



New York City Water and Sewer System
A Component of the City of New York

Comprehensive Annual Financial Report for the Fiscal Year
July 1st, 2007 - June 30th, 2008

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27 December 2008

LETTER OF TRANSMITTAL

The New York City Water and Sewer System

TO: Members of the Board of the New York City Municipal Water Finance Authority, Members of the New York City Water Board and The Acting Commissioner of the New York City Department of Environmental Protection

We are pleased to submit to you this Comprehensive Annual Financial Report ("CAFR") of the New York City Water and Sewer System (the "System") for the year ended June 30, 2008.

The CAFR is presented in three major sections: introductory, financial and statistical. The introductory section, which is not audited, includes this letter of transmittal 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 for these financial statements and schedules. The statistical section, which is not audited, includes selected financial, System and demographic information, presented on a multi-year basis.

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

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

The Water Board leases the operating system from the City, sets rates, and collects System revenue. The Lease Agreement (the "Lease"), dated July 1, 1985, provides for a lease term 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 first allocate the revenues of the System to debt service on Authority

bonds and to the Authority's expense budget, after which revenues are allocated to the Water Board's expenses and DEP's cost of operating and maintaining the System, and then to rental fees paid 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 5,600 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 provides water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens and Staten Island, an area of over 300 square miles, and serves over eight million people. The City is also required by State law to sell water in counties where its water supply facilities are located and currently provides water to approximately one million people located in Westchester, Putnam, Orange and Ulster Counties.

The System provides an average of approximately 1,200 million gallons per day of water. In addition to a system of dams, reservoirs, aqueducts, and water tunnels, DEP maintains approximately 6,700 miles of water mains. DEP also maintains approximately 6,600 miles of sewers which collect and transport waste and storm water for treatment at the City's 14 wastewater

treatment 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 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.

CREDIT RATINGS

The Authority's first resolution bonds continue to be highly rated by all three rating agencies. In July 2008 Standard and Poor's Ratings Services upgraded the first general resolution debt rating to the highest rating of AAA and upgraded the second general resolution to AA+. Fitch Ratings rates both the Authority's first and second general resolution debt AA. Moody's Investors Service rates the first and second general resolution debt Aa2 and Aa3, respectively.

The Authority's ratings reflect the credit strengths resulting from the strong legal protections provided to bondholders and structural features which provide a true gross pledge of revenue to bondholders for debt payments.

New York State Environmental Facilities Corporation ("EFC") Clean Water and Drinking Water Revolving Funds Revenue Bonds, issued for eligible projects, are rated AAA from all three rating agencies. EFC's subordinated SRF bonds are rated AA by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch. Bonds which the Authority places with EFC are an element of security for the EFC bonds issued to investors, but are unrated second resolution bonds of the Authority.

INTERNAL 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, to ensure that accounting policies are complied with and to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

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

BUDGETARY CONTROLS

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

Capital Program Goals

The goals of the System's capital program are:

- To maintain the quality of the water in the City's watersheds and, where necessary, treat the supply to ensure that supplies continue to be of high quality;
- To maintain and improve the transmission and distribution capacity of the City's water supply system;

- To improve the quality of the surrounding waters by upgrading the City's wastewater treatment facilities and by reducing pollution caused by combined sewer overflows; and
- To contain sanitary sewage and prevent flooding by replacing failing sewers and extending service to underserved areas of the City.

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

CAPITAL IMPROVEMENT PROGRAM AND FINANCING PROGRAM

The City's Preliminary Ten Year Capital Strategy, which is updated every two years, was released in November 2008. The Preliminary Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2010 through 2019. The City's Current Capital Plan, which covers Fiscal Years 2009 through 2013, was also updated in November 2008, and is updated three times each Fiscal Year and supersedes the Preliminary Ten Year Capital Strategy for Fiscal Years 2010 through 2013. The Preliminary Ten Year Capital Strategy, together with the Current

Capital Plan, comprises the Capital Improvement Program (the "CIP").

The CIP is designed to maintain a satisfactory level of service and improve the operation of the System. The CIP establishes long range programmatic goals for the System and reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP also incorporates the 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 \$17.5 billion for Fiscal Years 2009-2019. The following table reflects the CIP as of November 2008, and is the basis for the System's annual cash flow requirements. For a number of reasons, including unforeseen cost inflation and changes in plans, actual costs may vary from the estimates set forth below. The CIP is divided into five project types. 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.

Capital Improvement Program 2009-2019 *(in thousands)*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Water Supply & Transmission	\$ 312,933	\$ 302,475	\$ 168,982	\$ 273,868	\$ 440,168	\$ 593,306	\$ 221,128	\$ 237,500	\$ 371,198	\$ 275,475	\$ 644,918	\$3,841,951
Water Distribution & Treatment	880,237	485,488	1,121,241	435,594	413,739	223,702	283,790	401,471	168,346	82,933	163,687	4,660,228
Water Pollution Control	1,609,831	657,903	308,762	308,456	443,089	352,172	348,956	381,606	735,140	494,049	247,457	5,887,421
Sewers	206,947	116,377	228,066	204,148	287,223	290,165	311,966	284,689	237,120	191,460	113,166	2,471,327
Equipment	246,946	59,496	58,806	109,817	53,955	72,850	3,662	-	-	-	-	605,532
Total	\$3,256,894	\$1,621,739	\$1,885,857	\$1,331,883	\$1,638,174	\$1,532,195	\$1,169,502	\$1,305,266	\$1,511,804	\$1,043,917	\$1,169,228	\$17,466,459

• *Water Supply & Transmission*

This component of the CIP includes approximately \$1.7 billion for Stages I and II of the City's Water Tunnel No. 3 and for the beginning of inspection and design work associated with the eventual reconstruction of City Tunnel No. 1. 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 Tunnels 1 or 2. Stage I of Tunnel No. 3 commenced operation in July 1998. Construction of Stage II continues towards its expected operational date of 2015. The remaining section of the Stage II underground excavation includes the Manhattan leg, which stretches across Manhattan from the valve chamber at Central Park. When Stage II comes on line, DEP will have achieved full redundancy of Tunnels No. 1 and 2. This will allow DEP to inspect and repair these tunnels for the first time since they were put into operation in 1917 and 1936, respectively.

DEP is researching and developing alternative water supply and delivery systems to enhance the water system, to provide more dependability and to ensure its long term viability. 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 \$2.2 billion for conveyance projects, including a redundant tunnel or loop to the Delaware aqueduct, and an evaluation of 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.

• *Water Distribution & Treatment*

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 problems in the still relatively pristine Catskill and Delaware watersheds. The CIP includes nearly \$4.7 billion for the protection, expansion, and distribution of the City's water supply. This includes approximately \$563 million for the construction of a full-scale filtration plant for the treatment of water from the Croton watershed. Additionally, \$646 million has been allocated for the reconstruction of Gilboa Dam.

The program also calls for \$1.5 billion to be committed to on-going water quality preservation programs, to ensure the continued purity of the water supply. Water quality preservation projects include the completion of the ultraviolet light water disinfection facility for treatment of water from the Catskill and Delaware systems, a continuation of the acquisition of environmentally sensitive property in the upstate watershed, and other ongoing projects associated with the Filtration Avoidance Determination ("FAD") issued by the US Environmental Protection Agency ("USEPA"). The FAD allows the City to avoid filtering water from the Catskill and Delaware Systems and, for the first time, in July 2007, USEPA issued a 10-year FAD to the City. USEPA has issued a series of FADs to the City, for shorter terms, since 1993.

