

*A Component Unit of the City of New York*

**THE NEW YORK CITY MUNICIPAL  
WATER FINANCE AUTHORITY**

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30th 2005

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## Letter of Transmittal

November 8, 2005

We are pleased to submit to you this Comprehensive Annual Financial Report (“CAFR”) of the New York City Water and Sewer System (the “System”) for the year ended June 30, 2005.

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, the System, 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 and improvement of the System and the acquisition of the System by the Board. 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 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 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 in sequential order of importance 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.

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 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.

### TO:

- Members of the Board of the New York City Municipal Water Finance Authority;
- Members of the Board of the New York City Water Board;
- The Commissioner of the New York City Department of Environmental Protection

The System provides an average of approximately 1,211 million gallons per day of water. In addition to a system of dams, reservoirs, aqueducts, and water tunnels, DEP maintains approximately 6,200 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**

In recent years DEP has taken a number of steps to enhance and augment its security arrangements to protect the water system, including the structures, facilities and reservoirs. These steps include, among others, increasing the size of the DEP police force to a total of approximately 200 officers; obtaining legislation authorizing the DEP police force to function as police officers within the City as well as in the upstate watersheds; purchasing additional police vehicles and surveillance equipment, and further securing facilities through additional locks, fencing and other physical barriers to prevent access by unauthorized persons, restricting vehicular access at certain facilities and more frequent 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**

In July, 2004, Standard and Poor's Ratings Services upgraded its rating on the Authority's bonds to AA+ from AA, just one notch below their highest rating, AAA. The rating upgrade was the result of "... greater predictability surrounding costs and requirements of large capital projects, moderating rate increases and gradually improving coverage." Additionally, the Standard and Poor's report makes note of the affordable rates and sound management of the System. The Authority's ratings from all three rating agencies also 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. Fitch Ratings and Moody's Investor Service, rate the Authority AA and Aa2, respectively.

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.

In October, 2005, the Authority issued variable rate debt under the second resolution. This was the first time that the Authority's second resolution received credit ratings. Fitch Ratings, Standard & Poor's Ratings Services and Moody's Investors Service rated the second resolution bonds AA, AA and Aa3 respectively.

#### **INTERNAL 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.

The System 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 System is also subject to the City's internal auditors who periodically check the City's agencies' and component units' adherence to internal control policies and procedures.

#### **BUDGETARY CONTROLS**

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





**CAPITAL PROGRAM GOALS**

- 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.

The capital budget of the Authority is appropriated through the City’s capital budget. The operation and maintenance budget of the System is appropriated through the City’s annual operating budget. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control.

**CAPITAL IMPROVEMENT PROGRAM AND FINANCING PROGRAM**

The City’s Ten Year Capital Strategy, published in June 2005, and which is updated every two years, includes the projected capital improvements to the System for fiscal years 2006 through 2015. The City’s Current Capital Plan is updated quarterly and supersedes the Ten Year Capital Strategy for Fiscal Years 2006 through 2009. 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 June 2005. 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 \$15.6. The table below reflects the CIP as of June 2005, 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 current and subsequent years.

**SYSTEM FUNDS**

(IN THOUSANDS)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
Water Supply and Transmission	\$ 184,026	15,103	50,000	150,000	239,000	400,000	616,299	350,000	558,800	655,500	3,218,728
Water Distribution	497,788	1,887,102	382,806	230,765	229,377	272,556	194,333	130,595	143,724	149,386	\$4,118,432
Water Pollution Control	1,070,314	227,235	664,631	707,842	850,948	535,965	403,489	596,574	368,644	584,119	\$6,009,761
Sewers	177,623	184,547	172,824	122,813	150,728	173,854	119,139	142,042	146,234	150,547	\$1,540,351
Equipment	144,692	78,706	60,787	61,763	94,900	48,453	48,113	48,417	48,131	48,380	\$682,342
<b>Total</b>	<b>\$ 2,074,443</b>	<b>2,392,693</b>	<b>1,331,048</b>	<b>1,273,183</b>	<b>1,564,953</b>	<b>1,430,828</b>	<b>1,381,373</b>	<b>1,267,628</b>	<b>1,265,533</b>	<b>1,587,932</b>	<b>15,569,614</b>
Projected Authority Bond Issuance	\$ 2,340,281	1,918,382	1,651,546	1,644,826	1,647,591	1,603,386	1,563,066	1,558,586	1,530,586	1,569,786	17,028,040

### **Water Supply and Transmission**

This component of the CIP includes approximately \$480 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 2012. The remaining section of the Stage II underground excavation includes the Manhattan leg, which will stretch 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 Cortland 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 CIP includes \$1.7 billion for the new Kensico-City tunnel. 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 \$1 billion 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 \$4.1 billion for the protection, expansion, and distribution of the City's water supply. This includes approximately \$1.3 billion for the construction of a full-scale filtration plant for the treatment of water from the Croton watershed, which reflects full funding based on current estimates for the plant. The program also calls for \$1.1 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. The FAD will remain in effect until further determinations are made, with the next scheduled for April 2007. 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, \$6.0 billion is allocated to water pollution control programs in the CIP.

Combined Sewer Overflow ("CSO") is currently a source of pollution in the City's waters. CSO occurs 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. DEP's CIP includes approximately \$685 million for the abatement of CSOs, including CSO storage tank construction. The City is also exploring alternative approaches to CSO problems that focus on cost effective means of protecting water quality.

Approximately \$1.0 billion has been allocated in the CIP for the upgrade of the Newtown Creek Water Pollution Control Plant to full secondary treatment. Newtown Creek is the last of the City's 14 in-City water pollution control plants to be upgraded to meet the full secondary treatment requirements of the Clean Water Act. Another significant program included in the CIP is over \$1.1 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 includes \$3.2 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.







**Sewers**

Approximately \$1.5 billion is projected in the CIP to be committed to replace existing sewers in areas requiring increased capacity, to extend sewers to unserved or underserved areas, and to replace failing, flawed, or collapsed sewer mains.

**Equipment**

Programs in this category of the CIP include 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 \$682 million of City funds is projected in the CIP for these projects.

**RISK MANAGEMENT**

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

**CASH MANAGEMENT**

Both the Authority and the Water Board 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 repurchase agreements collateralized by obligations of the federal government.

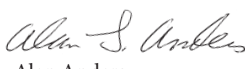
The Authority employs various methods for the investment of its funds. The Authority's management is responsible for the investment of certain funds, and utilizes an investment manager for the active management of some funds; additionally, the Authority invests in forward purchase agreements and guaranteed investment contracts. The Water Board makes its own investments through the City Comptroller's investment group.

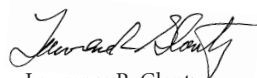
Funds are invested for periods of one day up to twenty years based upon cash flow requirements and subject to the restrictions on investments set forth in the Authority's General Bond Resolution. Daily cash from user payments is received into a lock box by the Water Board and is transferred daily to 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 2005 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,

  
Alan Anders  
Executive Director

  
Lawrence R. Glantz  
Comptroller

# 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, 2004

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.



*Nancy L. Zjelle*

President

*Jeffrey R. Emen*

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, 2005 and 2004. 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, 2005 and 2004, 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.



