

New York City Water and Sewer System

*A Component of
the City of New York*



Comprehensive Annual
Financial Report
for the Fiscal Year
Ended June 30th, 2007

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Letter of Transmittal

November 27, 2007

To:

Members of the Board of the New York City Municipal Water Finance Authority

Member of the Board of the New York City Water Board

The Commissioner of the New York City Department of Environmental Protection

W

e 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, 2007.

The CAFR is presented in three major sections: introductory, financial and statistical. The introductory section, which is not audited, includes this letter of transmittal, an organizational chart and a list of the System's principal officials. The financial section includes management's discussion and analysis, the general purpose financial statements and the combining financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules. The statistical section, which is not audited, includes selected financial, System and demographic information, presented on a multi-year basis.

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 (the Act) of 1984 by the New York State Legislature authorized this operating and financing 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 or 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 (the Lease), dated July 1, 1985, provides for a lease term of forty years or until such time as 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, but only to the extent requested by 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 allocate the revenues of the System to debt service on Authority bonds, DEP's cost of operating and maintaining the System, and rental fees to the City for the use of the System, in that order.

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 Authority. The Chairman is appointed by the Mayor. The staff of the Water Board operates under the direction of an Executive Director.

The operation and maintenance of the 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, transmission and distribution system, and collects, treats, and disposes of sanitary sewage 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 eight million people. The City is also required by State law to sell water in counties where its water supply facilities are located and currently provides water to approximately one million people located in Westchester, Putnam, Orange and Ulster Counties.

The System provides an average of approximately 1,185 million gallons per day of water. In addition to a system of dams, reservoirs, aqueducts, and water tunnels, DEP maintains approximately 6,500 miles of water mains which distribute water throughout the five boroughs. DEP also maintains approximately 6,600 miles of sewers which collect and transport waste and storm water for treatment at the City's 14 water pollution control plants. The System collects and treats an average of approximately 1,300 million gallons per day of sewage. Sewer service is provided to virtually the entire City, except for significant parts of the Borough of Staten Island, the Borough of Queens communities of Breezy Point and Douglaston, and the Borough of Brooklyn community of Seagate. Sewer service is also provided to certain upstate communities in System watershed areas.

Security

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DEP continues to enhance and augment its security arrangements to protect the water system, including the structures, facilities and reservoirs. The size of the DEP police force is approximately 200 officers. The DEP police force functions under special legislation as police authority within the City as well as in the upstate watersheds. DEP secures its facilities through various physical barriers to prevent access by unauthorized persons, by restricting vehicular access at certain facilities and by monitoring of the water supply for contaminants. In addition, DEP consults other governmental agencies, including the Federal Bureau of Investigation and the US Army Corps of Engineers on longer-term plans to modernize and improve security systems.

Credit Ratings

The Authority's First Resolution bonds continue to be highly rated by all three rating agencies. Standard and Poor's Ratings Services carries the First Resolution debt rating at AA+, just one notch below their highest rating, AAA. Fitch Ratings and Moody's Investor Service, rate the Authority's First Resolution debt AA and Aa2, respectively. The Authority does most of its borrowing through its Second Resolution. The Second Resolution bonds are rated by all three rating agencies in the double-A category one notch below or on par with the First Resolution debt. Fitch Ratings, Standard & Poor's Ratings Services and Moody' Investor Service rate the Second Resolution bonds AA, AA and Aa3, respectively. The Authority's ratings reflect the credit strengths resulting from the strong legal protections provided to bondholders and structural features of the Authority, which provide a true gross pledge of revenue to bondholders for debt payments.

New York State Environmental Facilities Corporation (EFC) bonds issued for eligible Authority State Revolving Fund projects are rated AAA from all three rating agencies. Bonds which the Authority places with EFC are an element of security for the EFC bonds issued to investors, but are unrated Second Resolution bonds of the Authority.

Internal and Budgetary Controls

The management of the Water Board and the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the System are protected from loss, theft or misuse, and to ensure that accounting policies are complied with and to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

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, the Water Board and the Authority are subject to the City's internal auditors who periodically check the City's agencies' and component units' adherence to internal control policies and procedures.

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 of Directors.

Capital Improvement Program and Financing Program

Capital Program Goals

The goals of the System's capital program are:

- *To maintain the sufficiency, quality and security of the water in the City's watersheds and, where necessary, treat the supply to ensure drinking water continues to be of high quality;*
- *To maintain and improve the transmission and distribution capabilities of the City's water supply system;*
- *To maintain and improve the quality of the surrounding waters by upgrading the City's water pollution control plants;*
- *To remove sanitary sewage 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 operating budget. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control. The Authority and the Board adopt their budgets coterminously with the City's operating budget cycle.

The City's Ten Year Capital Strategy, released in April 2007, and which is updated every two years, includes the projected capital improvements to the System for fiscal years 2008 through 2017. The City's Current Capital Plan is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2007 through 2011. The Ten Year Capital Strategy as modified by the Current Capital Plan comprises the System's Capital Improvement Program (CIP), with the most recent update released in October 2007. The CIP provides for the rebuilding of the System's infrastructure, including water and sewer facilities.

The CIP, which establishes long range programmatic goals for the System, reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the requirements of legal mandates, the present replacement cycle for these facilities, extensions to the present service area, and programs to enhance and optimize the operation 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 \$23 billion for Fiscal Years 2007-2017. The table below reflects the CIP as of October 2007, and is the basis for the System's annual cash flow requirements. For a number of reasons, including unforeseen inflation and changes in plans, actual costs may vary from the estimates 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. Actual expenditures from such capital contracts and the issuance of Authority bonds to fund such expenditures occur in the year of commitment and subsequent year.

Capital Improvement Program

(in thousands)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Water Supply and Transmission	\$64,391	\$64,122	\$147,025	\$112,513	\$401,061	\$19,310	\$156,015	\$190,340	\$219,544	\$26,370	\$297,598	\$1,698,289
Water Distribution	2,252,478	1,277,244	1,099,147	610,901	703,335	618,191	342,551	121,941	374,816	407,380	142,390	\$7,950,374
Water Pollution Control	1,077,447	1,591,651	1,278,204	1,002,997	995,856	586,133	602,719	583,524	503,689	587,028	363,183	\$9,172,431
Sewers	183,134	257,002	295,358	301,890	289,753	270,688	283,323	222,679	257,552	245,184	254,347	\$2,860,910
Equipment	79,692	278,386	286,262	113,156	110,649	73,812	127,418	67,134	75,834	67,629	66,425	\$1,346,397
Total	\$3,657,142	\$3,468,405	\$3,105,996	\$2,141,457	\$2,500,654	\$1,568,134	\$1,512,026	\$1,185,618	\$1,431,435	\$1,333,59	\$1,123,943	\$23,028,401
Projected Authority Bond Issuance	\$1,634,313 ⁽¹⁾	\$2,126,963 ⁽²⁾	\$2,388,883	\$2,315,646	\$2,305,338	\$2,199,551	\$2,098,646	\$2,019,441	\$1,927,216	\$1,899,006	\$1,686,346	\$22,601,346

(1) Projections are as of November 30, 2007. Projections exclude refunding bonds. (2) Actual bonds issued.

• Water Supply and Transmission

This component of the CIP includes approximately \$694.7 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 Tunnels 1 and 2, and provide delivery alternatives to the City in the event of disruption in Tunnel 1 or 2. Stage I of Tunnel No. 3 commenced operation in July 1998.

Construction of Stage II continues towards its expected operational date of 2015. The remaining section of the Stage II underground excavation includes the Manhattan leg, which stretches across Manhattan from the valve chamber at Central Park. When Stage II comes on line, DEP will have achieved full redundancy of Tunnels No. 1 and 2. This will allow DEP to inspect and repair these tunnels for the first time since they were put into operation in 1917 and 1936, respectively.

The DEP is planning to implement water supply and transmission redundancy projects to enhance the water system and ensure its long term viability. DEP is planning to construct the Kensico-City Tunnel, a 16 mile tunnel from Kensico Reservoir to the Van Cortlandt Park Valve Chamber, bypassing the Hillview Reservoir and providing redundancy for the sections of the Catskill and Delaware Aqueducts that run from the Kensico Reservoir to the City. The estimated cost of the design work on the Kensico-City tunnel is included in the CIP. DEP is also researching and developing other alternate conveyance conduits and water supplies for the City, to provide more dependability within the water system. The alternate water supplies could be used during drought situations to augment the City's daily water supply or during repairs and inspections of existing aqueducts and tunnels. The CIP includes \$685.9 million for these projects.

• Water Distribution

The System's drinking water is rated among the best in the country. To ensure its continuing quality, and to comply with federal standards, DEP is pursuing a comprehensive program to halt further environmental deterioration in the increasingly urbanized Croton watershed, and to prevent similar problems in the still relatively pristine Catskill and Delaware watersheds. The CIP projects nearly \$8 billion for the protection, expansion, and distribution of the City's water supply. This includes approximately \$1.7 billion for the construction of a full-scale filtration plant for the treatment of water from the Croton watershed. The program also calls for \$2.8 billion to be committed to on-going water quality preservation programs to ensure the continued purity of the water supply. This includes ultraviolet disinfection of water from the Catskill and Delaware systems, the acquisition of environmentally sensitive property in the upstate watershed, and the ongoing projects associated with the Filtration Avoidance Determination (FAD) issued by the US Environmental Protection Agency (USEPA), allowing the City to avoid filtering water from the Catskill and Delaware Systems. For the first time, in July 2007 USEPA issued a new FAD with a term of 10 years. USEPA has issued a series of FADs to the City since 1993.

• Water Pollution Control

To improve the quality of the City's estuaries and surrounding waterways and to implement long-range land based solutions to sludge disposal, an end-product of the sewage treatment process, \$9.2 billion is allocated to water pollution control programs in the CIP.

The CIP includes nearly \$2.1 billion to be used for the reconstruction and modernization of ten water pollution control plants in order for these plants to continue to meet strict guidelines contained in State operating permits. The CIP also allocates \$3.1 billion for the upgrade of five wastewater treatments plants discharging into the Long Island Sound or Jamaica Bay, and includes projected funds for biological nutrient removal at these plants which involves enhanced nitrogen removal processes at these plants.

DEP's CIP includes funding for the abatement of Combined Sewer Overflow (CSO). CSO is currently a source of pollution in the City's waters because many of the City's sanitary sewers are connected with stormwater drainage basins. 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 sewage treatment plant and therefore enters surrounding waterways. The City is also exploring alternative approaches to CSO problems that focus on cost effective means of protecting water quality.

- *Sewers*

Approximately \$2.9 billion is projected in the CIP to be committed to replace existing sewers in areas requiring increased capacity, to extend sewers to unserved or under-served areas, and to replace failing, flawed, or collapsed sewer mains.

- *Equipment*

Programs in this category of the CIP include the installation of water meters, the procurement of vehicles and equipment, management information systems, and utility relocation for sewers and water mains. A total of \$1.3 billion of City funds is projected in the CIP for these projects.

Risk Management

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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 have funds which are invested. The Authority's investments must conform to the policies set forth in the Authority's Investment Guidelines, dated April 17, 1998. Specifically, the Authority may invest in any bonds or other obligations which constitute direct obligations of, or are guaranteed by, the federal government, including obligations of any agency, corporation or instrumentality thereof; direct obligations of, or obligations guaranteed by the State or direct obligations of any agency or public authority thereof, provided such obligations are rated in one of the two highest rating categories by a Rating Agency; bankers' acceptances or certificates of deposit issued by a commercial bank, with its principal place of business within the State and having capital or surplus in excess of \$100 million; corporate securities, including commercial paper and fixed income obligations, rated by a Rating Agency in its highest category for comparable types of obligations; or re-purchase agreements collateralized by obligations of the federal government.