- **Water Pollution Control**

To improve the quality of the City's estuaries and surrounding waterways and to comply with Clean Water Act mandates, \$5.9 billion is allocated to water pollution control programs in the CIP.

The CIP allocates \$1.9 billion for the replacement or reconstruction of components at the City's wastewater treatment facilities to ensure their continuous and reliable operations. Additionally, the CIP includes nearly \$1.6 billion to complete mandated projects to achieve secondary treatment at the System's largest treatment plant, Newtown Creek.

DEP's CIP also includes \$2.1 billion for mandated projects to reduce combined sewer overflows ("CSO"). CSOs are currently a source of pollution in the waterways surrounding the City. CSO events occur during and after heavy rainstorms, when the flow of wastewater and storm water in the sewers exceeds the treatment capacity of a wastewater treatment plant and therefore enters surrounding waterways untreated. The City is also exploring a total water quality approach in water bodies that are impacted by the discharge of CSOs, in an effort to focus on cost effective means of protecting the City's waterways.

- **Sewers**

Approximately \$2.5 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 meter installation, automated meter reading systems, the procurement of vehicles and equipment, management information systems, and utility relocation for sewers and water mains. A total of \$606 million 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 invest funds. 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 New York 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 New York 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 based upon cash flow requirements and subject to the restrictions on investments set forth in the Authority's bond resolutions and the investment guidelines. Daily cash from user payments is received into a lock box by the Water Board and is transferred daily to the Authority for debt service payments and to the City Comptroller to pay for the operation and maintenance of the System. No cash is retained by the Water Board until all requirements for debt service, Authority and Board expenses, 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 2008 Comprehensive Annual Financial Report begins with the report of our independent auditors, Deloitte & Touche LLP. This report expresses an unqualified opinion as to the fairness of the presentation of our financial statements.

Respectfully submitted,

Thomas G. Paolicelli Michele Mark Levine
Executive Director Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York City Water and Sewer System

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

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

New York City Municipal Water Finance Authority

Board of Directors

Mark Page, *ex officio* Member
Alexander B. Grannis, *ex officio* Member
Martha E. Stark, *ex officio* Member
Steven Lawitts, *ex officio* Member
Arthur B. Hill, Member
Peter J. Kenny, Member
Marc V. Shaw, Member

Staff

Alan L. Anders, Chief Executive Officer
Thomas G. Paolicelli, Executive Director
Marjorie E. Henning, Secretary
Michele Mark Levine, Comptroller
Eileen T. Moran, Deputy Comptroller
Robert L. Balducci, Assistant Comptroller
Olga Chernat, Treasurer
Prescott D. Ulrey, Assistant Secretary
Jeffrey M. Werner, Assistant Secretary
Valerie Mehallow, Finance Manager
Raymond J. Orlando, Director of Media and Investor Relations

New York City Water Board

Members

Alan Moss, Chairman
Donald Capoccia, Member
Dawn S. Davis, Member
Amaziah Howell, Member
Mehul J. Patel, Member
Benjamin Tisdell, Member
Marcia Bystryn, Member

Staff

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

New York City Department of Environmental Protection

Steven Lawitts, Acting Commissioner

Bureau of Water and Sewer Operations

James Roberts, Deputy Commissioner

Bureau of Engineering Design and Construction

Jim Mueller, Deputy Commissioner

Bureau of Wastewater Treatment

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

Bureau of Water Supply

Paul Rush, P. E., Deputy Commissioner

Bureau of Customer Services

Joseph Singleton, Deputy Commissioner

Bureau of Environmental Planning

Angela Licata, Deputy Commissioner

Bureau of Human Resources and Administration

ZoeAnn Campbell, Deputy Commissioner

Bureau of Legal Affairs

Robin Levine, General Counsel



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INDEPENDENT AUDITORS' REPORT

To the Audit Committees of New York City Municipal Water Finance Authority and the New York City Water Board:

We have audited the accompanying balance sheets of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of the City of New York, New York, as of June 30, 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System for the year ended June 30, 2007 were audited by other auditors whose report, dated October 30, 2007, expressed an unqualified opinion on those statements. As discussed in Note 13, the System has restated its 2007 financial statements, including beginning balances, during the current year to adjust capital assets in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the 2007 financial statements before the restatement.

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

In our opinion, such 2008 financial statements 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, 2008, and the respective changes their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis (MD&A) on pages 12-20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section on pages 2-10 and the statistical section on pages 54-60 are presented for the purpose of additional analysis and are not a required part of the financial statements. This supplemental information is the responsibility of the System's management. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements and accordingly, we express no opinion on them.

October 10, 2008

Member of
Deloitte Touche Tohmatsu

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2008 and 2007. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board").

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The 2007 financial statements have been restated, from the amounts previously reported, to reflect adjustments to utility plant in service and utility plant construction. These adjustments are described further in footnote 13 to the financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Management's Discussion and Analysis

(Continued)

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the years 2008, 2007 and 2006 *(in thousands)*:

	2008	2007	2006	Variance	
				2008 v 2007	2007 v 2006
REVENUES					
Water supply and distribution	\$ 784,856	\$ 796,404	\$ 735,200	\$ (11,548)	\$ 61,204
Sewer collection and treatment	1,220,653	1,238,612	1,143,424	(17,959)	95,188
Other operating revenues	97,778	98,061	100,306	(283)	(2,245)
Total operating revenues	2,103,287	2,133,077	1,978,930	(29,790)	154,147
Subsidy income	104,234	90,601	88,447	13,633	2,154
Investment income— <i>net</i>	108,892	98,132	105,239	10,760	(7,107)
Total revenues	2,316,413	2,321,810	2,172,616	(5,397)	149,194
EXPENSES					
Operations and maintenance	1,320,439	1,147,157	1,056,379	173,282	90,778
Bad debt expense	-	226,028	87,222	(226,028)	138,806
Administration and general	44,027	35,493	26,727	8,534	8,766
Depreciation and amortization	646,377	579,860	500,161	66,517	79,699
Capital distribution	24,619	33,133	-	(8,514)	33,133
Loss on retirement of fixed assets	14,598	23,257	7,046	(8,659)	16,211
Interest expense	834,085	771,656	731,563	62,429	40,093
Total expenses	2,884,145	2,816,584	2,409,098	67,561	407,486
Net loss before capital contributions (distributions)	(567,732)	(494,774)	236,482	(72,958)	(258,292)
CAPITAL CONTRIBUTIONS (DISTRUBUTIONS)	7,340	12,357	(19,241)	(5,017)	31,598
CHANGE IN NET ASSETS	(560,392)	(482,417)	255,723	(77,975)	(226,694)
NET ASSETS—Beginning	1,726,283	2,899,381	3,155,104	(1,173,098)	(255,723)
Prior period adjustment	-	(690,681)	-	690,681	(690,681)
NET ASSETS—Ending	\$ 1,165,891	\$ 1,726,283	\$ 2,899,381	\$ (560,392)	\$ (1,173,098)

Operating Revenue

2008-2007

Operating revenues decreased by 1.4% on a rate increase of 11.5%. The System changed the method for the recognition of bad debt expense and the allowance for doubtful accounts. This change resulted in a decrease in revenue although there was an increase in cash receipts over the year 2007.

2007-2006

Total operating revenues increased by 7.8%, principally from a rate increase of 9.4%.