New York, New York  
October 18, 2005

**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, 2005 and 2004. 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 by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus." 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 2005, 2004 and 2003.

(IN THOUSANDS)	2005	2004	2003
<b>Revenues</b>			
Water supply and distribution	\$ 755,693	713,097	690,093
Sewer collection and treatment	1,043,575	984,753	952,985
Other operating revenues	85,459	75,283	68,842
Total operating revenues	1,884,727	1,773,133	1,711,920
Subsidy income	78,834	68,311	65,816
Investment income, net	97,362	86,949	96,236
Total revenues	2,060,923	1,928,393	1,873,972
<b>Expenses</b>			
Operations and maintenance	944,919	933,736	875,762
Bad debt expense	114,702	116,108	89,400
Administration and general	23,168	19,853	15,181
Depreciation and amortization	515,325	451,585	389,626
Loss on retirement of fixed assets	7,971	25,214	—
Interest expense	668,675	612,054	584,347
Total expenses	2,274,760	2,158,550	1,954,316
Net loss before capital contributions (distributions)	(213,837)	(230,157)	(80,344)
Capital (distributions) contributions, net	(185,242)	29,875	7,233
Change in net assets	(399,079)	(200,282)	(73,111)
Net assets – beginning	3,554,183	3,754,465	3,827,576
Net assets – ending	\$ 3,155,104	3,554,183	3,754,465

**Management's Discussion and Analysis (continued)****2005 – 2004**

Total operating revenues increased by 6.3%, principally resulting from a rate increase of 5.5%.

**2004 – 2003**

Total operating revenues increased by 3.6% on a rate increase of 5.5%. Water consumption declined by 1.5% over the previous year.

The following summarizes other operating revenues:

(IN THOUSANDS)	2005	2004	2003
Upstate water fees	\$ 27,290	24,611	22,790
Late payment fees	47,810	41,767	38,235
Connection fees and permits	10,359	8,905	7,817
Total other revenues	\$ 85,459	75,283	68,842

**2005 – 2004**

The System has increased its collections of past-due amounts, which resulted in an increase in late payments fee revenue of nearly 14.5% or \$6.0 million.

**2005 – 2004**

Investment income increased by 11.9%. Total investment balances remained about the same, but there were no additional arbitrage rebate expenses in 2005 and interest rates earned on investments increased.

Total operations and maintenance expenses increased by \$11.2 million or 1.2%. The rental payment to the City for debt service decreased by over \$6 million, and judgments and claims decreased by over \$25 million. All other operations and maintenance expenses increased by \$44 million or 5.5%.

Bad debt expense decreased by \$1.4 million. Receivable balances have decreased, as the System has collected on past-due amounts, and bad debt expense has leveled as a percentage of revenues.

Interest expense increased by \$56.6 million or 9.25%. Total debt of the System has increased by 10.2% and interest expense has increased by a similar percentage.

In 2005, the System granted back to the City land that had been purchased with bond proceeds. The total granted was \$187.6 million. The System also received grants from other sources of \$2.4 million.

**Management's Discussion and Analysis (continued)****2004 – 2003**

Investment income decreased by 9.7%. The Authority had \$5.7 million in arbitrage rebates in 2004, which are netted against investment income. Total investments decreased by \$300 million.

Total operations and maintenance expense increased by \$58 million or 6.6%. Expenses for operations of the System increased by \$44 million, and the rental payment to the City for debt service increased by \$14 million. The two major components of the increase in operations and maintenance were increased costs of \$17 million for upstate watershed protection, and an increase of \$12 million in judgments and claims. The rental payment increased primarily due to higher debt service payments coming due on bonds issued by New York City prior to the inception of the System.

Bad debt expense increased by \$27 million. The System continues to evaluate the accounts receivable balances and where required deems uncollectible accounts to be written off to bad debt expense.

Interest expense increased by \$28 million or 4.7%. The total debt of the System has increased by \$550 million or 4%, and interest expense has increased by nearly the same percentage.

A summary of the System's assets, liabilities and net assets (in thousands) follows:

(IN THOUSANDS)	2005	2004	2003
Current assets	\$ 2,436,222	2,423,309	2,779,146
Deferred bond and financing expenses	125,582	112,540	111,794
Capital assets	16,008,960	15,174,128	14,163,830
Total assets	<u>18,570,764</u>	<u>17,709,977</u>	<u>17,054,770</u>
Long-term liabilities	13,955,495	12,565,882	11,894,966
Current liabilities	1,460,165	1,589,912	1,405,339
Total liabilities	<u>15,415,660</u>	<u>14,155,794</u>	<u>13,300,305</u>
Net assets			
Invested in capital assets, net of related debt	2,803,031	3,368,355	3,271,440
Restricted for debt service	152,544	179,106	203,695
Restricted for operations and maintenance	145,693	135,701	132,107
Unrestricted (deficit)	53,836	(128,979)	147,223
Total net assets	<u>3,155,104</u>	<u>3,554,183</u>	<u>3,754,465</u>
Total liabilities and net assets	<u>\$ 18,570,764</u>	<u>17,709,977</u>	<u>17,054,770</u>



**Management's Discussion and Analysis (continued)****2005 – 2004**

Current assets increased by \$13 million. Total investments and receivables remained about the same.

Total liabilities increased by \$1.3 billion, which was due to the increase in debt payable.

**2004 – 2003**

Current assets decreased by \$356 million or 12.8%. Net receivables, including unbilled revenues, decreased by \$32 million, and the System's receivable from the City for overpayment of operations and maintenance expense decreased from 2003 by \$10 million.

The major decrease in investments was \$267 million in the construction fund. The balances in this fund are available to pay for capital projects and vary due to the timing of the reissuance of commercial paper following the issue of long-term bonds. In 2004, \$40 million in principal payments were made from the escrow funds.

Capital assets are described in a separate section of this discussion.

In 2004, the System issued an additional \$100 million of commercial paper and terminated \$125 million, which brought the total program amount to \$800 million. Current liabilities increased by \$184 million primarily due to an increase in payable to the City of \$219 million. Total commercial paper outstanding decreased by \$25 million.

Long-term liabilities increased by \$671 million or 6%. A detailed discussion of the debt issued by the System is provided in the Debt Administration section of this discussion.

**CAPITAL ASSETS**

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

(IN THOUSANDS)	2005	2004	2003
Utility plant construction	\$ 4,010,861	3,564,455	2,845,080
Land	—	142,409	116,576
Buildings	22,071	22,071	22,071
Equipment	424,673	378,333	288,250
Water supply and wastewater treatment systems	10,152,707	9,619,222	9,577,106
Water distribution and sewage collection systems	7,579,881	7,196,035	6,676,855
Total utility plant in service	18,179,332	17,358,070	16,680,858
Less accumulated depreciation	6,181,233	5,748,397	5,362,108
Total, net utility plant in service	11,998,099	11,609,673	11,318,750
Total capital assets	\$16,008,960	15,174,128	14,163,830

**Management's Discussion and Analysis (continued)**

The net increase in the System's capital assets during fiscal year 2005 was \$834 million or 5.5 %. Net capital asset additions for 2005 were \$1,268 million.