The Authority employs various methods for the investment of its funds. The Authority's management is responsible for the investment of certain funds, and utilizes an investment manager for the active management of some funds; additionally, the Authority invests in forward purchase agreements and guaranteed investment contracts. 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 the Investment Guidelines. Daily cash from user 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. No cash is retained by the Water Board until all requirements for debt service, operation and maintenance, and rental payments are met. Any surplus cash over these requirements is retained by the Water Board for use in the following year to pay required deposits.

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 2007 Comprehensive Annual Financial Report begins with the report of our independent auditors, Grant Thornton LLP. This report expresses an unqualified opinion as to the fairness of the presentation of our financial statements.

Respectfully submitted,

Patrick J. McCoy
Executive Director

Lawrence R. Glantz
Comptroller

Clearing the Waters

The native Leni Lenape knew their island as "Land of many hills." A British map of northern Manhattan in 1777 is one of the earliest accurately detailed records of the island's complex natural topography. Over the four hundred years since Hudson first viewed it, nearly every inch has been altered, mostly beyond all recognition.

The many species of fish native to Hudson's estuary include menhaden, alewife, shad, eel, needlefish, bluefish, sturgeon, striped bass, white perch, herring, cod, mackerel, and butterfish. Native oysters, clams, mussels, and crabs were staples of the Indian diet. At one point it was estimated that the Hudson's oyster beds, thought at the time to be inexhaustible, held 50 percent of the world's available supply.

White Perch



Is now almost 400 years since Henry Hudson and his small crew of Dutch and English sailors first sailed tentatively through what is now known as the Narrows, between Staten Island and Brooklyn, and laid eyes on the Island called by the native Leni Lenape something that sounded to European ears like Mannahatta. Its rolling green hills were "as pleasant with grasse and flowers, and goodly trees as ever they had seene, and very sweet smells came from them!" Deceived by the river's depth, volume of water, and ebbing and flowing tides, into believing that he might have found what he was looking for — a shortcut to the treasures of the Far East — Hudson sailed on until, approaching the present location of Albany, the encouraging clues had diminished enough to convince him that there would be no way through. (On a much earlier, but similar mission, in 1524, Giovanni da Verrazzano had ventured as far as the Narrows where a bridge now bears his name, but mistook the harbor before him for a lake and turned away to sail on along the coast of Long Island and north to New England.)

Hudson failed in his mission, but returned to Europe with tantalizing descriptions of the land he had seen. Those who were encouraged by his accounts to follow him, and to settle along the shorelines of the Upper New York Bay themselves became part of a fantastically rich and varied estuarine ecosystem thriving in all manner of habitats — tidal marshes, oak, chestnut, and hemlock forest, grassy meadows, rocky springs and streams. Again and again the earliest explorers, adventurers, and settlers remarked in their logs and journals, as had Hudson's crew, on sweet gardenlike scents encountered as they approached the shore from the open sea. This promising environment nurtured millions of birds, gigantic seasonal runs of fish, vast oyster beds, vigorous populations of white-tailed deer, elk, black bear, wolf, and mountain lion as well as literally countless species of smaller mammals, reptiles, amphibians, and insects.

Though a sparse population of native humans had lived for thousands of years in cooperative harmony with these surroundings, Europeans and others who arrived and prospered in the following years would overwhelm the original landscape with their own industriousness.

T Nature Challenged

The 1624 settlement the Dutch knew as Nieuw Amsterdam, at the southern tip of Manhattan Island, had grown dramatically by the time it was acquired by the British in 1664 and renamed New York. By 1743 it was the third largest city in North America behind Boston and Philadelphia and had passed them by 1790. Its great natural deep-water port had become the busiest in the colonies. Water — navigable, potable, and plentiful — was the young city's most treasured resource. Wells and natural springs provided fresh water and, for more than 200 years, the network of ponds, and streams feeding into surrounding waterways merged with tidal water sloshing back and forth through them created a net outflow of 23 billion gallons each day that seemed a logical and harmless repository for waste. Eventually, however, the city's unique attributes — deep and apparently abundant water, especially — continued to attract commerce, industry, and a steady flow of immigration. Until the City's first upstate reservoir system was developed in

1842, New Yorkers depended on well water — and enterprising street vendors — for their drinking water.

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As the population multiplied, the demand for fresh water grew. With no system for disposing of sewage and garbage, human and animal waste polluted the water supply, causing frequent epidemics of contagious waterborne diseases such as yellow fever and cholera. It soon became abundantly clear that something had to be done to rid the streets of contaminating waste and trash. Within four years of the 1842 opening of the Croton Aqueduct, 183 million gallons of fresh water per day were flowing from upstate reservoirs, rushing through households, factories, pubs, and firehoses into gutters, sewers, and storm drains and, ultimately, into the harbor and waterways surrounding the city. It was inevitable that nature alone could not handle the volume of wastewater that New York City was producing. But it was not until late in the 19th Century that concern for the health of the population, for the habitats of wildlife, and for the overall quality of life began to gain urgency.



In the 18th century, New York (Nieuw Amsterdam) was a tiny walled and fortified village surrounded on all but the north side by water. By the early 20th century (below) the city had surrounded the waterways and expanded beyond the horizon to the north, challenging the harbor's capacity for waterborne traffic as well as waste removal.



Blue Crab



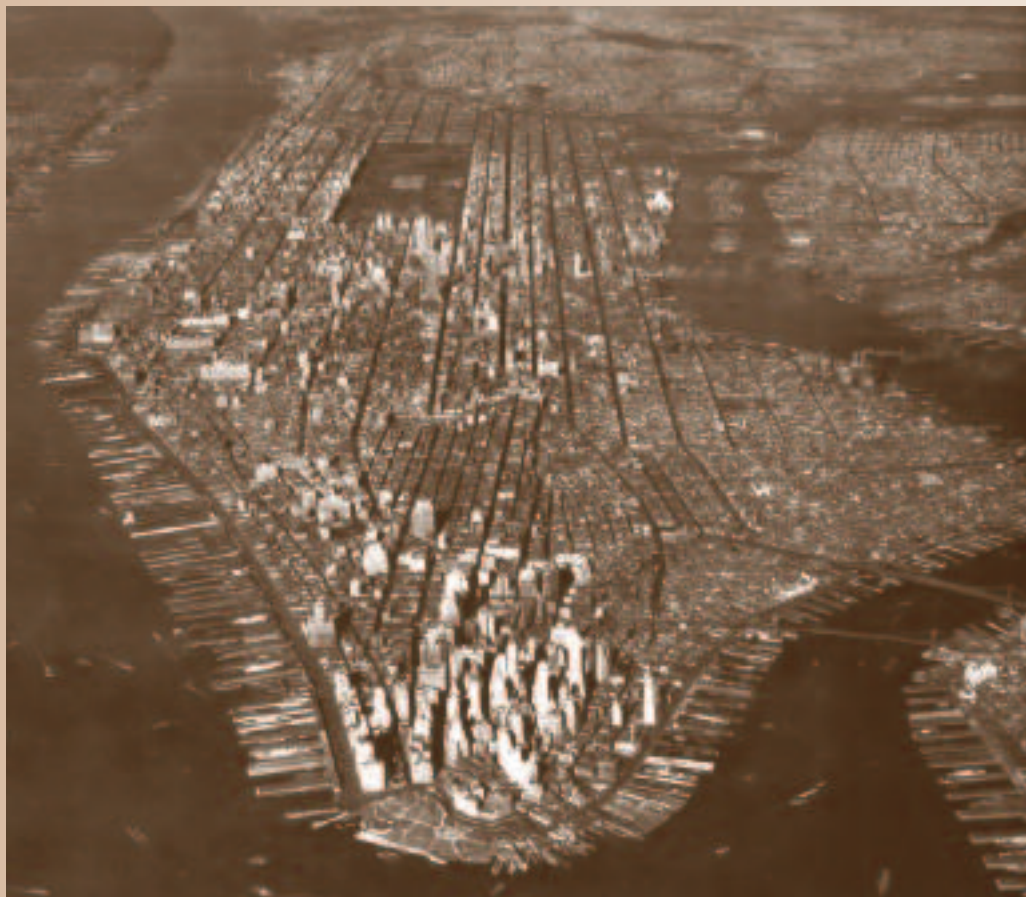
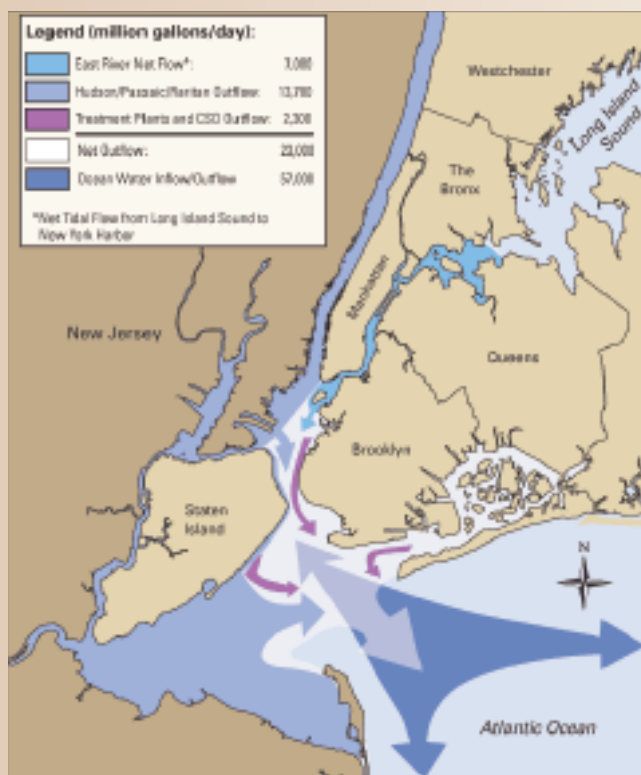
A hundred and fifty miles of twice-daily tidal swishing, along with sharp seasonal climatic changes made the tidal river, or estuary, a great food factory. From the pre-European Lenni Lenape centuries through the prosperous 1900s, as local clams, oysters, and other seafood were enjoyed at the tables of poor and rich alike, over-fishing and over-harvesting combined with an ever-increasing volume of human-generated waste to eliminate the river and estuary waters as a viable food resource.



Quahog

N A Balance Distressed

New York's geography, climate, and the ocean's tides combine to provide a unique environment for wildlife and human commerce. More than 13 billion gallons of fresh water per day flow into the city's waterways from the Hudson, Raritan, and Passaic rivers to mix with 57 million gallons of tidal salt water entering and leaving the estuary each day from the Atlantic Ocean, and with another net flow southward from Long Island Sound via the East River. Experience has shown that the 2.3 billion gallons per day of wastewater (purple arrows) contributed by the City to this flow, if not first thoroughly restored, are more than enough to undermine the intricately balanced natural ecosystem of the estuary.



Wastewater treatment began in New York City in the late 1890s and early 1900s at two locations in Brooklyn and one in Queens. Because of the popularity of public beaches, these three areas were considered a high priority. Wastewater treatment then consisted of chemical coagulation for settling and seasonal disinfection with chlorine. The goal was to keep the beaches clean and to protect the health of beach goers more than maintaining water quality.

