	1942
Tunnels Downstate				
Tunnel 1	Hillview to distribution system	18.0	15-11[2]	1917
Tunnel 2	Hillview to distribution system	20.0	17-15[2]	1936
Tunnel 3, Stage 1	Hillview to distribution system	13.0	24-20[2]	1998
Richmond Tunnel	Tunnel 2 to Staten Island Uptake Shaft	5.0	10	1970

[1]Tunnels are not round
[2]Variable diameter tunnels

OPERATING INFORMATION (Continued)

Number of Employees–Department of Environmental Protection – Ten Year Trend

Year	Number of Employees	Percentage Change from Prior Period
2003	5,478	0.88%
2004	5,781	5.53%
2005	5,644	-2.37%
2006	5,675	0.55%
2007	5,844	2.98%
2008	5,895	0.87%
2009	5,785	-1.87%
2010	5,749	-0.62%
2011	5,653	-1.67%
2012	5,670	0.30%