The net increase in the System's capital assets during fiscal year 2004 was \$1.0 billion or 7.1 %. Net capital asset additions for 2004 were \$ 1,397 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. 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 issues refunding bonds to refinance higher coupon debt.

Outstanding long-term debt at June 30, 2005

ISSUE DATE (IN THOUSANDS)	
2005	\$ 2,827,544
2004	1,703,622
2003	2,881,100
2002	2,160,587
2001	1,035,925
2000 and prior	4,025,273
<b>Total long-term debt</b>	<b>\$ 14,634,051</b>

At June 30, 2005, the total outstanding debt of the System was \$15.4 billion, of which \$800 million was commercial paper. The remaining \$14.6 billion consisted of variable and fixed rate bonds and notes maturing in varying installments through 2040.

In the above, bonds retired through refundings in 2005 are removed from the year in which the refunded bonds were issued.

In fiscal year 2005, the Authority issued \$2,227,600,000 of water and sewer revenue bonds directly to the public, including \$1,152,600,000 of refunding bonds and \$1,075,000,000 in long-term financing. The Authority also issued \$621,033,499

in Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, all of which were issued for new money purposes. 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 2005, the Authority closed six bonds. The First Resolution Fiscal 2005 Series A, B, C and D bonds consisted of bond sales directly to the public. The Second Resolution Fiscal 2005 Series 1 and Series 2 bonds were issued to EFC to secure bonds issued by EFC on behalf of the Authority.

On September 5, 2004, the Authority closed its first transaction of fiscal year 2005. The Fiscal 2005 Series A bonds were sold for a par amount of \$150 million. The issue was comprised of a term bond maturing in 2039. Proceeds from the sale were used to defease a portion of the Authority's Series 1 commercial paper notes, fund a portion of the debt service reserve fund and pay costs of issuance.

On September 11, 2004, the Authority closed its first transaction with EFC in fiscal year 2005. The Fiscal 2005 Series 1 bonds, issued to EFC in the amount of \$230,408,946 to secure bonds issued by EFC, were sold in a common plan of finance with the Authority's Series A bonds. Proceeds were used to defease the Authority's commercial paper Series 5 notes and a portion of the Authority's Series 7 notes, which had funded eligible Clean Water and Drinking Water SRF projects. Proceeds were also used to pay the costs of issuance for the bonds.

**Management's Discussion and Analysis (continued)**

On November 30, 2004, the Authority closed its second transaction with EFC in fiscal year 2005. The Fiscal 2005 Series 2 bonds, issued to EFC in the amount of \$390,624,553, were to secure bonds issued by EFC. Proceeds were used to defease the Authority's commercial paper Series 5 Lot A and Series 7 notes and a portion of the Authority's Series 5 Lot B notes, which had funded eligible Clean Water and Drinking Water SRF projects. Proceeds were also used to pay the costs of issuance for the bonds

On December 8, 2004, the Authority issued its Fiscal 2005 Series B bonds. The bonds were sold at a par amount of \$935,480,000. Proceeds from the sale were used to refund a portion of the Fiscal 1997 Series A and Series B bonds, to defease all of the Authority's commercial paper Series 1 and 6 notes, pay certain costs of issuance, and fund a portion of the debt service reserve fund. The issue included serial bonds in years 2005 through 2024 and Term bonds in 2028, 2029 and 2036.

On March 17, 2005, the Authority issued its Fiscal 2005 Series C bonds. The bonds were sold at a par amount of \$582,915,000. Proceeds from the sale were used to refund Fiscal 1997 Series A and Series B bonds, Fiscal 2000 Series A bonds, Fiscal 2002 Series A bonds, and Fiscal 2003 Series A, to pay certain costs of issuance, and to fund a portion of the Authority's capital program. The issue included serial bonds in years 2005 through 2031. A portion of the Fiscal 2005 Series C bonds were insured by the MBIA Insurance Corporation.

On April 26, 2005, the Fiscal 2005 Series D bonds were sold for a par amount of \$559,205,000. Proceeds from the sale were used to fund a construction fund, to defease all of the Authority's commercial paper Series 6 and Series 7 and a portion of its Series 5 Lot B notes, pay certain costs of issuance, and fund a portion of the debt service reserve fund. The issue included bonds in years 2037 through 2039. A portion of the 2039 maturity was insured by Ambac Assurance Corporation.

In fiscal 2005, the Authority defeased with revenues, \$183,240,000 of outstanding General Resolution Bonds on June 27, 2005, including portions of Fiscal 1993 Series A, Fiscal 1996 Series C, Fiscal 1997 Series A, Fiscal 1998 Series A, Fiscal 1998 Series C, Fiscal 1998 Series D, Fiscal 1999 Series B, Fiscal 2001 Series D and Fiscal 2003 Series D bonds.

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 3.0% for fiscal 2006 became effective July 1, 2005 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 Public Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, NY 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

## NEW YORK CITY WATER AND SEWER SYSTEM

**Balance Sheets**

June 30, 2005

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	ELIMINATIONS	TOTAL
<b>Assets</b>				
Utility plant in service, less accumulated depreciation of \$6,181,233	\$ 11,998,099	—	—	11,998,099
Utility plant construction	4,010,861	—	—	4,010,861
Total capital assets	<u>16,008,960</u>	<u>—</u>	<u>—</u>	<u>16,008,960</u>
<b>Current assets</b>				
Cash and cash equivalents	83,666	1,015,387	—	1,099,053
Investments	72,427	795,875	—	868,302
Accrued interest receivable	282	2,989	—	3,271
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$207,239	283,139	—	—	283,139
Unbilled	150,806	—	—	150,806
Receivable from the City	31,390	—	—	31,390
Other	—	261	—	261
Total current assets	<u>621,710</u>	<u>1,814,512</u>	<u>—</u>	<u>2,436,222</u>
Revenue requirement to be billed by and received from the Board	—	7,568,568	(7,568,568)	—
Long-term deferred bond and financing expenses	—	125,582	—	125,582
Total assets	<u>\$ 16,630,670</u>	<u>9,508,662</u>	<u>(7,568,568)</u>	<u>18,570,764</u>
<b>Liabilities and Net Assets</b>				
<b>Long-term liabilities</b>				
Bonds and notes payable, less current portion	\$ —	14,396,067	—	14,396,067
Net discount on bonds and notes payable	—	(100,304)	—	(100,304)
Deferred bond refunding costs	—	(340,268)	—	(340,268)
Revenue requirement payable to the Authority	7,568,568	—	(7,568,568)	—
Total long-term liabilities	<u>7,568,568</u>	<u>13,955,495</u>	<u>(7,568,568)</u>	<u>13,955,495</u>
<b>Current liabilities</b>				
Accounts payable and accrued expenses	6,510	38,325	—	44,835
Revenues received in advance	70,482	—	—	70,482
Current portion of bonds and notes payable	—	1,037,984	—	1,037,984
Payable to the City	—	288,136	—	288,136
Refunds payable to customers	18,728	—	—	18,728
Total current liabilities	<u>95,720</u>	<u>1,364,445</u>	<u>—</u>	<u>1,460,165</u>
Total liabilities	<u>7,664,288</u>	<u>15,319,940</u>	<u>(7,568,568)</u>	<u>15,415,660</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	16,008,960	(13,205,929)	—	2,803,031
Restricted for debt service	—	152,544	—	152,544
Restricted for operations and maintenance	145,693	—	—	145,693
Unrestricted (deficit)	(7,188,271)	7,242,107	—	53,836
Total net assets	<u>8,966,382</u>	<u>(5,811,278)</u>	<u>—</u>	<u>3,155,104</u>
Total liabilities and net assets	<u>\$ 16,630,670</u>	<u>9,508,662</u>	<u>(7,568,568)</u>	<u>18,570,764</u>

The accompanying notes are an integral part of these statements.