As the population grew to 3.5 million, these plants became overburdened. When the link was made between waterborne bacteria and diseases in humans, it was recognized that a master plan was needed to study and protect the surrounding waterways. As a result, in 1904, the Metropolitan Sewerage commission was created. The commission undertook harbor surveys and water quality analysis, performed studies of the tides and the harbor's natural flushing action, and developed a City Master Plan for wastewater treatment plants. The plan included construction of treatment plants to meet the needs of the growing population and identified the optimum locations for future sites.

New York City is one of the most densely populated cities in the world. Although it has over 1,700 parks covering over 28,000 acres of land throughout the five boroughs, the City is home to over 8.25 million residents. Even those precious patches of green parkland are, in most cases, reconstituted nature. Though often beautiful, aesthetically gratifying, and attractive to the wildlife that can manage to find them, they are isolated and limited in their ability to process water and return it to the environment.

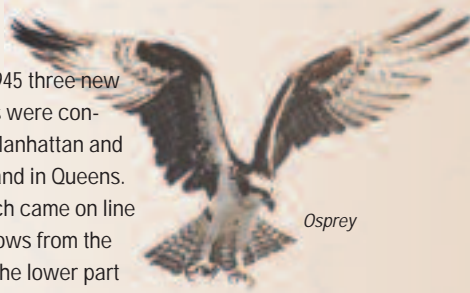
To Restore and Maintain

Between 1935 and 1945 three new wastewater treatment plants were constructed—Wards Island in Manhattan and Bowery Bay and Tallman Island in Queens. The Wards Island plant, which came on line in 1936 was built to handle flows from the east side of Manhattan and the lower part of the Bronx, and was soon followed by Bowery Bay and Tallman Island.

As the City's population approached 7.5 million, the Coney Island, 26th Ward and Jamaica plants were upgraded. This brought the citywide capacity for treatment to 497 million gallons per day. Between 1945 and 1965, five new plants were built to meet the needs of the continually expanding population, which was now nearing eight million. These were Hunts Point in the Bronx, Oakwood Beach and Port Richmond in Staten Island, and the Rockaway plant in Queens and the Owls Head plant in Brooklyn. During this period, the older Bowery Bay, Coney Island and Tallman Island plants underwent upgrades. With the addition of these five, there were eleven

sewage treatment plants in the City and the citywide capacity for sewage treatment increased to more than a billion gallons per day. Between 1965 and 1979, the

Newtown Creek wastewater treatment plant, designed to treat 310 million gallons per day, was built in Brooklyn on a relatively small footprint of 30 acres. The Spring Creek auxiliary plant, a pilot combined sewer overflow facility with a 10 million gallon holding tank for storm water, was also built, connecting to the 26th Ward plant. By 1968, 12 wastewater treatment plants were operating in the area of New York City, removing an average of 65 percent of pollutants from New York City wastewater. In 1972, the federal government passed the Clean Water Act requiring plants be upgraded to secondary treatment, which removed up to 85 percent of pollutants. Eight plants were upgraded, bringing the citywide capacity to 1.4 billion gallons per day. By 1979, three more plants were upgraded to full secondary treatment, and two more new treatment plants were completed—the Red Hook plant in Brooklyn and the North River plant, positioned on a platform in the Hudson River. Virtually all raw sewage generated in New York City was then being captured and treated. Today, the City's wastewater treatment plants have the capacity to treat dry weather flows of 1.8 billion gallons daily.

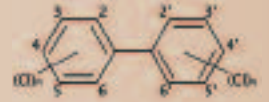


Osprey

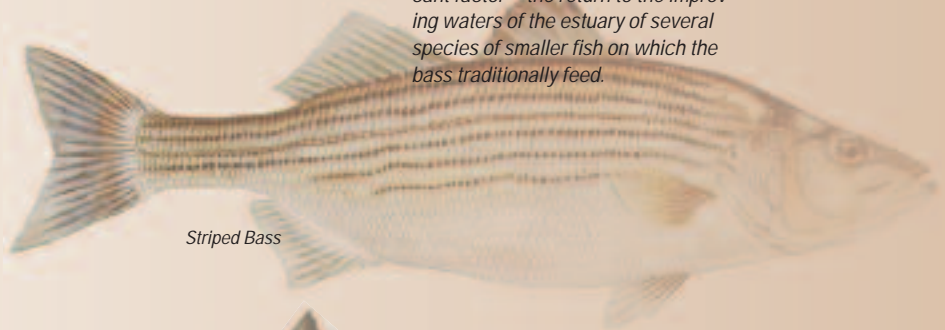
A mature striped bass may weigh more than forty pounds. Long a favorite of sport and commercial fishermen as well as gourmets, they pass through the harbor each spring on the way to breeding grounds in the less saline waters of small tributaries as much as fifty miles up the Hudson.

For 100 years they have been accumulating and retaining "PCBs", a class of persistent organic pollutants discarded by several industrial operations along the Hudson's banks as far north as Troy, affecting their own health as well as that of anything or anyone that might ingest them.

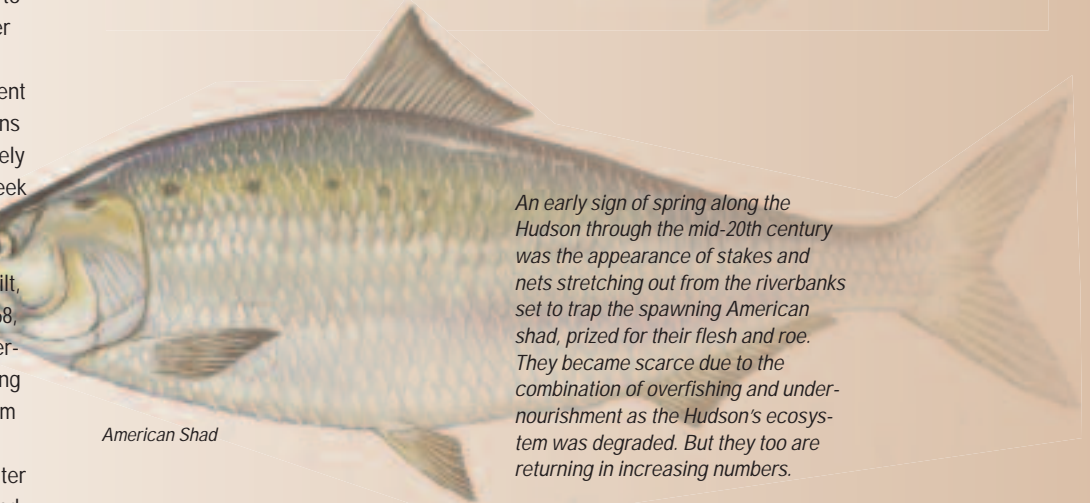
Commercial harvest of striped bass has not been allowed in the Hudson since 1976 when the New York State Department of Environmental Conservation issued a health warning against eating them. Their numbers have increased due to this and another, perhaps even more significant factor—the return to the improving waters of the estuary of several species of smaller fish on which the bass traditionally feed.



A typical "PCB" molecule



Striped Bass



American Shad

An early sign of spring along the Hudson through the mid-20th century was the appearance of stakes and nets stretching out from the riverbanks set to trap the spawning American shad, prized for their flesh and roe. They became scarce due to the combination of overfishing and undernourishment as the Hudson's ecosystem was degraded. But they too are returning in increasing numbers.

As the water quality of the salt marshes of Long Island and Staten Island have improved, fish and bird species have returned to hunt and breed within sight of the City's skyline.



A positive change has occurred in the Hudson River system and for the first time in fifty years, we have a chance to observe a great recovery of a major estuary. In 1909, the City of New York began collecting water quality data in New York Harbor to be utilized by regulators, scientists, educators and citizens to assess impacts, trends and improvements in the water quality of New York Harbor. The Harbor Survey Program has been the responsibility of the DEP's Marine Sciences Section for the past 20 years. The initial effort has grown into a Survey that consists of 51 stations; 34 stations located throughout the open waters of the Harbor, and upwards of 17 stations located in smaller tributaries within the City. The number of water quality parameters measured has also increased from five in 1909 to over 20 at present. Harbor water quality has improved dramatically since the initial surveys. During the last decade, water quality in NY harbor has improved to the point that the waters are now utilized for recreation and commerce throughout the year. These improvements have brought attention to areas within the harbor that remain impaired.

The DEP's Long Term Control Program has begun to focus on those areas within the harbor that remain impacted. This project will look at 18 waterbodies and their drainage basins and will develop a comprehensive plan for each waterbody to attain its best use classification.



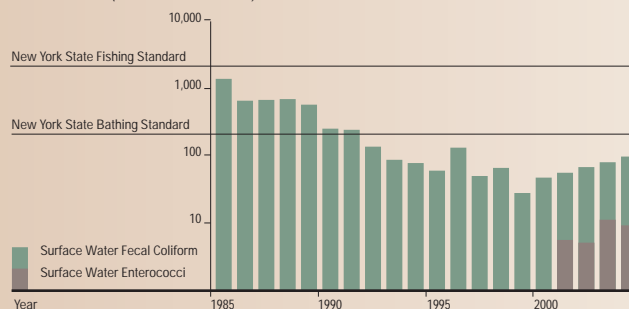
Improved water quality, combined with greater accessibility provided by the development of recreational piers, riverfront parks, and trails continues to attract more and more leisure-time activity to the harbor and its surrounding waterways. Pleasure craft of all shapes and sizes, powerboats, sailboats, kayaks, and canoes have again become commonplace. Outrigger canoes with crews from around the world gather to race each year, and the annual New York City Triathlon starts with a plunge into the Hudson for a 1500-meter swim.



The Harbor Survey's biochemical measurements evaluate the ecological health of the harbor and suitability for recreational and commercial uses. The level of oxygen dissolved in the water, for instance, significantly affects the health of aquatic life, while the presence and possible impact of high levels of nutrients such as ammonia, nitrites, nitrates and phosphorous can result in major algae growth, reducing water clarity, with subsequent reductions in dissolved oxygen as the algae decompose. While levels fluctuate from year to year, measurement of such indicators as those at right during recent decades has indicated a continuing trend toward better water quality.

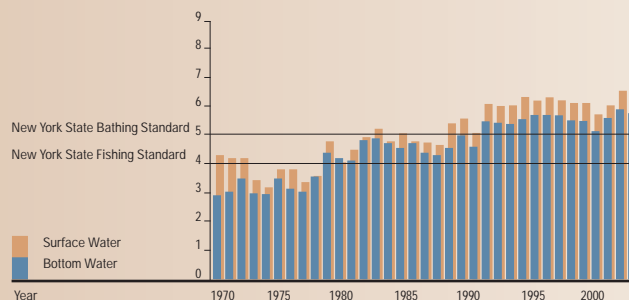
Fecal Coliform and Enterococci

Inner Harbor Area (Summer Geometric Mean)



Dissolved Oxygen

Inner Harbor Area (Summer Average)



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, 2006

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.



Handwritten signature of Thomas J. Hawn in black ink.

President

Handwritten signature of Jeffrey R. Emswiler in black ink.

Executive Director

Report of Independent Certified Public Accountants



To the Members of the Boards of
New York City Municipal Water Finance Authority
and the New York City Water Board

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows 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 and for the years ended June 30, 2007 and 2006. These financial statements, which collectively comprise the basic financial statements of the System, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2007 and 2006, and the respective changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information comprising the MD&A and express no opinion on it.

Grant Thornton LLP

New York, New York
October 30, 2007

Management's Discussion and Analysis

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the System) for the fiscal years ended June 30, 2007 and 2006. 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 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) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended. 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 years 2007, 2006 and 2005.