Other Operating Revenue

2008-2007

Other operating revenues remained level for 2008. Late payments fees decreased by \$19 million or 44% due to

forgiveness of these charges related to leaks and due to a payment incentive program which allowed reduced fees for payment of outstanding receivables.

The System implemented GASB 48 in fiscal year 2008, which resulted in the recording of a miscellaneous revenue and an asset, residual interest in sold liens, of \$16.9 million. This represents the estimated amount, as of June 30, 2008, to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by The City of New York (the "City") to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

2007-2006

Other operating revenues have remained relatively level for 2007.

The following summarizes other operating revenues (*in thousands*):

	2008	2007	2006	Variance	
				2008 v 2007	2007 v 2006
Upstate water fees	\$ 45,978	\$ 42,197	\$ 42,693	\$ 3,781	\$ (496)
Late payment fees	24,261	43,286	45,519	(19,025)	(2,233)
Residual interest in sold liens	16,896	-	-	16,896	-
Connection fees and permits	10,643	12,578	12,094	(1,935)	484
Total other operating revenues	\$ 97,778	\$ 98,061	\$ 100,306	\$ (283)	\$ (2,245)

Investment Income

2008-2007

Investment income increased by \$10.7 million or 11%. The increase was due to the recognition of \$18 million of unrealized gains in the fair value of forward purchase agreements offset by decreases in income earned on escrow balances of \$6 million.

2007-2006

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

Operating Expenses

2008-2007

Total operation and maintenance expenses increased by \$173 million or 15%. Judgments and claims increased by \$37 million primarily due to a pending judgment for missing construction deadlines pursuant to a consent agreement. Also fringe benefits increased by \$37 million reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense decreased by \$226 million or 100% as a result of increased collection and enforcement efforts.

2007-2006

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

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

Non-operating Expenses

2008-2007

Interest expense increased by \$62.4 million or 13% due to an increase in bonds outstanding of \$1.9 billion or 11.3%.

2007-2006

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

In 2007, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million.

NEW YORK CITY WATER AND SEWER SYSTEM

Management's Discussion and Analysis

(Continued)

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

	2008	2007	2006	Variance	
				2008 v 2007	2007 v 2006
ASSETS:					
CURRENT ASSETS	\$ 2,091,480	\$ 2,075,754	\$ 1,954,277	\$ 15,726	\$ 121,477
RESIDUAL INTEREST IN SOLD LIENS	16,896	-	-	16,896	-
DEFERRED BOND AND FINANCING EXPENSES	137,508	134,673	130,728	2,835	3,945
CAPITAL ASSETS	19,347,150	17,745,015	17,155,603	1,602,135	589,412
TOTAL ASSETS	\$ 21,593,034	\$ 19,955,442	\$ 19,240,608	\$ 1,637,592	\$ 714,834
LIABILITIES:					
LONG-TERM LIABILITIES	\$ 18,668,133	\$ 16,691,440	\$ 15,306,834	\$ 1,976,693	\$ 1,384,606
CURRENT LIABILITIES	1,759,010	1,537,719	1,034,393	221,291	503,326
Total liabilities	20,427,143	18,229,159	16,341,227	2,197,984	1,887,932
NET ASSETS:					
Invested in capital assets— <i>net of related debt</i>	1,737,181	2,056,879	2,556,766	(319,698)	(499,887)
Restricted for debt service	209,130	161,661	171,859	47,469	(10,198)
Restricted for operations and maintenance	200,438	175,161	157,806	25,277	17,355
Unrestricted (deficit)	(980,858)	(667,418)	12,950	(313,440)	(680,368)
Total net assets	1,165,891	1,726,283	2,899,381	(560,392)	(1,173,098)
TOTAL LIABILITIES AND NET ASSETS	\$ 21,593,034	\$ 19,955,442	\$ 19,240,608	\$ 1,637,592	\$ 714,834

NEW YORK CITY WATER AND SEWER SYSTEM

Management's Discussion and Analysis

(Continued)

2008–2007

Current assets have remained level.

As discussed above, the implementation of GASB 48 in fiscal year 2008 resulted in the recording of a residual interest in sold liens of \$16.9 million.

Long term liabilities have increased by \$2 billion due to the increase in bonds payable of \$1.9 billion.

Current liabilities have increased by \$221 million

or 14% primarily due to an increase in the amount payable to the City for capital costs.

2007–2006

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

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

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)*:

	2008	2007	2006	Variance	
				2008 v 2007	2007 v 2006
Utility plant under construction	\$ 4,011,216	\$ 4,338,126	\$ 4,546,209	\$ (326,910)	\$ (208,083)
Buildings	23,493	23,493	22,266	-	1,227
Equipment	953,311	629,384	472,034	323,927	157,350
Water supply and wastewater treatment systems	13,629,051	11,865,211	10,886,477	1,763,840	978,734
Water distribution and sewage collection systems	8,408,040	8,014,647	7,844,126	393,393	170,521
Total utility plant in service	23,013,895	20,532,735	19,224,903	2,481,160	1,307,832
Less accumulated depreciation	7,677,961	7,125,846	6,615,509	552,115	510,337
Total— <i>net utility plant in service</i>	15,335,934	13,406,889	12,609,394	1,929,045	797,495
Total capital assets	\$ 19,347,150	\$ 17,745,015	\$ 17,155,603	\$ 1,602,135	\$ 589,412

The net increase in the System's capital assets during fiscal year 2008 was \$ 1.602 billion or 9%. Net capital asset additions for 2008 were \$2.154 billion.

The net increase in the System's capital assets during fiscal year 2007 was \$589 million or 3%. Net capital asset additions for 2007 were \$1.099 billion offset by adjustments of prior period of \$690.7 million.

Debt Administration

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

At June 30, 2008, the total outstanding debt of the System was \$20.0 billion, of which \$800 million was commercial paper. The remaining \$19.2 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2039.

The total outstanding long-term debt at June 30, 2008 was as follows (*in thousands*):

Issue Date	
2008	\$3,273,085
2007	2,193,644
2006	2,561,612
2005	2,770,436
2004	1,651,520
2003 and prior	6,768,640
Total long-term debt	\$ 19,218,937

In the summary above, bonds retired through refundings in 2008 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the 2008 amount.

In fiscal year 2008, the Authority issued \$2.78 billion of water and sewer revenue bonds directly to the public, including \$1.03 billion of refunding bonds and \$1.75 billion of new money bonds. The Authority also issued \$495.6 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, of which \$399.7 million were issued for new money purposes and \$95.9 million were issued for refunding purposes. The new money bond proceeds were used to finance capital improvements to New York City's water and sewer system as well as to provide long-term financing of commercial paper which had previously financed capital improvements to the system.

On September 17, 2007, the Authority converted from a variable rate mode to an auction rate mode a combined par of \$683.7 million of its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 1993 Series C, Fiscal 1994 Series C, Fiscal 1994 Series G and Fiscal 1995 Series A. These four series of bonds were insured by Financial Guaranty Insurance Company at the time of their initial offering. Each of the converted series of bonds except the Fiscal 1993 Series C were broken into two sub-series.

On October 10, 2007, the Authority closed its first new money offering of fiscal year 2008. The Authority issued \$400 million of tax-exempt, fixed rate Fiscal 2008 Series AA bonds under the Authority's second general resolution and the issue included term bonds maturing in 2027, 2033, 2037 and 2039. Bond proceeds were used to defease the Authority's commercial paper Series 5 and Series 7 notes and to pay the costs of issuance of the bonds. A portion of the Fiscal 2008 Series AA bonds are insured by Financial Guaranty Insurance Company.