**Balance Sheets**

June 30, 2004

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	ELIMINATIONS	TOTAL
<b>Assets</b>				
Utility plant in service, less accumulated depreciation of \$5,748,397	\$ 11,609,673	—	—	\$11,609,673
Utility plant construction	3,564,455	—	—	3,564,455
<b>Total capital assets</b>	<b>15,174,128</b>	<b>—</b>	<b>—</b>	<b>15,174,128</b>
<b>Current assets</b>				
Cash and cash equivalents	81,334	1,067,751	—	1,149,085
Investments	64,905	758,132	—	823,037
Accrued interest receivable	484	3,273	—	3,757
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$242,478	298,322	—	—	298,322
Unbilled	143,625	—	—	143,625
Receivable from the City	3,323	—	—	3,323
Other	1	2,159	—	2,160
<b>Total current assets</b>	<b>591,994</b>	<b>1,831,315</b>	<b>—</b>	<b>2,423,309</b>
Revenue requirement to be billed by and received from the Board	—	6,861,567	(6,861,567)	—
Long-term deferred bond and financing expenses	—	112,540	—	112,540
<b>Total assets</b>	<b>\$ 15,766,122</b>	<b>8,805,422</b>	<b>(6,861,567)</b>	<b>17,709,977</b>
<b>Liabilities and Net Assets</b>				
<b>Long-term liabilities</b>				
Bonds and notes payable, less current portion	\$ —	13,028,277	—	\$13,028,277
Net discount on bonds and notes payable	—	(197,293)	—	(197,293)
Deferred bond refunding costs	—	(265,102)	—	(265,102)
Revenue requirement payable to the Authority	6,861,567	—	(6,861,567)	—
<b>Total long-term liabilities</b>	<b>6,861,567</b>	<b>12,565,882</b>	<b>(6,861,567)</b>	<b>12,565,882</b>
<b>Current liabilities</b>				
Accounts payable and accrued expenses	6,745	30,560	—	37,305
Revenues received in advance	78,231	—	—	78,231
Current portion of bonds and notes payable	—	1,004,640	—	1,004,640
Payable to the City	—	451,162	—	451,162
Refunds payable to customers	18,574	—	—	18,574
<b>Total current liabilities</b>	<b>103,550</b>	<b>1,486,362</b>	<b>—</b>	<b>1,589,912</b>
<b>Total liabilities</b>	<b>6,965,117</b>	<b>14,052,244</b>	<b>(6,861,567)</b>	<b>14,155,794</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	15,174,128	(11,805,773)	—	3,368,355
Restricted for debt service	—	179,106	—	179,106
Restricted for operations and maintenance	135,701	—	—	135,701
Unrestricted (deficit)	(6,508,824)	6,379,845	—	(128,979)
<b>Total net assets</b>	<b>8,801,005</b>	<b>(5,246,822)</b>	<b>—</b>	<b>3,554,183</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,766,122</b>	<b>8,805,422</b>	<b>(6,861,567)</b>	<b>17,709,977</b>

The accompanying notes are an integral part of these statements.

**Statements of Revenues, Expenses and Changes in Net Assets**

Year ended June 30, 2005

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	TOTAL
<b>Operating revenues</b>			
Water supply and distribution	\$ 755,693	—	755,693
Sewer collection and treatment	1,043,575	—	1,043,575
Other operating revenues	85,459	—	85,459
Total operating revenues	<u>1,884,727</u>	<u>—</u>	<u>1,884,727</u>
<b>Operating expenses</b>			
Operations and maintenance	944,919	—	944,919
Bad debt expense	114,702	—	114,702
Administration and general	6,840	16,328	23,168
Total operating expenses	<u>1,066,461</u>	<u>16,328</u>	<u>1,082,789</u>
Depreciation and amortization	460,458	54,867	515,325
Operating income (loss)	<u>357,808</u>	<u>(71,195)</u>	<u>286,613</u>
<b>Nonoperating revenue (expense)</b>			
Interest expense	—	(668,675)	(668,675)
Loss on retirement of fixed assets	(7,971)	—	(7,971)
Subsidy income	—	78,834	78,834
Investment income	782	96,580	97,362
Net income (loss) before capital contributions (distributions)	350,619	(564,456)	(213,837)
Capital distributions – net	(185,242)	—	(185,242)
Change in net assets	165,377	(564,456)	(399,079)
Net assets (deficit) at beginning of year	8,801,005	(5,246,822)	3,554,183
Net assets (deficit) at end of year	<u>\$ 8,966,382</u>	<u>(5,811,278)</u>	<u>3,155,104</u>

The accompanying notes are an integral part of these statements.

**Statements of Revenues, Expenses and Changes in Net Assets**

Year ended June 30, 2004

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	TOTAL
<b>Operating revenues</b>			
Water supply and distribution	\$ 713,097	—	713,097
Sewer collection and treatment	984,753	—	984,753
Other operating revenues	75,283	—	75,283
Total operating revenues	<u>1,773,133</u>	<u>—</u>	<u>1,773,133</u>
<b>Operating expenses</b>			
Operations and maintenance	933,736	—	933,736
Bad debt expense	116,108	—	116,108
Administration and general	4,970	14,883	19,853
Total operating expense	<u>1,054,814</u>	<u>14,883</u>	<u>1,069,697</u>
Depreciation and amortization	409,139	42,446	451,585
Operating income (loss)	<u>309,180</u>	<u>(57,329)</u>	<u>251,851</u>
<b>Nonoperating revenue (expense)</b>			
Interest expense	—	(612,054)	(612,054)
Loss on retirement of fixed assets	(25,214)	—	(25,214)
Subsidy income	—	68,311	68,311
Investment income	1,237	85,712	86,949
Net income (loss) before capital contributions	<u>285,203</u>	<u>(515,360)</u>	<u>(230,157)</u>
Capital contributions – net	29,875	—	29,875
Change in net assets	<u>315,078</u>	<u>(515,360)</u>	<u>(200,282)</u>
Net assets (deficit) at beginning of year, as restated	8,485,927	(4,731,462)	3,754,465
Net assets (deficit) at end of year	<u>\$ 8,801,005</u>	<u>(5,246,822)</u>	<u>3,554,183</u>

The accompanying notes are an integral part of these statements.