	2007	2006	2005
	<i>(in thousands)</i>		
Revenues			
Water supply and distribution	\$ 796,404	\$ 735,200	\$ 755,693
Sewer collection and treatment	1,238,612	1,143,424	1,043,575
Other operating revenues	98,061	100,306	85,459
Total operating revenues	2,133,077	1,978,930	1,884,727
Subsidy income	90,601	88,447	78,834
Investment income, net	98,132	105,239	97,362
Total revenues	2,321,810	2,172,616	2,060,923
Expenses			
Operations and maintenance	1,147,157	1,056,379	944,919
Bad debt expense	226,028	87,222	114,702
Administration and general	35,493	26,727	23,168
Depreciation and amortization	579,860	500,161	515,325
Loss on retirement of fixed assets	23,257	7,046	7,971
Interest expense	771,656	731,563	668,675
Total expenses	2,783,451	2,409,098	2,274,760
Net loss before capital contributions (distributions)	(461,641)	(236,482)	(213,837)
Capital (distributions) contributions, net	(20,776)	(19,241)	(185,242)
Change in net assets	(482,417)	(255,723)	(399,079)
Net assets - beginning	2,899,381	3,155,104	3,554,183
Net assets - ending	\$2,416,964	\$2,899,381	\$3,155,104

Management's Discussion and Analysis *(continued)***Operating Revenue****2007 - 2006**

Total operating revenues increased by 8%, principally from a rate increase of 9.4%.

2006 - 2005

Total operating revenues increased by 5%, principally resulting from a rate increase of 3%.

The following summarizes other operating revenues (in thousands):

	<i>2007</i>	<i>2006</i>	<i>2005</i>
Upstate water fees	\$ 42,197	\$ 42,693	\$ 27,290
Late payment fees	43,286	45,519	47,810
Connection fees and permits	12,578	12,094	10,359
Total other operating revenues	<u>\$ 98,061</u>	<u>\$100,306</u>	<u>\$ 85,459</u>

2007 - 2006

Other operating revenues have remained relatively level for 2007.

Investment income decreased by \$7 million or 7% primarily due to reduced average balances in escrow investments, less unrealized gains on investments and swap payments.

2006 - 2005

The System has collected \$15 million of upstate water fees that had been in dispute for several years. These payments resulted in an increase in other fee revenue of nearly 17% or \$15 million.

Investment Income

Investment income increased by \$8 million. Investment balances in construction and revenue and debt service funds increase from 2005. Interest rates earned on investments also increased.

Operating Expenses**2007 - 2006**

Total operations and maintenance expense increased by \$91 million or 9%; Key components of the changes are increased operations and maintenance costs of \$47 million or 6%; judgements and claims increased by \$23 million; and the rental payment increased by \$13 million.

Management's Discussion and Analysis *(continued)*

Bad debt expense increased by \$139 million. The System has not collected current and past-due receivables.

Interest expense increased by \$40 million or 5%. Total debt of the System has increased by \$1.9 billion or 12%.

In 2007, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received capital grants from other sources of \$12 million.

2006 - 2005

Total operations and maintenance expense increased by \$111 million or 12%. The rental payment to the City for debt service increased by \$10 million. Payments for watershed improvements increased by \$21 million. All other operations and maintenance costs increased by \$80 million or 10%.

Bad debt expense decreased by \$28 million. Receivable balances have decreased, as the System has collected on past-due amounts.

Interest expense increased by \$63 million or 9%. Total debt of the System has increased by 9% and interest expense has increased by about the same percentage.

In 2006, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received grants from other sources of \$14 million.

A summary of the System's assets, liabilities and net assets follows:

	<i>2007</i>	<i>2006</i>	<i>2005</i>
	<i>(in thousands)</i>		
Current assets	\$ 2,075,754	\$ 1,954,277	\$ 2,436,222
Deferred bond and financing expenses	134,673	130,728	125,582
Capital assets	18,435,696	17,155,603	16,008,960
Total assets	20,646,123	19,240,608	18,570,764
Long-term liabilities	16,691,440	15,306,834	13,955,495
Current liabilities	1,537,719	1,034,393	1,460,165
Total liabilities	18,229,159	16,341,227	15,415,660
Net assets			
Invested in capital assets, net of related debt	2,130,364	2,556,766	2,803,031
Restricted for debt service	161,661	171,859	152,544
Restricted for operations and maintenance	175,161	157,806	145,693
Unrestricted (deficit)	(50,222)	12,950	53,836
Total net assets	2,416,964	2,899,381	3,155,104
Total liabilities and net assets	\$20,646,123	\$19,240,608	\$18,570,764

Management's Discussion and Analysis *(continued)***2007 - 2006**

Current assets increased by \$122 million or 6%. This increase was due to construction funds on deposit at June 30, 2007.

Total liabilities have increased by \$1.9 billion, which was due to the increase in debt payable.

2006 - 2005

Current assets decreased by \$482 million. This decrease was due primarily to escrow deposits, which decreased by \$363 million as bonds were paid off by the escrow amounts.

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Such amounts are detailed as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<i>(in thousands)</i>		
Utility plant construction	\$ 4,766,145	\$ 4,546,209	\$ 4,010,861
Buildings	23,493	22,266	22,071
Equipment	629,384	472,034	424,673
Water supply and wastewater treatment systems	12,127,873	10,886,477	10,152,707
Water distribution and sewage collection systems	8,014,647	7,844,126	7,579,881
Total utility plant in service	20,795,397	19,224,903	18,179,332
Less accumulated depreciation	7,125,846	6,615,509	6,181,233
Total, net utility plant in service	13,669,551	12,609,394	11,998,099
Total capital assets	<u>\$18,435,696</u>	<u>\$17,155,603</u>	<u>\$16,008,960</u>

Management's Discussion and Analysis *(continued)*

The net increase in the System's capital assets during fiscal year 2007 was \$1,280 million or 8%. Net capital asset additions for 2007 were \$1,790 million.

The net increase in the System's capital assets during fiscal year 2006 was \$1,147 million or 7%. Net capital asset additions for 2006 were \$1,581 million.

The capital assets of the System are detailed in footnotes 2-d and 3 of the notes to the accompanying financial statements.

Debt Administration

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

At June 30, 2007, the total outstanding debt of the System was \$18.1 billion, of which \$800 million was commercial paper. The remaining \$17.3 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2039. The total outstanding long-term debt at June 30, 2007 was as follows:

<i>(In thousands)</i>	
<i>Issue date</i>	
2007	\$ 2,214,873
2006	2,588,192
2005	2,790,956
2004	1,669,095
2003	2,770,818
2002 and prior	5,237,250
Total long-term debt	\$17,271,184

In the summary above, bonds retired through refundings in 2007 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the 2007 amount.

In fiscal year 2007, the Authority issued \$1,527,745,000 water and sewer revenue bonds directly to the public, including \$411,860,000 of refunding bonds and \$1,115,885,000 in new money financing. The Authority also issued \$693,364,670 of Clean Water and Drinking Water State Revolving Fund (SRF) bonds to EFC, \$518,427,784 of which were issued for new money purposes and \$174,936,886 refunded outstanding debt. The new money bond proceeds provided long-term financing of commercial paper notes which had previously financed capital improvements to New York City's Water and Sewer System.

In fiscal year 2007, the Authority continued to take advantage of historically low interest costs on fixed-rate borrowing by issuing predominantly fixed-rate bonds on the long end of the curve. In fiscal 2007, the Authority sold seven fixed-rate and one variable-rate demand bond issues. The First Resolution Fiscal 2007 Series A bonds and the Second Resolution Fiscal 2007 Series AA, BB, CC and DD bonds were sold directly to public. The Second Resolution Fiscal 2007 Series 1, 2 and 3 were issued to EFC to secure bonds issued by EFC on behalf on the Authority.

Management's Discussion and Analysis

On October 25, 2006, the Authority closed its first transaction of fiscal year 2007. The Second Resolution Fiscal 2007 Series AA and Series BB bonds were sold at a par amount of \$199,910,000 and \$134,360,000, respectively. The Fiscal 2007 Series AA bonds were comprised of term bonds maturing in 2037 and 2039. Proceeds from the sale of these bonds were used to defease a portion of the Authority's commercial paper Series 6 notes and to pay costs of issuance. The Fiscal 2007 Series BB bonds refunded on a current basis \$29,045,000 of the Fiscal 1996 Series C bonds and \$105,045,000 of the Fiscal 1997 Series A bonds. The Fiscal 2007 Series BB Bonds were issued as serial bonds.

On November 30, 2006, the Authority closed on its variable-rate demand bonds. The Fiscal 2007 Series CC bonds were sold in two sub-series at a total par amount of \$210,500,000. Both sub-series were offered in the daily reset mode. Proceeds from the sale were used to defease all of the Authority's commercial paper Series 1 and a portion of Series 5 Lot A notes, to fund a portion of the Authority's capital program and to pay certain costs of issuance.

On March 27, 2007, the Authority closed its first transaction with EFC in fiscal year 2007. The Fiscal 2007 Series 1 and Series 2 bonds were issued to EFC in the respective amounts of \$228,112,917 and \$290,314,867. Proceeds of these borrowings were used to defease all of the Authority's commercial paper Series 5 and 7 and a portion of commercial paper Series 1 notes. Proceeds were also used to fund a portion of the Authority's capital program and to pay the costs of issuance of the bonds. Both series were comprised of serial bonds in years 2007 through 2036.

On March 29, 2007, in a common plan of finance with the Fiscal 2007 Series 1 and Series 2 bonds, the Authority issued the Fiscal 2007 Series A bonds directly to the public. The bonds were sold at a par amount of \$587,975,000. Proceeds from the sale were used to refund all of the then outstanding Fiscal 1998 Series B bonds and a portion of the Fiscal 2002 Series A bonds, defease a portion of the Authority's commercial paper Series 1 notes and all of commercial paper Series 6 notes, pay certain costs of issuance and fund a portion of the debt service reserve fund. This issue consisted of four term bonds maturing in years 2030, 2033, 2037 and 2039. The 2039 maturity was insured by Financial Security Assurance Inc.

On May 15, 2007, \$174,936,886 of Fiscal 2007 Series 3 bonds were issued to EFC to partially refund the Authority's Fiscal 1998 Series 3 bonds. The Fiscal 2007 Series 3 bonds extended the maturity date to 30 years from the original issuance date of the refunded bonds and paid certain costs of issuance.

On May 31, 2007, the Authority sold \$395,000,000 of the Fiscal 2007 Series DD bonds. Proceeds from the sale were applied to defease all of the Authority's commercial paper Series 1 and 6 notes, to fund a portion of the Authority's capital program and pay costs of issuance. The issue included term bonds that mature in years 2035, 2036, 2038 and 2036.

The total of bonds and notes payable are detailed in footnote numbers 7 and 8 of the notes to the financial statements.

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 9.4% for fiscal 2007 became effective July 1, 2006 based on projected revenues and costs.