On October 24, 2007, the Authority issued \$753.2 million of tax-exempt adjustable rate second general resolution bonds, including \$401 million of Fiscal 2008 Series BB variable rate demand bonds and \$352.2 million of Fiscal 2008 Series CC auction rate bonds. Of the total variable-rate demand bonds issued, \$250 million were offered in the daily reset mode and \$151 million in the weekly reset mode. Additionally, the variable-rate demand bonds were issued in five subseries (BB-1 through BB-5) with five different remarketing agents chosen to remarket these bonds. However, currently only four banks remarket these bonds. Proceeds of the Fiscal 2008 Series BB bonds

were used to defease the Authority's commercial paper Series 1 and Series 6 notes. The Fiscal 2008 Series CC bonds, issued in four subseries (CC-1 through CC-4), refunded the Authority's Fiscal 1998 Series A and Series C bonds and are insured by MBIA Inc. A portion of the proceeds from both series were also used to pay the costs of issuance.

On December 11, 2007, the Authority sold \$446.2 million of tax-exempt, fixed rate, first resolution Fiscal 2008 Series A bonds. The bonds included a single term bond maturing in 2038. Proceeds from this offering were used to defease the Authority's commercial paper Series 1 and Series 6 notes and a portion of its Series 7 notes. Additionally, proceeds were applied to fund a portion of the debt service reserve fund and to pay costs of issuance.

In December 2007, constrained liquidity in the auction rate market, precipitated by credit rating downgrades of several financial guarantors led to a substantial rise in interest rates for the Authority's auction rate securities. In response, on March 19, 2008, the Authority issued \$535 million of first resolution Adjustable Rate Fiscal 2008 Series B bonds and \$144.9 million of first resolution, fixed-rate Fiscal 2008 Series C bonds to refund its four series of bonds that were previously converted into the auction rate mode on September 17, 2007. The variable rate demand bonds were issued in four subseries (subseries B-1, B-2, B-3 and B-4) with four different remarketing agents chosen to remarket these bonds. Additionally, \$300 million of the variable rate demand bonds were offered in the weekly reset mode and \$235 million were offered in the daily reset mode.

On May 22, 2008, the Authority issued Second General Resolution Fiscal 2008 Series 1 and Series 2 bonds to EFC in the respective par amounts of \$270.9 million and \$224.7 million. The Fiscal Series 1 bonds included \$95.9 million issued to refund a portion of the Authority's Fiscal 1998 Series 6 and a portion of its Fiscal 1999 Series 2 bonds. Proceeds of the new money portion of the Fiscal 2008 Series 1 and Fiscal 2008 Series 2 bonds were used to defease the Authority's commercial paper Series 7 notes and a portion of the Authority's Series 5 notes. Proceeds were also used to pay the costs of issuance of the bonds.

On June 5, 2008, NYW issued \$504.9 million of Second General Resolution Fiscal 2008 Series DD bonds. The bonds included term bonds maturing in 2031, 2032, 2037, 2038 and 2039. Proceeds from the Fiscal 2008 Series DD bonds were used to defease the Authority's commercial paper Series 1 notes, to finance capital improvements to the water and sewer system and to pay the costs of issuance of the bonds. A portion of the Fiscal 2008 Series DD bonds are insured by Financial Security Assurance, Inc.

The credit markets in the United States are experiencing a period of volatility and instability. Certain adjustable rate debt instruments issued by the Authority contain provisions that allow holders of the instruments to put the instruments back to the Authority. The Authority relies on its remarketing agents to remarket this debt and should the agent be unable to remarket this debt, the Authority has in place liquidity facilities from banks to support this debt.

The Authority has on occasion drawn on its liquidity facilities because of unsuccessful remarketing of its debt.

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 11.5% for fiscal 2008 became effective July 1, 2007 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, Director of Media and Investor Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, New York 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

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NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet *(in thousands)*

June 30, 2008

	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 125,984	\$ 1,123,417	\$ -	\$ 1,249,401
Investments	90,225	354,475	-	444,700
Accrued interest receivable	126	2,028	-	2,154
Accounts receivable:				
Billed— <i>Less allowance for uncollectible water and sewer receivables of \$183,884</i>	184,366	-	-	184,366
Unbilled	187,934	-	-	187,934
Receivable from The City of New York	22,925	-	-	22,925
Total current assets	611,560	1,479,920	-	2,091,480
UTILITY PLANT IN SERVICE— <i>Less accumulated depreciation of \$7,677,961</i>	15,335,934	-	-	15,335,934
UTILITY PLANT CONSTRUCTION	4,011,216	-	-	4,011,216
Total capital assets	19,347,150	-	-	19,347,150
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	10,880,165	(10,880,165)	-
RESIDUAL INTEREST IN SOLD LIENS	16,896	-	-	16,896
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	-	137,508	-	137,508
Total non current assets	19,364,046	11,017,673	(10,880,165)	19,501,554
TOTAL ASSETS	\$ 19,975,606	\$ 12,497,593	\$ (10,880,165)	\$ 21,593,034

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet *(in thousands)*

June 30, 2008

	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable—				
<i>Less current portion</i>	\$ -	\$ 18,983,922	\$ -	\$ 18,983,922
Net premium on bonds and notes payable	-	26,377	-	26,377
Deferred bond refunding costs	-	(342,166)	-	(342,166)
Revenue requirements payable to the Authority	10,880,165	-	(10,880,165)	-
Total long-term liabilities	10,880,165	18,668,133	(10,880,165)	18,668,133
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	79,032	34,457	-	113,489
Revenues received in advance	74,676	-	-	74,676
Commercial paper payable	-	800,000	-	800,000
Current portion of bonds and notes payable	-	235,015	-	235,015
Payable to The City of New York	-	518,467	-	518,467
Refunds payable to customers	17,363	-	-	17,363
Total current liabilities	171,071	1,587,939	-	1,759,010
Total liabilities	11,051,236	20,256,072	(10,880,165)	20,427,143
NET ASSETS:				
Invested in capital assets (deficit)				
— <i>net of related debt</i>	19,347,150	(17,609,969)	-	1,737,181
Restricted for debt service	-	209,130	-	209,130
Restricted for operations and maintenance	200,438	-	-	200,438
Unrestricted (deficit)	(10,623,218)	9,642,360	-	(980,858)
Total net assets (deficit)	8,924,370	(7,758,479)	-	1,165,891
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 19,975,606	\$ 12,497,593	\$ (10,880,165)	\$ 21,593,034

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet *(in thousands)*

June 30, 2007

	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 104,932	\$ 1,070,154	\$ -	\$ 1,175,086
Investments	83,406	350,944	-	434,350
Accrued interest receivable	145	2,969	-	3,114
Accounts receivable:				
Billed— <i>Less allowance for uncollectible water and sewer receivables of \$ 213,840</i>	278,176	-	-	278,176
Unbilled	169,310	-	-	169,310
Receivable from The City of New York	15,718	-	-	15,718
Total current assets	651,687	1,424,067	-	2,075,754
UTILITY PLANT IN SERVICE— <i>Less accumulated depreciation of \$7,125,846</i>	13,406,889	-	-	13,406,889
UTILITY PLANT CONSTRUCTION	4,338,126	-	-	4,338,126
Total capital assets	17,745,015	-	-	17,745,015
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	9,479,193	(9,479,193)	-
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	-	134,673	-	134,673
Total non current assets	17,745,015	9,613,866	(9,479,193)	17,879,688
TOTAL ASSETS	\$ 18,396,702	\$ 11,037,933	\$ (9,479,193)	\$ 19,955,442