**Statements of Cash Flows**

Year ended June 30, 2005

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	TOTAL
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 1,770,432	—	1,770,432
Payments for operations and maintenance	(927,391)	—	(927,391)
Payments for administration	(7,075)	(16,727)	(23,802)
Net cash provided by (used in) operating activities	835,966	(16,727)	819,239
<b>Cash flows from capital and related financing activities</b>			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	—	4,480,669	4,480,669
Acquisition and construction of capital assets	—	(1,697,125)	(1,697,125)
Payments by the Board to the Authority	(827,097)	827,097	—
Repayments of bonds, notes and other borrowings	—	(3,136,879)	(3,136,879)
Interest paid on bonds, notes and other borrowings	—	(570,415)	(570,415)
Net cash used in capital and related financing activities	(827,097)	(96,653)	(923,750)
<b>Cash flows from investing activities</b>			
Proceeds from sales and maturities of investments	44,815	—	44,815
Purchases of investments	(52,337)	(35,194)	(87,531)
Interest on investments	985	96,210	97,195
Net cash provided by (used in) investing activities	(6,537)	61,016	54,479
Net increase (decrease) in cash and cash equivalents	2,332	(52,364)	(50,032)
Cash and cash equivalents, beginning of year	81,334	1,067,751	1,149,085
Cash and cash equivalents, end of year	<b>83,666</b>	<b>1,015,387</b>	<b>1,099,053</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	357,808	(71,195)	286,613
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	460,458	54,867	515,325
Bad debt expense	114,702	—	114,702
Operations and maintenance expense paid with bond proceeds	45,595	—	45,595
Changes in net assets and liabilities			
Receivables, net	(106,701)	—	(106,701)
Receivable from the City	(28,067)	—	(28,067)
Other	1	(18)	(17)
Accounts payable and accrued expenses	(235)	(381)	(616)
Revenues received in advance	(7,749)	—	(7,749)
Refunds payable to customers	154	—	154
Net cash provided by (used in) operating activities	<b>\$ 835,966</b>	<b>(16,727)</b>	<b>819,239</b>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$10,543.
- Capital expenditures in the amount of \$288,136 had been incurred but not paid at June 30, 2005.
- The Board received capital assets of \$2,342 in 2005, 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, 2004

(IN THOUSANDS)	NEW YORK CITY WATER BOARD	NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY	TOTAL
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 1,696,738	—	1,696,738
Payments for operations and maintenance	(874,854)	—	(874,854)
Payments for administration	(4,732)	(14,948)	(19,680)
Net cash provided by (used in) operating activities	<u>817,152</u>	<u>(14,948)</u>	<u>802,204</u>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	—	2,728,279	2,728,279
Acquisition and construction of capital assets	—	(1,238,298)	(1,238,298)
Payments by the Board to the Authority	(811,421)	811,421	—
Repayments of bonds, notes and other borrowings	—	(2,174,239)	(2,174,239)
Interest paid on bonds, notes and other borrowings	—	(515,787)	(515,787)
Net cash used in capital and related financing activities	<u>(811,421)</u>	<u>(388,624)</u>	<u>(1,200,045)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sales and maturities of investments	64,422	89,473	153,895
Purchases of investments	(64,845)	(175,659)	(240,504)
Interest on investments	1,142	92,425	93,567
Net cash provided by investing activities	<u>719</u>	<u>6,239</u>	<u>6,958</u>
Net increase (decrease) in cash and cash equivalents	<u>6,450</u>	<u>(397,333)</u>	<u>(390,883)</u>
Cash and cash equivalents, beginning of year	74,884	1,465,084	1,539,968
Cash and cash equivalents, end of year	<u>\$ 81,334</u>	<u>1,067,751</u>	<u>1,149,085</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	309,180	(57,329)	251,851
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	409,139	42,446	451,585
Bad debt expense	116,108	—	116,108
Operations and maintenance expense paid with bond proceeds	43,230	—	43,230
Changes in net assets and liabilities			
Receivables, net	(83,609)	—	(83,609)
Receivable from the City	9,890	—	9,890
Accounts payable and accrued expenses	5,938	(65)	5,873
Revenues received in advance	9,075	—	9,075
Refunds payable to customers	(1,799)	—	(1,799)
Net cash provided by (used in) operating activities	<u>\$ 817,152</u>	<u>(14,948)</u>	<u>802,204</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$8,189.
- Capital expenditures in the amount of \$451,162 had been incurred but not paid at June 30, 2004.
- The Board received capital assets of \$29,875 in 2004, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

**Notes to Financial Statements**

June 30, 2005

**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 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 Board.

In accordance with Statement No. 14, as amended by Statements No. 34 and 39 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.

**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, 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, 2005

**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 the straight-line method for 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.

Estimated useful lives	
	YEARS
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. In accordance with the provisions of GASB Statement No. 23, "Accounting and Financial Reporting of Debt Reported by Proprietary Activities," 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. Reclassifications**

Certain reclassifications to the 2004 figures have been made in order to conform to the 2005 financial statement presentation.

**i. 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, 2005

**3 UTILITY PLANT**

The following is a summary of utility plant activity for the fiscal years ended June 30, 2005 and 2004

(IN THOUSANDS)	BALANCE AT JUNE 30, 2003	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2005
<b>Nondepreciable assets</b>							
Utility construction	\$ 2,845,080	1,444,655	725,280	3,564,455	1,536,441	1,090,035	4,010,861
Land	116,576	25,833	—	142,409	—	142,409	—
<b>Depreciable assets</b>							
Buildings	22,071	—	—	22,071	—	—	22,071
Equipment	288,250	107,364	17,281	378,333	46,535	195	424,673
Water supply and wastewater treatment systems	9,577,106	72,903	30,787	9,619,222	534,474	989	10,152,707
Water distribution and sewage collection systems	6,676,855	519,180	—	7,196,035	418,255	34,409	7,579,881
	19,525,938	2,169,935	773,348	20,922,525	2,535,705	1,268,037	22,190,193
Less accumulated depreciation	5,362,108	409,141	22,852	5,748,397	460,458	27,622	6,181,233
	<b>\$ 14,163,830</b>	<b>1,760,794</b>	<b>750,496</b>	<b>15,174,128</b>	<b>2,075,247</b>	<b>1,240,415</b>	<b>16,008,960</b>

**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 rate 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, 2005 and 2004, which was covered by Federal depository insurance and the remaining balance was uncollateralized.

At June 30, 2005 and 2004, the carrying amounts of bank deposits were \$6,652 million and \$11,028 million, respectively, and the bank balances were \$8,204 million and \$12,745 million, respectively.

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

INVESTMENT TYPE	2005	2004	INVESTMENT MATURITY
Certificate of Deposit	\$ 99	96	Greater than one year
U.S. Government securities	1,138,713	1,233,668	Less than one year
New York State securities	81,170	44,391	Greater than one year
Repurchase agreements	76,376	19,797	Less than one year
Guaranteed investment contracts	667,616	666,899	Greater than one year
	<b>\$ 1,963,974</b>	<b>1,964,851</b>	

**Notes to Financial Statements (continued)**

June 30, 2005

All of the System's investments in U.S. agencies carry the explicit guarantee of the U.S. Government. At June 30, 2005, 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.