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, Manager of Investor Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, New York 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

Balance Sheets

Year ended June 30, 2007

(in thousands)

<i>Assets</i>	<i>New York City</i>		<i>Eliminations</i>	<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>		
Utility plant in service, less accumulated depreciation of \$7,125,846	\$13,669,551	\$ -	\$ -	\$ 13,669,551
Utility plant construction	4,766,145	-	-	4,766,145
Total capital assets	18,435,696	-	-	18,435,696
Current assets				
Cash and cash equivalents	104,932	1,070,154	-	1,175,086
Investments	83,406	350,944	-	434,350
Accrued interest receivable	145	2,969	-	3,114
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$213,840	278,176	-	-	278,176
Unbilled	169,310	-	-	169,310
Receivable from the City	15,718	-	-	15,718
Total current assets	651,687	1,424,067	-	2,075,754
Revenue requirement due from the Board	-	9,479,193	(9,479,193)	-
Long-term deferred bond and financing expenses	-	134,673	-	134,673
Total assets	\$ 19,087,383	\$ 11,037,933	\$(9,479,193)	\$ 20,646,123

Balance Sheets *(continued)*

Year ended June 30, 2007

(in thousands)

<i>Liabilities and Net Assets</i>	<i>New York City</i>			<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	<i>Eliminations</i>	
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$17,060,213	\$ -	\$ 17,060,213
Net discount on bonds and notes payable	-	(13,838)	-	(13,838)
Deferred bond refunding costs	-	(354,935)	-	(354,935)
Revenue requirement payable to the Authority	9,479,193	-	(9,479,193)	-
Total long-term liabilities	9,479,193	16,691,440	(9,479,193)	16,691,440
Current liabilities				
Accounts payable and accrued expenses	34,110	43,397	-	77,507
Revenues received in advance	73,727	-	-	73,727
Current portion of bonds and notes payable	-	1,010,971	-	1,010,971
Payable to the City	-	361,860	-	361,860
Refunds payable to customers	13,654	-	-	13,654
Total current liabilities	121,491	1,416,228	-	1,537,719
Total liabilities	9,600,684	18,107,668	(9,479,193)	18,229,159
Net assets				
Invested in capital assets, net of related debt	18,435,696	(16,305,332)	-	2,130,364
Restricted for debt service	-	161,661	-	161,661
Restricted for operations and maintenance	175,161	-	-	175,161
Unrestricted (deficit)	(9,124,158)	9,073,936	-	(50,222)
Total net assets (deficit)	9,486,699	(7,069,735)	-	2,416,964
Total liabilities and net assets	\$19,087,383	\$11,037,933	\$(9,479,193)	\$20,646,123

Balance Sheets

Year ended June 30, 2006

(in thousands)

	<i>New York City</i>		<i>Eliminations</i>	<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>		
Assets				
Utility plant in service, less accumulated depreciation of \$6,615,509	\$12,609,394	\$ -	\$ -	\$ 2,609,394
Utility plant construction	4,546,209	-	-	4,546,209
Total capital assets	17,155,603	-	-	17,155,603
Current assets				
Cash and cash equivalents	87,723	879,236	-	966,959
Investments	78,753	433,725	-	512,478
Accrued interest receivable	611	2,228	-	2,839
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$143,696	308,165	-	-	308,165
Unbilled	155,330	-	-	155,330
Receivable from the City	8,506	-	-	8,506
Total current assets	639,088	1,315,189	-	1,954,277
Revenue requirement due from the Board	-	8,376,317	(8,376,317)	-
Long-term deferred bond and financing expenses	-	130,728	-	130,728
Total assets	\$ 17,794,691	\$9,822,234	\$(8,376,317)	\$19,240,608

Balance Sheets *(continued)*

Year ended June 30, 2006

(in thousands)

<i>Liabilities and Net Assets</i>	<i>New York City</i>		<i>Eliminations</i>	<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$ 15,719,290	\$ -	\$ 15,719,290
Net discount on bonds and notes payable	-	(42,007)	-	(42,007)
Deferred bond refunding costs	-	(370,449)	-	(370,449)
Revenue requirement payable to the Authority	8,376,317	-	(8,376,317)	-
Total long-term liabilities	8,376,317	15,306,834	(8,376,317)	15,306,834
Current liabilities				
Accounts payable and accrued expenses	6,099	42,820	-	48,919
Revenues received in advance	78,480	-	-	78,480
Current portion of bonds and notes payable	-	566,061	-	566,061
Payable to the City	-	326,124	-	326,124
Refunds payable to customers	14,809	-	-	14,809
Total current liabilities	99,388	935,005	-	1,034,393
Total liabilities	8,475,705	16,241,839	(8,376,317)	16,341,227
Net assets				
Invested in capital assets, net of related debt	17,155,603	(14,598,837)	-	2,556,766
Restricted for debt service	-	171,859	-	171,859
Restricted for operations and maintenance	157,806	-	-	157,806
Unrestricted (deficit)	(7,994,423)	8,007,373	-	12,950
Total net assets (deficit)	9,318,986	(6,419,605)	-	2,899,381
Total liabilities and net assets	\$17,794,691	\$ 9,822,234	\$(8,376,317)	\$19,240,608

Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2007

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Operating revenues			
Water supply and distribution	\$ 796,404	\$ -	\$ 796,404
Sewer collection and treatment	1,238,612	-	1,238,612
Other operating revenues	98,061	-	98,061
Total operating revenues	<u>2,133,077</u>	<u>-</u>	<u>2,133,077</u>
Operating expenses			
Operations and maintenance	1,147,157	-	1,147,157
Bad debt expense	226,028	-	226,028
Administration and general	16,996	18,497	35,493
Total operating expenses	<u>1,390,181</u>	<u>18,497</u>	<u>1,408,678</u>
Depreciation and amortization	<u>535,530</u>	<u>44,330</u>	<u>579,860</u>
Operating income (loss)	207,366	(62,827)	144,539
Nonoperating revenue (expense)			
Interest expense	-	(771,656)	(771,656)
Loss on retirement of fixed assets	(23,257)	-	(23,257)
Subsidy income	-	90,601	90,601
Investment income, net	4,380	93,752	98,132
Net income (loss) before capital contributions (distributions)	188,489	(650,130)	(461,641)
Capital distributions - net	<u>(20,776)</u>	<u>-</u>	<u>(20,776)</u>
Change in net assets	167,713	(650,130)	(482,417)
Net assets (deficit) at beginning of year	<u>9,318,986</u>	<u>(6,419,605)</u>	<u>2,899,381</u>
Net assets (deficit) at end of year	<u>\$9,486,699</u>	<u>\$(7,069,735)</u>	<u>\$2,416,964</u>

Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2006

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Operating revenues			
Water supply and distribution	\$ 735,200	\$ -	\$ 735,200
Sewer collection and treatment	1,143,424	-	1,143,424
Other operating revenues	100,306	-	100,306
Total operating revenues	<u>1,978,930</u>	<u>-</u>	<u>1,978,930</u>
Operating expenses			
Operations and maintenance	1,056,379	-	1,056,379
Bad debt expense	87,222	-	87,222
Administration and general	8,670	18,057	26,727
Total operating expenses	<u>1,152,271</u>	<u>18,057</u>	<u>1,170,328</u>
Depreciation and amortization	<u>450,860</u>	<u>49,301</u>	<u>500,161</u>
Operating income (loss)	375,799	(67,358)	308,441
Nonoperating revenue (expense)			
Interest expense	-	(731,563)	(731,563)
Loss on retirement of fixed assets	(7,046)	-	(7,046)
Subsidy income	-	88,447	88,447
Investment income, net	3,092	102,147	105,239
Net income (loss) before capital contributions (distributions)	371,845	(608,327)	(236,482)
Capital distributions - net	<u>(19,241)</u>	<u>-</u>	<u>(19,241)</u>
Change in net assets	352,604	(608,327)	(255,723)
Net assets (deficit) at beginning of year	<u>8,966,382</u>	<u>(5,811,278)</u>	<u>3,155,104</u>
Net assets (deficit) at end of year	<u>\$9,318,986</u>	<u>\$(6,419,605)</u>	<u>\$2,899,381</u>

Statements of Cash Flows

Year ended June 30, 2007

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Cash flows from operating activities			
Receipts from customers	\$ 1,917,152	\$ -	\$ 1,917,152
Payments for operations and maintenance	(1,071,086)	-	(1,071,086)
Payments for administration	(10,291)	(19,204)	(29,495)
Net cash provided by (used in) operating activities	835,775	(19,204)	816,571
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,103,578	4,103,578
Acquisition and construction of capital assets	(20,000)	(1,865,902)	(1,885,902)
Payments by the Board to the Authority	(798,763)	798,763	-
Repayments of bonds, notes and other borrowings	-	(2,329,510)	(2,329,510)
Interest paid on bonds, notes and other borrowings	-	(671,831)	(671,831)
Net cash (used in) provided by capital and related financing activities	(818,763)	35,098	(783,665)
Cash flows from investing activities			
Proceeds from sales and maturities of investments	78,655	147,644	226,299
Purchases of investments	(83,303)	(66,303)	(149,606)
Interest on investments	4,845	93,683	98,528
Net cash provided by investing activities	197	175,024	175,221
Net increase in cash and cash equivalents	17,209	190,918	208,127
Cash and cash equivalents, beginning of year	87,723	879,236	966,959
Cash and cash equivalents, end of year	\$ 104,932	\$ 1,070,154	\$ 1,175,086

Statements of Cash Flows *(continued)*

Year ended June 30, 2007

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 207,366	\$ (62,827)	\$ 144,539
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	535,530	44,330	579,860
Bad debt expense	226,028	-	226,028
Operations and maintenance expense paid with bond proceeds	61,983	-	61,983
Changes in net assets and liabilities			
Receivables, net	(210,020)	-	(210,020)
Receivable from the City	(7,212)	-	(7,212)
Accounts payable and accrued expenses	28,008	328	28,336
Revenues received in advance	(4,753)	-	(4,753)
Refunds payable to customers	(1,155)	-	(1,155)
Net cash provided by (used in) operating activities	<u>\$ 835,775</u>	<u>\$ (18,169)</u>	<u>\$ 817,606</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$(3,106) in 2007.
- Capital expenditures in the amount of \$361,860 had been incurred but not paid at June 30, 2007.
- The Board received capital assets of \$12,357 in 2007, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Year ended June 30, 2006

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Cash flows from operating activities			
Receipts from customers	\$1,866,240	\$ -	\$ 1,866,240
Payments for operations and maintenance	(966,661)	-	(966,661)
Payments for administration	(9,081)	(17,961)	(27,042)
Net cash provided by (used in) operating activities	<u>890,498</u>	<u>(17,961)</u>	<u>872,537</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,018,669	4,018,669
Acquisition and construction of capital assets	-	(1,652,636)	(1,652,636)
Payments by the Board to the Authority	(882,898)	882,898	-
Repayments of bonds, notes and other borrowings	-	(3,190,094)	(3,190,094)
Interest paid on bonds, notes and other borrowings	-	(644,464)	(644,464)
Net cash used in capital and related financing activities	<u>(882,898)</u>	<u>(585,627)</u>	<u>(1,468,525)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	52,334	418,596	470,930
Purchases of investments	(58,660)	(59,289)	(117,949)
Interest on investments	2,783	108,130	110,913
Net cash (used in) provided by investing activities	<u>(3,543)</u>	<u>467,437</u>	<u>463,894</u>
Net increase (decrease) in cash and cash equivalents	<u>4,057</u>	<u>(136,151)</u>	<u>(132,094)</u>
Cash and cash equivalents, beginning of year	<u>83,666</u>	<u>1,015,387</u>	<u>1,099,053</u>
Cash and cash equivalents, end of year	<u>\$ 87,723</u>	<u>\$ 879,236</u>	<u>\$ 966,959</u>

The accompanying notes are an integral part of these statements.