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet *(in thousands)*

June 30, 2007

	New York City		Eliminations	Total
	Water Board	Municipal Water Finance Authority		
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable— <i>Less current portion</i>	\$ -	\$ 17,060,213	\$ -	\$ 17,060,213
Net discount on bonds and notes payable	-	(13,838)	-	(13,838)
Deferred bond refunding costs	-	(354,935)	-	(354,935)
Revenue requirements payable to the Authority	9,479,193	-	(9,479,193)	-
Total long-term liabilities	9,479,193	16,691,440	(9,479,193)	16,691,440
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	34,110	43,397	-	77,507
Revenues received in advance	73,727	-	-	73,727
Commercial paper payable	-	800,000	-	800,000
Current portion of bonds and notes payable	-	210,971	-	210,971
Payable to The City of New York	-	361,860	-	361,860
Refunds payable to customers	13,654	-	-	13,654
Total current liabilities	121,491	1,416,228	-	1,537,719
Total liabilities	9,600,684	18,107,668	(9,479,193)	18,229,159
NET ASSETS:				
Invested in capital assets (deficit)— <i>net of related debt</i>	17,745,015	(15,688,136)	-	2,056,879
Restricted for debt service	-	161,661	-	161,661
Restricted for operations and maintenance	175,161	-	-	175,161
Unrestricted (deficit)	(9,124,158)	8,456,740	-	(667,418)
Total net assets (deficit)	8,796,018	(7,069,735)	-	1,726,283
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 18,396,702	\$ 11,037,933	\$ (9,479,193)	\$ 19,955,442

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Revenues, Expenses and Changes In Net Assets *(in thousands)*

June 30, 2008

	New York City		Total
	Water Board	Municipal Water Finance Authority	
OPERATING REVENUES:			
Water supply and distribution	\$ 784,856	\$ -	\$ 784,856
Sewer collection and treatment	1,220,653	-	1,220,653
Other operating revenues	97,778	-	97,778
Total operating revenues	2,103,287	-	2,103,287
OPERATING EXPENSES:			
Operation and maintenance	1,320,439	-	1,320,439
Bad debt expense	-	-	-
Administration and general	22,351	21,676	44,027
Total operating expenses	1,342,790	21,676	1,364,466
DEPRECIATION AND AMORTIZATION	604,437	41,940	646,377
OPERATING INCOME (LOSS)	156,060	(63,616)	92,444
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(834,085)	(834,085)
Loss on retirement of fixed assets	(14,598)	-	(14,598)
Subsidy income	-	104,234	104,234
Capital distribution	(24,619)	-	(24,619)
Investment income	4,169	104,723	108,892
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	121,012	(688,744)	(567,732)
CAPITAL CONTRIBUTION	7,340	-	7,340
CHANGE IN NET ASSETS	128,352	(688,744)	(560,392)
NET ASSETS (DEFICIT)— <i>Beginning of year</i>	8,796,018	(7,069,735)	1,726,283
NET ASSETS (DEFICIT)— <i>End of year</i>	\$ 8,924,370	\$ (7,758,479)	\$ 1,165,891

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Revenues, Expenses and Changes In Net Assets *(in thousands)*

June 30, 2007

	New York City		Total
	Water Board	Municipal Water Finance Authority	
OPERATING REVENUES:			
Water supply and distribution	\$ 796,404	\$ -	\$ 796,404
Sewer collection and treatment	1,238,612	-	1,238,612
Other operating revenues	98,061	-	98,061
Total operating revenues	2,133,077	-	2,133,077
OPERATING EXPENSES:			
Operation and maintenance	1,147,157	-	1,147,157
Bad debt expense	226,028	-	226,028
Administration and general	16,996	18,497	35,493
Total operating expenses	1,390,181	18,497	1,408,678
DEPRECIATION AND AMORTIZATION	535,530	44,330	579,860
OPERATING INCOME (LOSS)	207,366	(62,827)	144,539
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(771,656)	(771,656)
Loss on retirement of fixed assets	(23,257)	-	(23,257)
Subsidy income	-	90,601	90,601
Capital distribution	(33,133)	-	(33,133)
Investment income	4,380	93,752	98,132
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	155,356	(650,130)	(494,774)
CAPITAL CONTRIBUTIONS	12,357	-	12,357
CHANGE IN NET ASSETS	167,713	(650,130)	(482,417)
NET ASSETS (DEFICIT)— <i>Beginning of year</i>	9,318,986	(6,419,605)	2,899,381
Prior period adjustment	(690,681)	-	(690,681)
NET ASSETS (DEFICIT)— <i>End of year</i>	\$ 8,796,018	\$ (7,069,735)	\$ 1,726,283

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows *(in thousands)*

June 30, 2008

	New York City		Total
	Water Board	Municipal Water Finance Authority	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,166,236	\$ -	\$ 2,166,236
Payments for operations and maintenance	(1,209,396)	-	(1,209,396)
Payments for administration	(28,429)	(21,799)	(50,228)
Net cash provided by (used in) operating activities	928,411	(21,799)	906,612
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings— <i>net of issuance costs</i>	-	5,328,296	5,328,296
Acquisition and construction of capital assets	-	(2,149,092)	(2,149,092)
Payments by the Board to the Authority	(904,726)	904,726	-
Repayments of bonds, notes and other borrowings	-	(3,381,124)	(3,381,124)
Interest paid on bonds, notes and other borrowings	-	(726,864)	(726,864)
Net cash used in capital and related financing activities	(904,726)	(24,058)	(928,785)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	83,405	17,746	101,151
Purchases of investments	(89,241)	-	(89,241)
Interest on investments	3,203	81,375	84,578
Net cash (used in) provided by investing activities	(2,633)	99,121	96,488
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,052	53,263	74,315
CASH AND CASH EQUIVALENTS— <i>Beginning of year</i>	104,932	1,070,154	1,175,086
CASH AND CASH EQUIVALENTS— <i>End of year</i>	\$ 125,984	\$ 1,123,417	\$ 1,249,401

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows *(in thousands)*

June 30, 2008

	New York City		Total
	Water Board	Municipal Water Finance Authority	
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (Loss)	\$ 156,060	\$ (63,616)	\$ 92,444
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	604,437	41,940	646,377
Operations and maintenance expense paid for with bond proceeds	67,249	-	67,249
Changes in net assets and liabilities:			
Receivables— <i>net</i>	75,189	-	75,189
Receivable from The City of New York	(7,207)	-	(7,207)
Residual interest in sold liens	(16,896)		(16,896)
Accounts payable	44,922	(123)	44,799
Revenues received in advance	948	-	948
Refunds payable	3,709	-	3,709
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 928,411	\$ (21,799)	\$ 906,612

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of (\$1,029) in 2008.

Capital expenditures in the amount of \$518,467 had been incurred but not paid at June 30, 2008.