**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, 2005 and 2004 is as follows:

(IN THOUSANDS)	2005	2004
Water transmission and distribution	\$ 291,488	284,461
Sewer collection systems	355,581	338,566
City agency support cost	53,562	52,399
Fringe benefits	83,425	70,466
Payments for watershed improvements	45,595	43,292
Judgments and claims	6,081	27,910
	835,732	817,094
Rental payments to the City	109,187	116,642
	<b>\$ 944,919</b>	<b>933,736</b>

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**6 PAYABLE TO AND RECEIVABLE FROM THE CITY**

As of June 30, 2005 and 2004, 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, 2005 and 2004, the System had a net payable of \$256.7 million and \$447.8 million from the City for payments of utility construction and for overpayment of operations and maintenance expense.

**7 SHORT-TERM LIABILITIES**

In fiscal years 2004 and 2005, the changes in short-term liabilities were as follows:

(IN THOUSANDS)	BALANCE AT JUNE 30, 2003	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2005
Commercial paper <sup>(1)</sup>	\$ 825,000	964,500	989,500	800,000	1,600,700	1,600,700	800,000

<sup>(1)</sup> Commercial paper is used to pay construction costs in advance of long-term bond financing.

**Notes to Financial Statements (continued)**

June 30, 2005

Commercial paper activity comprises the following for the year ended June 30, 2005:

(IN THOUSANDS)	BALANCE AT JUNE 30, 2004	ISSUED	RETIRED	BALANCE AT JUNE 30, 2005
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$ 200,000	339,500	339,500	200,000
Commercial Paper Series 5 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	434,700	434,700	200,000
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	400,000	400,000	200,000
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	200,000	426,500	426,500	200,000
<b>Total commercial paper payable</b>	<b>\$ 800,000</b>	<b>1,600,700</b>	<b>1,600,700</b>	<b>800,000</b>

**8 LONG-TERM LIABILITIES**

In fiscal years 2004 and 2005, the changes in long-term liabilities were as follows (in thousands):

BONDS PAYABLE	BALANCE AT JUNE 30, 2003	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2005	DUE WITHIN ONE YEAR
First resolution	\$ 9,634,090	1,166,160	1,057,437	9,742,813	2,227,600	1,335,817	10,634,596	95,814
Second resolution	3,024,061	558,688	92,645	3,490,104	621,034	111,683	3,999,455	142,170
<b>Total bonds payable</b>	<b>12,658,151</b>	<b>1,724,848</b>	<b>1,150,082</b>	<b>13,232,917</b>	<b>2,848,634</b>	<b>1,447,500</b>	<b>14,634,051</b>	<b>\$237,984</b>
Less discounts (net)	296,637	(58,916)	40,428	197,293	(60,464)	36,525	100,304	—
Less deferred refunding costs	234,229	53,534	22,661	265,102	108,924	33,758	340,268	—
<b>Total long-term liabilities</b>	<b>\$ 12,127,285</b>	<b>1,730,230</b>	<b>1,086,993</b>	<b>12,770,522</b>	<b>2,800,174</b>	<b>1,377,217</b>	<b>14,193,479</b>	

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 2005 and 2004, the Authority issued \$1.2 billion and \$650 million, respectively, of bonds to refund \$1.1 billion and \$652 million, respectively, of outstanding bonds. The advance refundings resulted in an accounting loss of \$108.9 million and \$21.2 million, respectively. The Authority in effect reduced its aggregate debt service by \$107.4 million and \$102 million, respectively, and obtained an economic benefit of \$62.7 million and \$69.4 million, respectively.

**Notes to Financial Statements (continued)**

June 30, 2005

During 2005 and 2004, the Authority defeased \$183.2 million and \$213.3 million, respectively, of outstanding bonds with \$195.9 million and \$215.1 million, respectively, of current revenue, which resulted in an accounting loss of \$13.9 million and \$16.5 million, respectively.

During 2005, the Authority issued \$50 million of bonds that will refund \$50 million of principal of the 2003 B issue in June 2006. During 2004, the Authority issued \$50 million of bonds that refunded \$50 million of the 2003 B issue in June 2005.

The Authority has defeased cumulatively \$7.936 billion and \$6.664 billion of outstanding bonds as of June 30, 2005 and 2004, 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, 2005 and 2004, \$5.991 billion and \$5.493 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, 2005 are as follows (in thousands):

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST <sup>(1)</sup>	TOTAL
2006	\$ 1,037,984	557,039	1,595,023
2007	194,944	541,389	736,333
2008	208,045	538,795	746,840
2009	232,147	534,896	767,043
2010	261,854	529,278	791,132
2011 – 2015	1,569,738	2,496,133	4,065,871
2016 – 2020	2,150,679	2,186,478	4,337,157
2021 – 2025	2,521,170	1,776,674	4,297,844
2026 – 2030	3,002,515	1,286,805	4,289,320
2031 – 2035	3,028,200	674,872	3,703,072
2036 – 2040	1,226,775	143,521	1,370,296
	<b>\$ 15,434,051</b>	<b>11,265,880</b>	<b>26,699,931</b>

<sup>(1)</sup> Includes interest for variable rate bonds estimated at 1.92% 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.

**Notes to Financial Statements (continued)**

June 30, 2005

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2005:

(IN THOUSANDS)	BALANCE AT JUNE 30, 2004	ISSUED	RETIRED/ DEFEASED	BALANCE AT JUNE 30, 2005
1991 Fiscal Series B — 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 16,085	—	3,010	13,075
1992 Fiscal Series B — 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	17,683	—	3,441	14,242
1993 Fiscal Series A — 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	165,865	—	71,835	94,030
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	31,805	—	—	31,805
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	216,700	—	6,000	210,700
1995 Fiscal Series 1 — 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	31,215	—	2,285	28,930
1996 Fiscal Series B — 5.75% to 5.875% Serial Bonds maturing in varying installments through 2026	376,610	—	—	376,610
1996 Fiscal Series C — 4.90% to 5.75% Serial Bonds maturing in varying installments through 2017	62,120	—	31,845	30,275
1997 Fiscal Series A — 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	341,390	—	209,845	131,545
1997 Fiscal Series B — 5.75% to 5.80% Serial Bonds maturing in varying installments through 2029	656,540	—	556,540	100,000
1998 Fiscal Series 1 — 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	34,310	—	1,890	32,420
1998 Fiscal Series 3 — 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	380,034	—	31,838	348,196
1998 Fiscal Series 4 — 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	11,825	—	720	11,105
1998 Fiscal Series 6 — 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	15,221	—	774	14,447
1998 Fiscal Series A — 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	283,850	—	24,500	259,350
1998 Fiscal Series B — 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	449,525	—	—	449,525
1998 Fiscal Series C — 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	86,765	—	1,090	85,675
1998 Fiscal Series D — 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	380,875	—	8,580	372,295
1999 Fiscal Series 2 — 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	103,731	—	4,473	99,258
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	225,830	—	19,960	205,870
2000 Fiscal Series A — 5.50% to 5.75% Serial Bonds maturing in varying installments through 2032	275,735	—	195,735	80,000