Statements of Cash Flows *(continued)*

Year ended June 30, 2006

(in thousands)

	<i>New York City</i>		<i>Total</i>
	<i>Water Board</i>	<i>Municipal Water Finance Authority</i>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 375,799	\$ (67,358)	\$ 308,441
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	450,860	49,301	500,161
Bad debt expense	87,222	-	87,222
Operations and maintenance expense paid with bond proceeds	66,833	-	66,833
Changes in net assets and liabilities			
Receivables, net	(116,768)	-	(116,768)
Receivable from the City	22,884	-	22,884
Other	-	(71)	(71)
Accounts payable and accrued expenses	(411)	167	(244)
Revenues received in advance	7,998	-	7,998
Refunds payable to customers	(3,919)	-	(3,919)
Net cash provided by (used in) operating activities	<u>\$ 890,498</u>	<u>\$ (17,961)</u>	<u>\$ 872,537</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$3,606 in 2006.
- Capital expenditures in the amount of \$326,124 had been incurred but not paid at June 30, 2006.
- The Board received capital assets of \$13,700 in 2006, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

June 30, 2007 and 2006

Note 1 – Organization

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

The Financing Agreement (the Agreement) provides that the Authority will issue bonds to finance the cost of capital investment and related costs in the water and sewer system serving the City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the water and sewer 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 Statement No. 14 of the Governmental Accounting Standards Board (GASB), 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.

Note 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. GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Funds, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

a. 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. Investments with maturity periods of greater than one year are carried at market value. Investments with maturities less than one year are carried at cost which approximates fair value. For purposes of the statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

b. Restricted Assets

Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted by applicable bond indentures.

Notes to Financial Statements *(continued)*

June 30, 2007 and 2006

*Note 2 (continued)***c. 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.

d. 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 over \$35,000. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	<i>Years</i>
Buildings	40 – 50
Water supply and wastewater treatment systems	15 – 50
Water distribution and sewage collection systems	15 – 75
Equipment	5 – 35

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as utility plant.

e. 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. The System records estimated unbilled revenue at year-end. Operating expenses consist of 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.

f. Deferred Revenues

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned.

g. Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting loss 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.

h. 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.

Notes to Financial Statements (continued)

June 30, 2007 and 2006

Note 3 – Utility Plant

The following is a summary of utility plant activity for the fiscal years ended June 30, 2007 and 2006 (in thousands):

	<i>Balance at June 30, 2005</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2006</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2007</i>
Nondepreciable assets							
Utility construction	\$ 4,010,861	\$ 1,704,324	\$ 1,168,976	\$ 4,546,209	\$ 1,933,996	\$ 1,714,060	\$ 4,766,145
Land	-	-	-	-	-	-	-
Depreciable assets							
Buildings	22,071	195	-	22,266	1,227	-	23,493
Equipment	424,673	49,430	2,069	472,034	162,341	4,991	629,384
Water supply and wastewater treatment systems	10,152,707	733,770	-	10,886,477	1,241,396	-	12,127,873
Water distribution and sewage collection systems	7,579,881	285,806	21,561	7,844,126	213,980	43,459	8,014,647
	22,190,193	2,773,525	1,192,606	23,771,112	3,552,940	1,762,510	25,561,542
Less accumulated depreciation	6,181,233	450,860	16,584	6,615,509	535,530	25,193	7,125,846
	\$16,008,960	\$2,322,665	\$1,176,022	\$17,155,603	\$3,017,410	\$1,737,317	\$18,435,696

Note 4 – Investments and Cash Deposits**a. Investments**

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

b. Cash Deposits

The System follows the New York City Banking Commission designations for the System's bank depositors. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of the City and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. The System had \$200 thousand on deposit at June 30, 2007 and 2006, which was covered by Federal depository insurance and the remaining balance was uncollateralized.

At June 30, 2007 and 2006, the carrying amounts of bank deposits were \$20.7 million and \$5.9 million, respectively, and the bank balances were \$21.9 million and \$7 million, respectively.

The System had the following investments and maturities (in thousands):

<i>Investment type</i>	<i>2007</i>	<i>2006</i>	<i>Investment maturity</i>
Certificate of Deposit	\$ 104	\$ 100	Greater than one year
U.S. Government securities	1,232,617	1,018,495	Less than one year
New York State securities	77,474	77,230	Greater than one year
Repurchase agreements	70,345	82,259	Less than one year
Guaranteed investment contracts	211,315	298,306	Greater than one year
	\$1,591,855	\$1,476,390	

Notes to Financial Statements *(continued)*

June 30, 2007 and 2006

Note 4 *(continued)*

All of the System's investments in U.S. agencies carry the explicit guarantee of the U.S. Government. At June 30, 2007 and 2006, the System's investment in New York State securities was rated AAA by Standard & Poor's and Aaa by Moody's investment services. The System's investments in guaranteed investment contracts are not rated.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will 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 and collateral are held in the Authority's name by the trustee or in the Board's name by the agent.

Note 5 – Lease Agreement

The Board is party to a long-term lease (the Lease) with the City, which transfers all the water and sewer related real and personal 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 provisions for such payment have been made pursuant to the applicable debt instrument. The Lease provides for payments to the City to cover the following:

- (a) an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by the City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by the City;
- (b) an amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

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

A summary of operation and maintenance expenses for the years ended June 30, 2007 and 2006 is as follows *(in thousands)*

	<i>2007</i>	<i>2006</i>
Water transmission and distribution	\$ 339,854	\$ 332,174
Sewer collection systems	413,837	392,071
City agency support cost	57,304	54,387
Fringe benefits	110,687	83,212
Payments for watershed improvements	61,983	66,833
Judgments and claims	31,232	8,241
	<hr/>	<hr/>
	1,014,897	936,918
Rental payments to the City	132,260	119,461
	<hr/>	<hr/>
	\$1,147,157	\$1,056,379

Note 6 – Payable to and receivable from the City

As of June 30, 2007 and 2006, all utility construction recorded by the System, which has not been reimbursed to the City, has been recorded as a payable to the City, net of the amount of any State or Federal capital grants received by the City.

As of June 30, 2007 and 2006, the System had a net payable of \$346.1 million and \$317.6 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

Notes to Financial Statements (continued)

June 30, 2007 and 2006

Note 7 – Short-Term Liabilities

In fiscal years 2007 and 2006, the changes in short-term liabilities were as follows (in thousands):

	<i>Balance at June 30, 2005</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2006</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2007</i>
Commercial paper (1)	\$800,000	\$1,392,800	\$1,841,800	\$351,000	\$2,059,000	\$1,610,000	\$ 800,000

(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 comprises the following for the year ended June 30, 2007 (in thousands):

	<i>Balance at June 30, 2006</i>	<i>Issued</i>	<i>Retired</i>	<i>Balance at June 30, 2007</i>
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$200,000	\$ 600,000	\$ 600,000	\$200,000
Commercial Paper Series 5 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	140,000	270,000	210,000	200,000
Commercial Paper Series 6 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	11,000	789,000	600,000	200,000
Commercial Paper Series 7 - Variable Rate, Short-term Rolling Maturity	-	400,000	200,000	200,000
Total commercial paper payable	\$351,000	\$2,059,000	\$1,610,000	\$800,000

Note 8 – Long-Term Liabilities

In fiscal years 2007 and 2006, the changes in long-term liabilities were as follows (in thousands):

<i>Bonds payable</i>	<i>Balance at June 30, 2005</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2006</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at June 30, 2007</i>	<i>Due within one year</i>
First resolution	\$10,634,596	\$1,431,080	\$1,171,123	\$10,894,553	\$ 587,975	\$549,068	\$10,933,460	\$ 42,943
Second resolution	3,999,455	1,186,847	146,504	5,039,798	1,633,132	335,206	6,337,724	168,028
Total bonds payable	14,634,051	2,617,927	1,317,627	15,934,351	2,221,107	884,274	17,271,184	\$210,971
Less discounts (net)	100,304	(31,866)	26,431	42,007	(15,838)	12,331	13,838	
Less deferred refunding costs	340,268	66,222	36,041	370,449	21,575	37,089	354,935	
Total long-term liabilities	\$14,193,479	\$2,583,571	\$1,255,155	\$15,521,895	\$2,215,370	\$834,854	\$16,902,411	

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.

During 2007 and 2006, the Authority issued \$586.8 and \$720.7 million, respectively, of bonds to refund \$683.5 and \$683.3 million, respectively, of outstanding bonds. The advance refundings resulted in an accounting loss of \$21.6 and \$66.2 million, respectively. The Authority in effect reduced its aggregate debt service by \$17.3 and \$56.3 million, respectively, and obtained an economic benefit of \$46.3 and \$37.3 million, respectively.

During 2006, the Authority economically defeased \$70.4 million of bonds with current revenue. Bonds economically defeased remain a liability, and the escrow deposited with the Authority's trustee is an asset on the Authority's records.

Notes to Financial Statements (continued)

June 30, 2007 and 2006

Note 8 (continued)

During 2006, the Authority defeased \$60.1 million of outstanding bonds with \$60.1 million of current revenue, which resulted in an accounting loss of \$1.0 million.

The Authority has defeased cumulatively \$9.740 billion and \$9.056 billion of outstanding bonds as of June 30, 2007 and 2006, respectively, by placing proceeds of refunding bonds issued in an irrevocable escrow account to provide for all future debt service payments on defeased bonds. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's financial statements.

As of June 30, 2007 and 2006, \$8.081 billion and \$6.883 billion of the defeased bonds, respectively, had been retired from the assets of the escrow accounts.

Debt service requirements to maturity including amounts relating to commercial paper at June 30, 2007 are as follows (in thousands):

<i>Year ending June 30,</i>	<i>Principal</i>	<i>Interest (1)</i>	<i>Total</i>
2008	\$ 210,970	\$ 647,046	\$ 858,016
2009	227,163	636,656	863,819
2010	247,686	630,870	878,556
2011	332,263	622,230	954,493
2012	320,280	611,722	932,002
2013-2017	2,053,174	2,880,881	4,934,055
2018-2022	2,588,943	2,513,995	5,102,938
2023-2027	2,814,390	2,009,096	4,823,486
2028-2032	3,524,825	1,406,868	4,931,693
2033-2037	3,390,315	767,661	4,157,976
2038-2042	1,561,175	103,644	1,664,819
	<u>\$17,271,184</u>	<u>\$12,830,669</u>	<u>\$30,101,853</u>

- (1) Includes interest for variable rate bonds estimated at 3.8%, which is the rate at the end of the fiscal year. Variable rate bonds are sold daily or weekly and interest rates are determined by the market on the day sold.