The Board received capital assets of \$7,340 in 2008 which represented capital contributed by the City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows *(in thousands)*

June 30, 2007

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

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows *(in thousands)*

June 30, 2007

	New York City		Total
	Water Board	Municipal Water Finance Authority	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (Loss)	\$ 207,366	\$ (62,827)	\$ 144,539
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	535,530	44,330	579,860
Bad debt expense	226,028	-	226,028
Operations and maintenance expense paid for with bond proceeds	61,983	-	61,983
Changes in net assets and liabilities:			
Receivables— <i>net</i>	(210,020)	-	(210,020)
Receivable from The City of New York	(7,212)	-	(7,212)
Other	-	(1,284)	(1,284)
Accounts payable and accrued expenses	28,008	577	28,585
Revenues received in advance	(4,753)	-	(4,753)
Refunds payable to customers	(1,155)	-	(1,155)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 835,775	\$ (19,204)	\$ 816,571

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of premium and discount in the amount of (\$3,106) in 2007.

Capital expenditures in the amount of \$361,860 had been incurred but not paid at June 30, 2007.

The Board received capital assets of \$12,357 in 2007, which represented capital contributed by the City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

1. ORGANIZATION

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

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

Authority, operating costs of the water and sewer system, and the rental payment to the City.

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

In accordance with Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), the Board and the Authority are considered to be part of the same reporting entity (the System) since they are fiscally interdependent. Accordingly, the accompanying financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide financial statements.

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. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board ("FASB") prior to December 1, 1989 are followed by the System to the extent that those standards do not conflict with or contradict guidance of GASB. GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Fund Accounting, provides the option to follow subsequent FASB standards, subject to the same limitation. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

Investments and Cash Equivalents — Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. Investments with maturity periods of greater than one year are carried at market value. Investments with maturities less than one year are carried at cost which approximates fair value. For purposes of the statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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.

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

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

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

	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 additions to utility plant.

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.

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

Deferred Bond Refunding Costs — Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. Gains or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

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

Newly Adopted Standards and Standards Issued But Not Yet Effective — In September 2006 GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. The Statement established criteria to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and provides guidance for the reporting and disclosures required when governmental entities have such transactions. The System implemented GASB 48 in fiscal year 2008, which resulted in the recording of a residual interest in sold liens of \$16.9 million as of June 30, 2008. This represents the estimated amount to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by the City to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

In November 2006 GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The Statement established accounting and financial reporting standards for obligations to address current or potential detrimental effects of existing pollution. GASB 49 is effective for financial statements for periods beginning after December 15, 2007, and thus will be implemented by the System for its fiscal year 2009. The System has not completed the process of evaluating the impact of GASB 49 on its financial statements.

In May 2007 GASB issued Statement No. 50, Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27). The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The City and the City's pension plans in which System employees may participate implemented GASB 50 for fiscal year 2008. As discussed in Note 11, the System has very few direct employees who participate in a pension plan and the thus the pension disclosures are not material to the System's financial statements.

In June 2007 GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that intangible assets generally be classified as capital assets and established guidance pertaining to the recognition, valuation and amortization of such assets. GASB 51 is effective for financial statements for periods beginning after June 15, 2009. The System had not completed the process of evaluating the impact of GASB 51 on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In November 2007 GASB issued Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. This Standard requires endowments to report their land and other real estate investments at fair value. GASB 52 is effective for financial statements for periods beginning after June 15, 2008. The System had no endowments and therefore GASB 52 will not impact the System's financial statements.

In June 2008 GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This Standard established guidance on the recognition, measurement, and disclosures

related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. GASB 53 is effective for financial statements for periods beginning after June 15, 2009. The System has not completed the process of evaluating the impact of GASB 53 on its financial statements.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2008 and 2007 as adjusted as per Footnote 13 (*in thousands*):

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008
NONDEPRECIABLE ASSETS:							
Utility construction	\$ 4,546,209	\$ 1,933,996	\$ 2,142,079	\$ 4,338,126	\$ 2,313,039	\$ 2,639,949	\$ 4,011,216
DEPRECIABLE ASSETS:							
Buildings	22,266	1,227	-	23,493	-	-	23,493
Equipment	472,034	162,341	4,991	629,384	326,405	2,478	953,311
Water supply and wastewater treatment systems	10,886,477	1,241,396	262,662	11,865,211	1,787,249	23,409	13,629,051
Water distribution and sewage collection systems	7,844,126	213,980	43,459	8,014,647	434,426	41,033	8,408,040
	23,771,112	3,552,940	2,453,191	24,870,861	4,861,119	2,706,869	27,025,111
Less accumulated depreciation	6,615,509	535,530	25,193	7,125,846	604,437	52,322	7,677,961
Total utility plant	\$ 17,155,603	\$ 3,017,410	\$ 2,427,998	\$ 17,745,015	\$ 4,256,682	\$ 2,654,547	\$ 19,347,150

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

4. INVESTMENTS AND CASH DEPOSITS

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

Cash Deposits — The System follows the New York City Banking Commission designations for the System’s bank depositories. The Commission consists of the

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

At June 30, 2008 and 2007, the carrying amounts of bank deposits were \$16.0 million and \$20.7 million, respectively, and the bank balances were \$17.8 million and \$21.9 million, respectively.

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

Investment Type	2008	2007	Investment Maturity
Certificate of Deposit	\$ -	\$ 104	Greater than one year
U.S. Government securities	1,368,217	1,232,617	Less than one year
New York State securities	78,465	77,474	Greater than one year
Repurchase agreements	3,000	70,345	Less than one year
Guaranteed investment contracts	215,480	211,315	Greater than one year
FPA Market Adjustment	15,090	-	Greater than one year
	\$ 1,680,252	\$ 1,591,855	

4. INVESTMENTS AND CASH DEPOSITS (Continued)

All of the System’s investments in U.S. agencies carry the explicit guarantee of the U.S. Government. At June 30, 2008 and 2007, 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, 2008 and 2007 is as follows *(in thousands)*:

	2008	2007
Water transmission and distribution	\$ 381,011	\$ 339,854
Sewer collection systems	458,021	413,837
City agency support cost	58,692	57,304
Fringe benefits	147,593	110,687
Payments for watershed improvements	67,249	61,983
Judgments and claims	68,088	31,232
	\$ 1,180,654	1,014,897
Rental payments to the City	139,785	132,260
	\$ 1,320,439	\$ 1,147,157

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

6. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2008 and 2007, 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, 2008 and 2007, the System had a net payable of \$495.5 million and \$346.1 million, respectively, to the City for payments of utility construction and for overpayment of operations and maintenance expense.

7. SHORT-TERM LIABILITIES

In fiscal years 2008 and 2007, the changes in short-term liabilities were as follows *(in thousands)*:

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008
Commercial paper (1)	\$ 351,000	\$ 2,059,000	\$ 1,610,000	\$ 800,000	\$ 2,040,000	\$ 2,040,000	\$ 800,000

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

Commercial paper activity comprises the following for the year ended June 30, 2008 *(in thousands)*:

	Balance at June 30, 2007	Issued	Retired	Balance at June 30, 2008
Commercial Paper Series 1 – Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$ 200,000	\$ 600,000	\$ 600,000	\$ 200,000
Commercial Paper Series 5 – Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	400,000	400,000	200,000
Commercial Paper Series 6 – Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	600,000	600,000	200,000
Commercial Paper Series 7 – Variable Rate, Short-term Rolling Maturity	200,000	440,000	440,000	200,000
Total commercial paper payable	\$ 800,000	\$ 2,040,000	\$ 2,040,000	\$ 800,000

8. LONG-TERM LIABILITIES

In fiscal years 2008 and 2007, the changes in long-term liabilities were as follows *(in thousands)*:

Bonds Payable	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008
First resolution	\$ 10,894,553	\$ 587,975	\$ 549,068	\$ 10,933,460	\$ 1,126,190	\$ 1,067,753	\$ 10,991,897
Second resolution	5,039,798	1,633,132	335,206	6,337,724	2,153,715	264,399	8,227,040
Total bonds payable	15,934,351	2,221,107	884,274	17,271,184	3,279,905	1,332,152	19,218,937
Due within one year	(210,971)	-	-	-	-	-	(235,015)
Less discounts (net)	42,007	(15,838)	12,331	13,838	(31,934)	8,281	(26,377)
Less deferred refunding costs	370,449	21,575	37,089	354,935	17,791	30,559	342,166
Total long-term liabilities	\$ 15,310,924	\$ 2,215,370	\$ 834,854	\$ 16,902,411	\$ 3,294,048	\$ 1,293,312	\$ 18,668,133

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 2008 and 2007, the Authority issued \$448.1 million and \$586.8 million, respectively, of bonds to refund \$436.7 million and \$683.5 million, respectively, of outstanding bonds. These refundings resulted in an accounting loss of \$17.8 million and \$21.6 million, respectively. The Authority in effect reduced its aggregate debt service by \$18.0 and \$17.3 million, respectively, and obtained an economic benefit of \$14.5 million and \$46.3 million, respectively.

In addition, in 2008, the Authority issued \$679.9 million of bonds to refund \$683.7 million of auction rate bonds.

The Authority has defeased cumulatively \$ 10.763 and \$9.740 billion of outstanding bonds as of June 30, 2008 and 2007, 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, 2008 and 2007, \$8.157 billion and \$8.081 billion of the defeased bonds, respectively, had been retired from the assets of the escrow accounts.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

Debt service requirements to maturity including amounts relating to commercial paper at June 30, 2008 are as follows (in thousands):

June 30	Principal ⁽¹⁾	Interest ⁽²⁾	Total
2009	\$ 1,035,015	\$ 733,763	\$ 1,768,778
2010	262,945	721,623	984,568
2011	348,684	711,800	1,060,484
2012	336,954	700,878	1,037,832
2013	329,623	685,742	1,015,365
2014-2018	2,327,036	3,252,161	5,579,197
2019-2023	2,714,260	2,856,645	5,570,905
2024-2028	3,077,275	2,382,834	5,460,109
2029-2033	3,950,065	1,701,988	5,652,053
2034-2038	4,671,225	875,356	5,546,581
2039-2043	965,855	46,089	1,011,944
	\$ 20,018,937	\$ 14,668,879	\$ 34,687,816

⁽¹⁾ Includes \$800 million of commercial paper due in 2009.

⁽²⁾ Includes interest for variable rate bonds estimated at 2.0%, 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.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2008 (*in thousands*):

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 7,665	\$ -	\$ 2,315	\$ 5,350
1992 Fiscal Series B - 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	8,620	-	2,428	6,192
1993 Fiscal Series A - 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	70,360	-	20,375	49,985
1993 Fiscal Series C - Adjustable Rate Term Bonds maturing 2022	100,000	-	100,000	-
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	-
1994 Fiscal Series 1 - 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	31,180	-	340	30,840
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	198,700	-	198,700	-
1995 Fiscal Series 1 - 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	23,910	-	2,750	21,160
1997 Fiscal Series A - 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	25,000	-	-	25,000
1998 Fiscal Series A - 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	256,315	-	256,315	-
1998 Fiscal Series C - 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	83,975	-	83,975	-
1998 Fiscal Series D - 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	355,220	-	4,255	350,965
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	28,350	-	2,195	26,155
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	120,135	-	-	120,135
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	9,620	-	770	8,850

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
1998 Fiscal Series 6 - 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	\$ 12,779	\$ -	\$ 12,779	\$ -
1999 Fiscal Series A - 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	-	301,470
1999 Fiscal Series B - 4.0% to 5.25% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	171,910	-	-	171,910
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	89,649	-	89,649	-
2000 Fiscal Series B - 6.00% to 6.10% Serial Bonds maturing in varying installments through 2033	131,865	-	-	131,865
2000 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 - 3.80% to 5.96% Serial Bonds maturing in varying installments through 2019	9,050	-	555	8,495
2001 Fiscal Series B - 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	67,225	-	-	67,225
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	232,940	-	-	232,940
2001 Fiscal Series E - 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A - 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	116,305	-	-	116,305
2002 Fiscal Series B - 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,220	-	245	170,975
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	41,495	-	90	41,405
2002 Fiscal Series E - 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,745	-	110	213,635
2002 Fiscal Series F - 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	-	155	105,480

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
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	174,953	-	5,786	169,167
2002 Fiscal Series 2 - 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	59,334	-	2,566	56,768
2002 Fiscal Series 3 - 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	449,036	-	15,348	433,688
2002 Fiscal Series 4 - 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	192,529	-	8,735	183,794
2002 Fiscal Series 5 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	158,448	-	5,513	152,935
2002 Fiscal Series 6 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	76,448	-	5,097	71,351
2002 Fiscal Series 7 - 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	4,435	-	1,335	3,100
2003 Fiscal Series A - 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	685,845	-	4,200	681,645
2003 Fiscal Series C Adjustable Rate Bonds maturing in 2018	300,300	-	-	300,300
2003 Fiscal Series D - 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	214,525	-	-	214,525
2003 Fiscal Series E - 5% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F - Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 - 4.23% to 4.375% Serial Bonds maturing in varying installments through 2032	132,686	-	4,846	127,840
2003 Fiscal Series 2 - 5.27% Serial Bonds maturing in varying installments through 2028	550,074	-	11,934	538,140
2003 Fiscal Series 3 - 5.15% Serial Bonds maturing in varying installments through 2025	19,130	-	720	18,410
2003 Fiscal Series 4 - 5.18% Serial Bonds maturing in varying installments through 2025	30,435	-	1,150	29,285
2003 Fiscal Series 5 - 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	268,902	-	9,196	259,706
2004 Fiscal Series A - 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
2004 Fiscal Series B - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2023	\$ 336,720	\$ -	\$ -	\$ 336,720
2004 Fiscal Series C - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	595,170	-	585	594,585
2004 Fiscal Series 1 - 4.12% - 4.45% Serial Bonds maturing in varying installments through 2033	278,855	-	9,136	269,719
2004 Fiscal Series 2 - 4.46% Serial Bonds maturing in varying installments through 2026	241,350	-	7,854	233,496
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	919,960	-	1,070	918,890
2005 Fiscal Series C - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2036	575,005	-	750	574,255
2005 Series D - 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 - 3.95% - 5.00% Bonds maturing in varying installments through 2034	217,163	-	6,789	210,374
2005 Fiscal Series 2 - 2.567% - 5.00% Bonds maturing in varying installments through 2026	369,623	-	11,911	357,712
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	518,890	-	365	518,525
2006 Series B - 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Series C - 4.50% - 4.75% Term Bonds maturing in 2033	350,345	-	-	350,345
2006 Fiscal Series D - 4.5% - 5.00% Serial Bonds maturing in varying installments through 2038	406,205	-	-	406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB - 3.25% - 5.00% Serial Bonds maturing in varying installments through 2016	90,000	-	10,000	80,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2036	220,261	-	6,803	213,458
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	199,013	-	4,223	194,790