**Notes to Financial Statements (continued)**

June 30, 2005

(IN THOUSANDS)	BALANCE AT JUNE 30, 2004	ISSUED	RETIRED/ DEFEASED	BALANCE AT JUNE 30, 2005
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	10,565	—	480	10,085
2001 Fiscal Series A — 5.50% Term Bonds maturing in varying installments through 2033	328,225	—	—	328,225
2001 Fiscal Series B — 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	68,255	—	155	68,100
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	283,670	—	26,345	257,325
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	216,305	—	50,000	166,305
2002 Fiscal Series B — 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,455	—	—	171,455
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	41,745	—	80	41,665
2002 Fiscal Series E — 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,850	—	—	213,850
2002 Fiscal Series F — 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	—	—	105,635
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	191,725	—	5,496	186,229
2002 Fiscal Series 2 — 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	66,677	—	2,396	64,281
2002 Fiscal Series 3 — 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	490,701	—	13,488	477,213
2002 Fiscal Series 4 — 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	216,018	—	7,655	208,363
2002 Fiscal Series 5 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	173,832	—	4,716	169,116
2002 Fiscal Series 6 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	90,442	—	4,462	85,980
2002 Fiscal Series 7 — 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	9,255	—	1,715	7,540
2003 Fiscal Series A — 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	719,180	—	30,000	689,180
2003 Fiscal Series B — 4.0% to 5.25% Refundable Principal Installment Bonds maturing in varying installments through 2006	100,000	—	50,000	50,000

**Notes to Financial Statements (continued)**

June 30, 2005

(IN THOUSANDS)	BALANCE AT JUNE 30, 2004	ISSUED	RETIRED/ DEFEASED	BALANCE AT JUNE 30, 2005
2003 Fiscal Series C — Adjustable Rate Bonds maturing in varying installments through 2018	\$ 300,300	—	—	300,300
2003 Fiscal Series D — 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	242,825	—	24,680	218,145
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	145,229	—	3,375	141,854
2003 Fiscal Series 2 — 5.27% Serial Bonds maturing in varying installments through 2028	583,386	—	10,427	572,959
2003 Fiscal Series 3 — 5.15% Serial Bonds maturing in varying installments through 2025	21,135	—	645	20,490
2003 Fiscal Series 4 — 5.18% Serial Bonds maturing in varying installments through 2025	33,650	—	1,035	32,615
2003 Fiscal Series 5 — 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	292,769	—	6,132	286,637
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	341,950	—	1,705	340,245
2004 Fiscal Series C — 2.00% – 5.00% Serial and Term Bonds maturing in varying installments through 2035	596,860	—	550	596,310
2004 Fiscal Series 1 — 4.12% – 4.45% Serial Bonds maturing in varying installments through 2033	299,179	—	4,267	294,912
2004 Fiscal Series 2 — 4.46% Serial Bonds maturing in varying installments through 2026	257,400	—	2,246	255,154
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	—	935,480	13,450	922,030
2005 Fiscal Series C — 3.00% – 5.00% Serial Bonds maturing in varying installments through 2036	—	582,915	6,470	576,445
2005 Series D — 5.00% Serial Bonds maturing in varying installments through varying installments through 2039	—	559,205	—	559,205
2005 Fiscal Series 1 — 3.95 – 5.00% Bonds maturing in varying installments through 2034	—	230,409	444	229,965
2005 Fiscal Series 2 — 2.567 – 5.00% Bonds maturing in varying installments through 2026	—	390,625	725	389,900
<b>Total debt payable</b>	<b>\$ 13,232,917</b>	<b>2,848,634</b>	<b>1,447,500</b>	<b>14,634,051</b>
Current portion of bonds and notes payable	204,640			237,984
<b>Bonds and notes payable, less current portion</b>	<b>\$ 13,028,277</b>			<b>14,396,067</b>

**Notes to Financial Statements (continued)**

June 30, 2005

**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 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 BMA 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 for a given period.

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.

Through the swap agreements the Authority is exposed to credit risk, i.e., the risk that the counterparty fails to perform its 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, 2005 and 2004 was approximately \$2.9 million and \$3 million, respectively, in favor of the counterparty. 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.

**9 RESTRICTED ASSETS**

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 bond and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

Certain cash and investments, plus accrued interest and other receivables, of the system are restricted as follows:

(IN THOUSANDS)	2005	2004
<b>The Board</b>		
Operation and maintenance reserve account	\$ 145,683	135,691
Operation and maintenance reserve general account	10	10
	<u>145,693</u>	<u>135,701</u>
<b>The Authority</b>		
Revenue fund	152,544	179,106
Debt service reserve fund	754,672	698,518
Construction fund	245,070	289,540
Escrow fund	662,732	661,990
	<u>1,815,018</u>	<u>1,829,154</u>
	<b>\$ 1,960,711</b>	<b>1,964,855</b>

**Notes to Financial Statements (continued)**

June 30, 2005

**10 COMMITMENTS AND CONTINGENCIES****a. Construction**

The System has contractual commitments of approximately \$4,395 million and \$4,483 million at June 30, 2005 and 2004, 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 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. 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, 2005, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$121.6 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's balance sheet. The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

**c. Arbitrage Rebate**

To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all nonpurpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During 2005 and 2004, the System paid \$232 thousand and \$1 million, respectively, in rebates. At June 30, 2005, and 2004 the Authority had a liability of \$7.279 million and \$4.745 million, respectively.

**11 POST-EMPLOYMENT BENEFITS AND PENSION PLANS**

The System directly employs six individuals at the Water Authority. Pension expense for these employees totaled \$75,000. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of those employees' pension through an allocation of fringe benefit costs, which are included within operations and maintenance expenses in the accompanying financial statements.

**12 SUBSEQUENT EVENTS**

On October 12, 2005, the Authority issued fiscal 2006 Series 1 Second Resolution Bonds in the aggregate amount of \$229 million to reimburse outstanding commercial paper notes, and to pay certain costs of issuance.

On October 18, 2005, the Authority issued fiscal 2006 Series A first resolution bonds in the aggregate amount of \$524.5 million to refund outstanding bonds, reimburse outstanding commercial paper notes, to pay for certain costs of issuance and to fund certain reserves.

## Statistics

**REVENUES LAST TEN FISCAL YEARS**

Years Ended June 30, 1996-2005 (in thousands)

YEAR	WATER SUPPLY AND DISTRIBUTION	SEWER COLLECTION AND TREATMENT	OTHER OPERATING REVENUES	SUBSIDY AND INVESTMENT INCOME	TOTAL
1996	\$532,171	765,808	72,251	67,646	1,437,876
1997	543,928	789,516	73,243	68,192	1,474,879
1998	560,956	819,662	102,540	93,883	1,577,041
1999	83,394	857,204	85,903	81,465	1,107,966
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

**EXPENSES LAST TEN FISCAL YEARS**

Years Ended June 30, 1996-2005 (in thousands)

YEAR	OPERATION AND MAINTENANCE	PROVISIONS FOR UNCOLLECTIBLES	ADMINISTRATION AND GENERAL	DEPRECIATION AND AMORTIZATION	INTEREST EXPENSES	TOTAL
1996	\$730,963	317,051	14,490	240,949	368,422	1,671,875
1997	775,318	189,775	13,374	287,546	407,997	1,674,010
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