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2007 (in thousands):

	<i>Balance at June 30, 2006</i>	<i>Issued</i>	<i>Retired/ defeased</i>	<i>Balance at June 30, 2007</i>
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 10,255	\$ -	\$ 2,590	\$ 7,665
1992 Fiscal Series B - 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	11,318	-	2,698	8,620
1993 Fiscal Series A - 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	82,195	-	11,835	70,360
1993 Fiscal Series C - Adjustable Rate Term Bonds maturing 2022	100,000	-	-	100,000
1994 Fiscal Series 1 - 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	31,500	-	320	31,180
1994 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2023	200,000	-	-	200,000
1994 Fiscal Series G - Adjustable, Auction and Leveraged Reverse Rate Bonds maturing in varying installments through 2024	185,000	-	-	185,000
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	204,700	-	6,000	198,700
1995 Fiscal Series 1 - 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	26,495	-	2,585	23,910
1996 Fiscal Series C - 4.90% to 5.75% Serial Bonds maturing in varying installments through 2017	29,455	-	29,455	-

Notes to Financial Statements (continued)

June 30, 2007 and 2006

<i>Note 8 (continued)</i>	<i>Balance at June 30, 2006</i>	<i>Issued</i>	<i>Retired/ deceased</i>	<i>Balance at June 30, 2007</i>
1997 Fiscal Series A - 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	\$ 130,545	\$ -	\$105,545	\$ 25,000
1997 Fiscal Series B - 5.75% to 5.80% Serial Bonds maturing in varying installments through 2029	100,000	-	100,000	-
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	30,435	-	2,085	28,350
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	313,038	-	192,902	120,136
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	10,370	-	750	9,620
1998 Fiscal Series 6 - 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	13,633	-	854	12,779
1998 Fiscal Series A - 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	256,315	-	-	256,315
1998 Fiscal Series B - 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	224,470	-	224,470	-
1998 Fiscal Series C - 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	84,300	-	325	83,975
1998 Fiscal Series D - 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	359,270	-	4,050	355,220
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	94,565	-	4,916	89,649
1999 Fiscal Series A - 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	-	301,470
1999 Fiscal Series B - 4.0% to 5.25% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	171,910	-	-	171,910
2000 Fiscal Series B - 6.00% to 6.10% Serial Bonds maturing in varying installments through 2033	131,865	-	-	131,865
2000 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 - 3.80% to 5.96% Serial Bonds maturing in varying installments through 2019	9,580	-	530	9,050
2001 Fiscal Series B - 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	67,390	-	165	67,225
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	234,800	-	1,860	232,940
2001 Fiscal Series E - 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A - 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	166,305	-	50,000	116,305
2002 Fiscal Series B - 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,455	-	235	171,220
2002 Fiscal Series C - 4.1% to 5.125% Serial and Term Bonds maturing in varying installments through 2032	46,580	-	-	46,580
2002 Fiscal Series D - 3.0% to 4.90% Serial and Term Bonds maturing in varying installments through 2020	41,580	-	85	41,495
2002 Fiscal Series E - 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,850	-	105	213,745
2002 Fiscal Series F - 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	-	-	105,635

Notes to Financial Statements (continued)

June 30, 2007 and 2006

<i>Note 8 (continued)</i>	<i>Balance at June 30, 2006</i>	<i>Issued</i>	<i>Retired/ defeased</i>	<i>Balance at June 30, 2007</i>
2002 Fiscal Series G - 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	\$ 216,375	\$ -	\$ -	\$ 216,375
2002 Fiscal Series 1 - 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	180,638	-	5,685	174,953
2002 Fiscal Series 2 - 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	61,835	-	2,501	59,334
2002 Fiscal Series 3 - 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	463,310	-	14,273	449,037
2002 Fiscal Series 4 - 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	200,533	-	8,005	192,528
2002 Fiscal Series 5 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	163,882	-	5,434	158,448
2002 Fiscal Series 6 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	81,319	-	4,872	76,447
2002 Fiscal Series 7 - 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	5,925	-	1,490	4,435
2003 Fiscal Series A - 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	689,180	-	3,335	685,845
2003 Fiscal Series C Adjustable Rate Bonds maturing in 2018	300,300	-	-	300,300
2003 Fiscal Series D - 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	216,355	-	1,830	214,525
2003 Fiscal Series E - 5% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F - Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 - 4.23% to 4.375% Serial Bonds maturing in varying installments through 2032	137,413	-	4,726	132,687
2003 Fiscal Series 2 - 5.27% Serial Bonds maturing in varying installments through 2028	561,664	-	11,590	550,074
2003 Fiscal Series 3 - 5.15% Serial Bonds maturing in varying installments through 2025	19,825	-	695	19,130
2003 Fiscal Series 4 - 5.18% Serial Bonds maturing in varying installments through 2025	31,545	-	1,110	30,435
2003 Fiscal Series 5 - 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	277,930	-	9,028	268,902
2004 Fiscal Series A - 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2023	338,500	-	1,780	336,720
2004 Fiscal Series C - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	595,745	-	575	595,170
2004 Fiscal Series 1 - 4.12% - 4.45% Serial Bonds maturing in varying installments through 2033	287,567	-	8,712	278,855
2004 Fiscal Series 2 - 4.46% Serial Bonds maturing in varying installments through 2026	249,063	-	7,713	241,350
2005 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000
2005 Fiscal Series B - 2.125% - 5.00% Serial Bonds maturing in varying installments through 2036	921,005	-	1,045	919,960
2005 Fiscal Series C - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2036	575,735	-	730	575,005
2005 Series D - 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 - 3.95% - 5.00% Bonds maturing in varying installments through 2034	223,946	-	6,783	217,163

Notes to Financial Statements (continued)

June 30, 2007 and 2006

Note 8 (continued)

	June 30, 2006	Issued	Balance at Retired/ deleased	Balance at June 30, 2007
2005 Fiscal Series 2 - 2.567% - 5.00% Bonds maturing in varying installments through 2026	\$ 381,274	\$ -	\$11,651	\$ 369,623
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	519,245	-	355	518,890
2006 Series B - 5.00% Term Bond maturing in 2036	150,000	-	-	150,000
2006 Series C - 4.50% - 4.75% Term Bonds maturing in 2033	350,345	-	-	350,345
2006 Fiscal Series D - 4.5% - 5.00% Serial Bonds maturing in varying installments through 2038	406,205	-	-	406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB - 3.25% - 5.00% Serial Bonds maturing in varying installments through 2016	100,000	-	10,000	90,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2036	224,684	-	4,423	220,261
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	201,441	-	2,428	199,013
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	256,388	-	2,910	253,478
2007 Fiscal Series A - 4.25% - 4.75% Serial Bonds maturing in varying installments through 2039	-	587,975	-	587,975
2007 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2037	-	199,910	-	199,910
2007 Fiscal Series BB - 3.75% - 5.00% Serial Bonds maturing in varying installments through 2021	-	134,360	2,615	131,745
2007 Fiscal Series CC - Adjustable rate bonds maturing in varying installments through 2038	-	210,500	-	210,500
2007 Fiscal Series DD - 4.75% - 5.00% Serial Bonds maturing in varying installments through 2039	-	395,000	-	395,000
2007 Fiscal Series 1 - 4.35% - 4.40% Serial Bonds maturing in varying installments through 2036	-	228,112	1,578	226,534
2007 Fiscal Series 2 - 4.45% - 4.50% Serial Bonds maturing in varying installments through 2036	-	290,314	2,042	288,272
2007 Fiscal Series 3 - 4.90% Serial Bonds maturing in varying installments through 2024	-	174,936	-	174,936
Total debt payable	<u>15,934,351</u>	<u>2,221,107</u>	<u>884,274</u>	<u>17,271,184</u>
Current portion of bonds and notes payable	<u>215,061</u>			<u>210,971</u>
Bonds and notes payable, less current portion	<u>\$15,719,290</u>			<u>\$17,060,213</u>

Derivatives

In 2004, the Authority entered into a \$200 million interest rate exchange agreement under which the Authority receives a fixed rate in exchange for a floating rate based on the SIFMA Index (formerly the BMA Municipal Swap Index). This effectively converted a portion of the Authority's second resolution bonds issued through the New York State Environmental Facilities Corporation to variable rate bonds. The terms of this agreement require the Authority to pay the SIFMA index and the counterparty to pay 3.567%.

In 2003, the Authority sold \$20 million of muni-CPI bonds in the 2013 maturity of its Fiscal 2003 Series A issue. In connection with the muni-CPI bonds, the Authority entered into an interest rate exchange agreement under which the Authority receives a floating rate tied to the consumer price index, which matches the rate on the bonds, and pays a fixed interest rate. This allowed the Authority to achieve a yield 10 basis points lower than traditional fixed rate debt with a 2013 maturity. The terms of this transaction require the counterparty to pay the Authority the muni-CPI rate, which is set at 1.53% plus a floating rate CPI, with the CPI being equal to the change in the consumer price index.

In keeping with market standards, the Authority or the counterparty may terminate the swap if the other party fails to perform under its terms as defined in the agreements. The Authority views termination risk to be remote at this time. Depending on the fair value at the time of termination, the Authority may have a liability to the counterparties.

Notes to Financial Statements (continued)

June 30, 2007 and 2006

Note 8 (continued)

Through the swap agreements the Authority is exposed to credit risk, i.e., the risk that the counterparties fail to perform their contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2007 and 2006 was approximately \$3.1 million and \$5.8 million in favor of the counterparty, respectively. To mitigate credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, as defined in the agreement.

Note 9 – Restricted Assets

Certain cash and investments, plus accrued interest and other receivables, of the System are restricted as follows (*in thousands*):

	2007	2006
The Board		
Operation and maintenance reserve account	\$ 175,151	\$ 157,797
Operation and maintenance reserve general account	10	10
	<u>175,161</u>	<u>157,807</u>
The Authority		
Revenue fund	161,863	171,859
Debt service reserve fund	801,226	787,808
Construction fund	259,708	62,097
Arbitrage fund	6,519	-
Escrow fund	194,713	293,394
	<u>1,424,029</u>	<u>1,315,158</u>
	<u>\$1,599,190</u>	<u>\$1,472,965</u>

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

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

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

Note 10 – Commitments and Contingencies**a. Construction**

The System has contractual commitments of approximately \$7 billion and \$5.1 billion at June 30, 2007 and 2006, respectively, for water and sewer projects.

b. 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

Notes to Financial Statements *(continued)*

June 30, 2007 and 2006

Note 10 (continued)

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. 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, 2007, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$255.3 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's balance sheet. The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

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.

Note 11 – Pension Plans

During 2007, the System employed four individuals at the Water Authority. Pension expense for these employees totaled \$239,000. 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 are included principally within operations and maintenance expenses in the accompanying financial statements.

Note 12 – 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 constitute another post-employment benefit (OPEB) plan (the Plan) in accordance with GASB Statement No. 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 reimbursements, and 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 fiscal years ended June 30, 2007 and 2006, the Authority had no retirees, and thus made no contribution. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that requires 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 Statement No. 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2006, which was the basis for the 2007 ARC calculation.

Notes to Financial Statements *(continued)*

June 30, 2007 and 2006 2005

Note 12 *(continued)*

The following table shows the elements of the Authority's annual OPEB cost for the years, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the years ended June 30, 2007:

	<i>2007</i>
Annual required contribution	\$ 229,398
Interest on net OPEB obligations	15,920
Adjustment to annual required contribution	(413,930)
Annual OPEB cost (reduction in liability)	(168,612)
Payments	-
Decrease in net OPEB obligation	(168,612)
Net OPEB obligation - beginning of year	398,010
Net OPEB obligation - end of year	\$ 229,398

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, 2007 and June 30, 2006 were as follows:

<i>Fiscal year ended</i>	<i>Annual OPEB cost</i>	<i>Percentage of annual OPEB cost contributed</i>	<i>Net OPEB obligation</i>
June 30, 2007	\$(168,010)	0%	\$229,398
June 30, 2006	\$ 398,010	0%	\$398,010

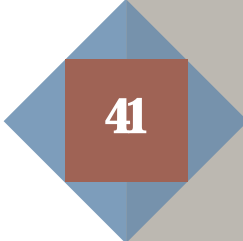
The OPEB cost for fiscal 2007 was negative to reflect the reduction of the Authority's OPEB liability that resulted from the transfer of a large portion of the Authority's administrative staff members to the City, which assumed the OPEB obligations for the transferred staff members.

Funded Status and Funding Progress

As of June 30, 2006, the most recent actuarial valuation date, the cost was 0.0% funded. The actuarial accrued liability for benefits was \$173,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$173,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$306,000, and the ratio of the UAAL to the covered payroll was 57%.