**REVENUE BOND COVERAGE LAST TEN FISCAL YEARS**

Years Ended June 30, 1996-2005 (in thousands)

YEAR	CASH <sup>(1)</sup> RECEIPTS	DEBT SERVICE REQUIREMENTS <sup>(2)</sup>		TOTAL	FIRST RESOLUTION DEPT SERVICES COVERAGE	SECOND RESOLUTION DEPT SERVICES COVERAGE
		PRINCIPAL	INTEREST			
1996	\$1,167,038	71,217	275,217	346,434	3.37	—
1997	1,216,503	73,866	339,498	413,364	3.13	2.94
1998	1,411,070	128,555	357,133	485,688	3.37	2.981
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	604,239	779,968	3.91	3.58

<sup>(1)</sup> Until 1998 cash receipts as defined in the bond resolution excludes interest received on debt service and revenue funds and subsidy payments<sup>(2)</sup> 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 (continued)****WATER AND SEWER RATE INCREASES**

Last Ten Fiscal Years

EFFECTIVE DATE	CHANGES IN FLAT-RATE WATER	CHANGES IN METERED WATER	METERED WATER RATE (PER CCF) <sup>(1)</sup>	CHANGE IN SEWER
July 1, 1996	Increased 6.5%	Increased 6.5%	\$1.13	No change
July 1, 1997	Increased 6.5%	Increased 6.5%	\$1.20	No change
July 1, 1998	Increased 4.0%	Increased 4.0%	\$1.25	No change
July 1, 1999	Increased 4.0%	Increased 4.0%	\$1.30	No change
July 1, 2000	Increased 1.0%	Increased 1.0%	\$1.31	No change
July 1, 2001	Increased 3.0%	Increased 3.0%	\$1.35	No change
July 1, 2002	Increased 6.5%	Increased 6.5%	\$1.44	No change
July 1, 2003	Increased 5.5%	Increased 5.5%	\$1.53	No change
July 1, 2004	Increased 5.5%	Increased 5.5%	\$1.60	No change
July 1, 2005	Increased 3.0%	Increased 3.0%	\$1.65	No change

<sup>(1)</sup>ccf equals one hundred cubic feet or approximately 748 gallons.**AVERAGE DAILY WATER CONSUMPTION**

Last Ten Fiscal Years

FISCAL YEAR	TOTAL (MGD) <sup>(1)</sup>	UPSTATE COUNTIES (MGD) <sup>(1)</sup>	CITY (MGD) <sup>(1)</sup>	PER CAPITA (GALS/DAY) <sup>(2)</sup>
1996	1,445	123	1,322	183
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

<sup>(1)</sup>mgd=millions of gallons per day<sup>(2)</sup>Population source: U.S. Department of Commerce, Bureau of the Census.

**Statistics (continued)****WATER SYSTEM TUNNELS AND AQUEDUCTS**

Length Diameter Transmission In Service

	CONNECTIONS	LENGTH (MILES)	DIAMETER (FEET) <sup>(1)</sup>	TRANSMISSION CAPACITY (MGD) <sup>(2)</sup>	IN SERVICE DATE
<b>Tunnels Upstate</b>					
Shandaken	Schoharie to Ashokan	18.1	11.5 x 10.251	650	1924
West Delaware	Cannonsville to Rondout	44.0	11.33	500	1964
East Delaware	Pepacton to Rondout	25.0	11.33	700	1955
Neversink	Neversink to Rondout	6.0	10	500	1954
<b>Aqueducts</b>					
New Croton	New Croton to Jerome Park	24.0	3.5 x 13.61	300	1893
	Jerome Park to 135 St. Gatehouse	9.0	12.25-10.52	250	1893
Catskill	Ashokan to Kensico	75.0	17 x 17.51	610	1915
	Kensico to Hillview	17.0	17.5 x 181	800	1915
Delaware	Rondout to West Branch	44.2	13.5	890	1944
	West Branch to Kensico	27.2	15	1,045	1943
	Kensico to Hillview	13.6	19.5	1,450	1942
<b>Tunnels Downstate</b>					
Tunnel 1	Hillview to distribution system	18.0	15-112	1,000	1917
Tunnel 2	Hillview to distribution system	20.0	17-152	1,000	1936
Tunnel 3, Stage 1	Hillview to distribution system	13.0	24-202	1,500	1998
Richmond Tunnel	Tunnel 2 to Staten Island Uptake Shaft	5.0	10	350	1970

<sup>(1)</sup>Tunnels are not round<sup>(2)</sup>Variable diameter tunnels**WATER POLLUTION CONTROL PLANTS DAILY FLOW**

PLANT	DESIGN FLOW (MGD) <sup>(1)</sup>	12 MONTH AVG. (MGD) <sup>(1)</sup> JULY 03-JULY 04	12 MONTH AVG. (MGD) <sup>(1)</sup> JULY 04-JULY 05
Wards Island	275	196	207
North River	170	126	129
Hunts Point	200	110	124
26th Ward	85	59	60
Coney Island	110	88	92
Owls Head	120	101	102
Newtown Creek	310	229	230
Red Hook	60	30	31
Jamaica	100	78	82
Tallmans Island	80	57	57
Bowery Bay	150	111	126
Rockaway	45	19	21
Oakwood Beach	39.9	30.1	31.6
Port Richmond	60	35	37
<b>Total</b>	<b>1,804.9</b>	<b>1,269.1</b>	<b>1,329.6</b>

<sup>(1)</sup>mgd=millions of gallons per day

**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>Executive Director</i>
Marjorie E. Henning	<i>Secretary</i>
George M. Zoukee	<i>Treasurer</i>
Lawerence R. Glantz	<i>Comptroller</i>
Prescott D. Ulrey	<i>Assistant Secretary</i>
Philip Wasserman	<i>Deputy Treasurer</i>
Jeffrey M. Werner	<i>Assistant Secretary</i>

**NEW YORK CITY WATER BOARD**

**Members**

James T.B. Tripp	<i>Chairman</i>
Lilyan H. Affinito	<i>Member</i>
Donald Capoccia	<i>Member</i>
Dawn S. Davis	<i>Member</i>
Amaziah Howell	<i>Member</i>
Stacey Coleman Morse	<i>Member</i>
Maria Santos Valentin	<i>Member</i>

**Staff**

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



**Organizational Chart (continued)**

**NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION**

Emily Lloyd *Commissioner*  
David Tweedy *First Deputy Commissioner*

**BUREAU OF WATER AND SEWER OPERATIONS**

Douglas S. Greeley, P.E. *Deputy Commissioner*

**BUREAU OF ENVIRONMENTAL ENGINEERING**

Warren Kurtz, P.E. *Deputy Commissioner*

**BUREAU OF WASTEWATER TREATMENT**

Alfonso R. Lopez, P.E. *Deputy Commissioner*

**BUREAU OF WATER SUPPLY**

Michael A. Principe, Ph.D. *Deputy Commissioner*

**BUREAU OF CUSTOMER SERVICES**

Denise M. Richardson *Deputy Commissioner*

**BUREAU OF HUMAN RESOURCES AND ADMINISTRATION**

Dana K. Reed *Deputy Commissioner*