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



Notes to Financial Statements *(continued)**June 30, 2007 and 2006***Note 12 (continued)**

financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The schedule of funding progress, shown as required supplementary information below presents the results of OPEB valuations as of June 30, 2005, and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information (unaudited)*Schedule of Funding Progress*

<i>Actuarial valuation date</i>	<i>Actuarial value of assets</i>	<i>Actuarial accrued liability (AAL) - entry age</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded ratio</i>	<i>Covered payroll</i>	<i>UAAL as a percentage of covered payroll</i>
6/30/06	\$ -	\$172,974	\$172,974	0%	\$ 306,155	56%
6/30/05	-	308,348	308,348	0%	1,041,223	29%

Note 13 – Subsequent Events

On October 10, 2007, the Authority issued fiscal 2007 Series AA Second Resolution Bonds in the aggregate amount of \$400.0 million to reimburse outstanding commercial paper notes and to pay certain costs of issuance.

On October 24, 2007, the Authority issued the Adjustable Rate Fiscal 2007 Series BB Second Resolution Bonds in the aggregate amount of \$401.0 million to refund outstanding commercial paper notes and to pay for certain costs of issuance.

On October 24, 2007, the Authority issued fiscal 2007 Series CC Second Resolution Bonds in the aggregate amount of \$352.2 million to refund outstanding bonds and to pay for certain costs of issuance.

Statistics

Revenues Last Ten Fiscal Years

Years Ended June 30, 1998–2007 (in thousands)

Year	Water Supply and Distribution	Sewer Collection and Treatment	Other Operating Revenues	Subsidy and Investment Income	Total
1998	560,956	819,662	102,540	93,883	1,577,041
1999	583,394	857,204	85,903	81,465	1,607,966
2000	610,949	876,455	93,194	70,478	1,651,076
2001	626,364	898,568	96,991	84,534	1,706,457
2002	648,319	907,324	116,512	97,543	1,769,698
2003	690,093	952,985	68,842	162,052	1,873,972
2004	713,097	984,753	75,283	155,260	1,928,393
2005	755,693	1,043,575	85,459	176,196	2,060,923
2006	735,200	1,143,424	100,306	193,686	2,172,616
2007	796,404	1,238,612	98,061	188,733	2,321,810

Expenses Last Ten Fiscal Years

Years Ended June 30, 1998–2007 (in thousands)

Year	Operation and Maintenance	Provision for Uncollectibles	Administration and General	Depreciation and Amortization	Interest Expense	Total
1998	822,791	149,748	11,217	281,943	465,819	1,731,518
1999	777,652	103,960	10,879	380,023	476,675	1,749,189
2000	801,255	89,062	10,092	347,055	492,747	1,740,211
2001	842,401	122,784	11,215	318,709	527,914	1,823,023
2002	857,907	92,481	14,171	320,382	556,784	1,841,725
2003	875,762	89,400	15,181	389,626	584,347	1,954,316
2004	933,736	116,108	19,853	451,585	612,054	2,133,336
2005	944,919	114,702	23,168	515,325	668,675	2,266,789
2006	1,056,378	87,222	26,727	500,161	731,563	2,402,051
2007	1,147,157	226,028	35,493	579,860	771,656	2,760,194

Revenue Bond Coverage Last Ten Fiscal Years

Years Ended June 30, 1998–2007 (in thousands)

Year	Cash (1) Receipts	Debt Service Requirements (2)		Total	First Resolution Debt Service Coverage	Second Resolution Debt Service Coverage
		Principal	Interest			
1998	1,411,070	128,555	357,133	485,688	3.37	2.98
1999	1,460,602	136,767	345,397	482,164	3.42	3.03
2000	1,481,532	201,133	317,799	518,932	3.35	2.85
2001	1,527,009	164,843	331,309	496,152	3.13	3.08
2002	1,592,393	90,648	405,745	496,393	3.21	3.21
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	353,408	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

(1) Until 1998, cash receipts as defined in the bond resolution excludes interest received on debt service and revenue funds and subsidy payments

(2) Debt service requirements include First Resolution debt service and a portion of Second Resolution debt service. Until 1997, all Second Resolution debt service was paid from carry forward amounts and subsidy payments from the New York State Environmental Facilities Corporation.

Statistics

Population

Year	United States	Percentage Change from Prior Period	City of New York	Percentage Change from Prior Period
1997	272,646,925	1.21%	7,773,443	0.98%
1998	275,854,104	1.18	7,858,259	1.09
1999	279,040,168	1.15	7,947,660	1.14
2000	282,216,952	1.14	8,018,350	0.89
2001	285,226,284	1.07	8,076,374	0.72
2002	288,125,973	1.02	8,106,876	0.38
2003	290,796,023	0.93	8,143,998	0.46
2004	293,638,158	0.98	8,178,201	0.42
2005	296,507,061	0.98	8,213,839	0.44
2006	299,398,484	0.98	8,214,426	0.01

Population of New York City by Borough

	2006*	2000	1990	1980	1970	1960
Bronx	1,361,473	1,334,381	1,203,789	1,168,972	1,471,701	1,424,815
Brooklyn	2,508,820	2,466,952	2,300,664	2,230,936	2,602,012	2,627,319
Manhattan	1,611,581	1,539,610	1,487,536	1,428,285	1,539,233	1,698,281
Queens	2,255,175	2,231,845	1,951,598	1,891,325	1,987,174	1,809,578
Staten Island	477,377	445,562	378,977	352,121	295,443	221,991
Total	8,214,426	8,018,350	7,322,564	7,071,639	7,895,563	7,781,984
Percentage Increase (Decrease) from Prior Decade	2.4%	9.5%	3.5%	(10.4%)	1.5%	(1.4%)

* Population estimates available as of March 2007.

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

Average Daily Water Consumption

Fiscal Year	Total (mgd) ⁽¹⁾	Upstate Counties (mgd)	City (mgd)	Per capita (gals/day) ⁽²⁾
1997	1,334	121	1,213	164
1998	1,294	122	1,172	160
1999	1,342	129	1,213	163
2000	1,359	127	1,231	166
2001	1,340	126	1,201	166
2002	1,281	124	1,157	144
2003	1,232	119	1,113	139
2004	1,213	118	1,095	138
2005	1,211	118	1,093	138
2006	1,088	122	966	121
2007	1,218	120	1,098	137

(1) mgd = millions of gallons used per day

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

Statistics

Water and Sewer Rate Increases

<i>Effective Date</i>	<i>Changes in Flat-Rate Water</i>	<i>Changes in Metered Water</i>	<i>Metered Water Rate (per ccf) (1)</i>	<i>Change in Sewer</i>
July 1, 1997	Increased 6.5%	Increased 6.5%	1.13	159% of water charge
July 1, 1998	Increased 6.5%	Increased 6.5%	1.20	No change
July 1, 1999	Increased 4.0%	Increased 4.0%	1.25	No change
July 1, 2000	Increased 4.0%	Increased 4.0%	1.30	No change
July 1, 2001	Increased 1.0%	Increased 1.0%	1.31	No change
July 1, 2002	Increased 3.0%	Increased 3.0%	1.35	No change
July 1, 2003	Increased 6.5%	Increased 6.5%	1.44	No change
July 1, 2004	Increased 5.5%	Increased 5.5%	1.53	No change
July 1, 2005	Increased 5.5%	Increased 5.5%	1.60	No change
July 1, 2006	Increased 3.0%	Increased 3.0%	1.65	No change
July 1, 2007	Increased 9.4%	Increased 9.4%	1.81	No change

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

Water System Tunnels and Aqueducts

<i>Connections</i>		<i>Length (miles)</i>	<i>Diameter (feet) (1)</i>	<i>In Service Date</i>	
Tunnels Upstate					
	Shandanken	18.1	11.5 x 10.251	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 13.61	1893
		Jerome Park to 135 St. Gatehouse	9.0	12.25-10.52	1893
	Catskill	Ashokan to Kensico	75.0	17 x 17.51	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	15-112	1917
	Tunnel 2	Hillview to distribution system	20.0	17-152	1936
	Tunnel 3, Stage 1	Hillview to distribution system	13.0	24-202	1998
	Richmond Tunnel	Tunnel 2 to Staen Island Uptake Shaft	5.0	10	1970

(1) Tunnels are not round

(2) Variable diameter tunnels

Statistics

Water Pollution control Plants Daily Flow

<i>Plant</i>	<i>Design Flow (mgd) (1)</i>	<i>12 month avg. (mgd) (1) July 05 - July 06</i>	<i>12 month avg. (mgd) (1) July 06 - July 07</i>
Wards Island	275	215	222
North River	170	129	127
Hunts Point	200	132	130
26th Ward	85	58	56
Coney Island	110	92	87
Owls Head	120	102	103
Newtown Creek	310	231	241
Red Hook	60	33	34
Jamaica	100	87	88
Tallmans Island	80	62	55
Bowery Bay	150	108	108
Rockaway	45	22	24
Oakwood Beach	40	30	31
Port Richmond	60	31	31
Total	1,805	1,332	1,337

(1) mgd=millions of gallons of water

Organizational Chart

New York City Municipal Water Finance Authority

Board of Directors

Mark Page	<i>ex officio Member</i>
Charles E. Dorkey III	<i>Member</i>
Arthur B. Hill	<i>Member</i>
Peter J. Kenny	<i>Member</i>
Emily Lloyd	<i>ex officio Member</i>
Denise Sheehan	<i>ex officio Member</i>
Martha E. Stark	<i>ex officio Member</i>

Staff

Alan Anders	<i>Chief Executive Officer</i>
Patrick J. McCoy	<i>Executive Director</i>
Marjorie E. Henning	<i>Secretary</i>
Lawrence R. Glantz	<i>Comptroller</i>
Prescott D. Ulrey	<i>Assistant Secretary</i>
Olga Chernat	<i>Deputy Treasurer</i>
Jeffrey M. Werner	<i>Assistant Secretary</i>
Valerie Mehallow	<i>Finance Director</i>

New York City Water Board

Members

James T. B. Tripp	<i>Chairman</i>
Donald Capoccia	<i>Member</i>
Dawn S. Davis	<i>Member</i>
Marilyn Gelber	<i>Member</i>
Amaziah Howell	<i>Member</i>
Alan M. Moss	<i>Member</i>
Maria Santos Valentin	<i>Member</i>

Staff

Steven Lawitts	<i>Executive Director</i>
William Kusterbeck	<i>Treasurer</i>
Carmelo Emilio	<i>Deputy Treasurer</i>
Albert F. Moncure, Jr.	<i>Secretary</i>

Investor Relations Contact

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New York City Department of Environmental Protection

Emily Lloyd	<i>Commissioner</i>
Steven Lawitts	<i>First Deputy Commissioner</i>

Bureau of Water and Sewer Operations

James Roberts	<i>Deputy Commissioner</i>
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Bureau of Engineering Design and Construction

Steven Lawitts	<i>Acting Deputy Commissioner</i>
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Bureau of Wastewater Treatment

Douglas S. Greeley, P. E.	<i>Deputy Commissioner</i>
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Bureau of Water Supply

Paul Rush, P. E.	<i>Deputy Commissioner</i>
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Bureau of Customer Services

Joseph Singleton	<i>Deputy Commissioner</i>
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Bureau of Human Resources and Administration

Zoeann Campbell	<i>Acting Deputy Commissioner</i>
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Bureau of Environmental Planning

Angela Licata	<i>Deputy Commissioner</i>
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