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	\$ 253,478	\$ -	\$ 5,190	\$ 248,288
2007 Fiscal Series A - 4.25% - 4.75% Serial Bonds maturing in varying installments through 2039	587,975	-	-	587,975
2007 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2037	199,910	-	-	199,910
2007 Fiscal Series BB - 3.75% - 5.00% Serial Bonds maturing in varying installments through 2021	131,745	-	-	131,745
2007 Fiscal Series CC - Adjustable rate bonds maturing in varying installments through 2038	210,500	-	-	210,500
2007 Fiscal Series DD - 4.75% - 5.00% Serial Bonds maturing in varying installments through 2039	395,000	-	-	395,000
2007 Fiscal Series 1 - 4.35% - 4.40% Serial Bonds maturing in varying installments through 2036	226,534	-	3,882	222,652
2007 Fiscal Series 2 - 4.45% - 4.50% Serial Bonds maturing in varying installments through 2036	288,272	-	4,815	283,457
2007 Fiscal Series 3 - 4.90% Serial Bonds maturing in varying installments through 2024	174,937	-	12,532	162,405
2008 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2038	-	446,245	-	446,245
2008 Fiscal Series B - 1.97% Serial Bonds maturing in varying installments through 2025	-	535,000	-	535,000
2008 Fiscal Series C - 3.00% - 5.25% Serial Bonds maturing in varying installments through 2021	-	144,945	6,820	138,125
2008 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2039	-	400,000	-	400,000
2008 Fiscal Series BB - 1.97% Serial Bonds maturing in varying installments through 2	-	401,000	-	401,000
2008 Fiscal Series CC - 1.97% Serial Bonds maturing in varying installments through 2022	-	352,200	-	352,200
2008 Fiscal Series DD - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2039	-	504,905	-	504,905
2008 Fiscal Series 1 - 3.69% - 4.64% Serial Bonds maturing in varying installments through 2037	-	270,907	-	270,907
2008 Fiscal Series 2 - 4.67% - 4.73% Serial Bonds maturing in varying installments through 2037	-	224,703	-	224,703

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

8. LONG-TERM LIABILITIES (Continued)

	Balance at June 30, 2007	Issued	Retired/ Defeased	Balance at June 30, 2008
Total bonds payable	\$ 17,271,184	\$ 3,279,905	\$ 1,332,152	\$ 19,218,937
Current portion of bonds and notes payable	210,971			235,015
Bonds and notes payable — less current portion	\$ 17,060,213			\$ 18,983,922

Derivatives — In October 2007, the Authority entered into two interest rate exchange agreements for a combined notional amount of \$401 million in conjunction with its sale of Adjustable Rate Fiscal 2008 Series BB Second General Resolution Bonds. Under the terms of these agreements, the Authority pays a fixed rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR. These agreements effectively converted the Adjustable Rate 2008 Series BB Second General Resolution Bonds to a fixed rate; however a mismatch between the rate paid on the bonds and the rate received under the interest rate exchange agreements can occur.

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

In 2003, the Authority sold \$20 million of muni-CP bonds in the 2013 maturity of its Fiscal 2003 Series A issue. In connection with the muni-CP 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-CP rate, which is set at 1.53% plus a floating rate CPI, with the CPI being equal to the change in the consumer price index.

In keeping with market standards, the Authority or the counterparty may terminate the swap if the other party fails to perform under its terms as defined in the agreements. The counterparties may terminate the agreement only upon certain events, which are unlikely given the Authority's high credit ratings. 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 also

8. LONG-TERM LIABILITIES (Continued)

exposed to counterparty credit risk; the risk that the counterparty's credit deteriorates or that the counterparty defaults under the agreement. To mitigate counterparty credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated

threshold, and if the fair value is in the authority's favor, as defined in the agreement.

The appropriate measurement of these risks at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2008 and 2007 was approximately \$7.7 million and \$3.1 million in favor of the counterparty, respectively.

9. RESTRICTED ASSETS

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

	2008	2007
THE BOARD:		
Operation and maintenance reserve account	\$ 200,428	\$ 175,151
Operation and maintenance reserve general account	10	10
	200,438	175,161
THE AUTHORITY:		
Revenue fund	209,130	161,863
Debt service reserve fund	836,028	801,226
Debt service fund	7,766	-
Construction fund	247,730	259,708
Arbitrage fund	-	6,519
Escrow fund	179,243	194,713
	1,479,897	1,424,029
	\$ 1,680,335	\$ 1,599,190

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

9. RESTRICTED ASSETS (Continued)

deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

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

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

10. COMMITMENTS AND CONTINGENCIES

Construction — The System has contractual commitments of approximately \$7.8 billion and \$7 billion at June 30, 2008 and 2007, respectively, for water and sewer projects.

Risk financing activities — The System is self insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Water Authority. Any claims made against the System are resolved through the City's legal support and the

amounts of the maximum liability for such judgments are described below. The System is subject to claims for construction delays, property damage, personal injury and judgments related to delays in construction deadlines under consent agreements.

Claims and Litigation — In accordance with the Lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. 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, 2008, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$256.2 million. This amount is included in the estimated liability for unsettled claims, which

10. COMMITMENTS AND CONTINGENCIES (Continued)

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.

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 2008 and 2007, the System paid \$7.160 million and \$2.458 million, respectively, in rebates. At June 30, 2008 and 2007, the Authority had a liability of \$2.805 million and \$6.733 million, respectively.

11. PENSION PLANS

During 2008, the System was billed and contributed \$24 thousand for four employees who participate in

the defined benefit pension plan. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of the City employees' pension through an allocation of fringe benefit costs, which are included principally within operations and maintenance expenses in the accompanying financial statements.

12. OTHER POST-EMPLOYMENT BENEFITS

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

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

Funding Policy — The Authority is not required to provide funding for OPEB, other than the pay as you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal years ended June 30, 2008 and 2007, the Authority had two retirees, and thus made a contribution of \$994. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that requires contributions.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Financial Statements as of and for the Years Ended June 30, 2008 and 2007

(Continued)

12. OTHER POST-EMPLOYMENT BENEFITS
(Continued)

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially

determined in accordance with the parameters of GASB Statement No. 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2007, which was the basis for the 2008 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost for the years, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the years ended June 30, 2008 (*in thousands*):

Annual required contribution	\$	317
Interest on net OPEB obligations		9
Adjustment to annual required contribution		(238)
Annual OPEB cost		88
Payments		(1)
Net OPEB obligation — beginning of year		229
Net OPEB obligation — end of year	\$	316

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2008, June 30, 2007 and June 30, 2006 were as follows (*in thousands*):

Fiscal Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$ 88	0 %	\$ 316
June 30, 2007	(168)	0	229
June 30, 2006	398	0	398

12. OTHER POST-EMPLOYMENT BENEFITS
(Continued)

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

Funded Status and Funding Progress — As of June 30, 2007, the most recent actuarial valuation date, the cost was 0.0% funded. The actuarial accrued liability for benefits was \$242 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$242 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$486 thousand, and the ratio of the UAAL to the covered payroll was 50%.

Actuarial Methods and Assumptions — Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the

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

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2006 and 2005, and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or

Required Supplementary Information (unaudited)

Schedule of Funding Progress *(in thousands)*

Valuation Date	Value of Assets	(AAL) — Entry Age	AAL (UAAL)	Funded Ratio	Covered Payroll	of Covered Payroll
June 30, 2007	0	\$ 242	\$ 242	0	\$ 486	50%
June 30, 2006	0	173	172	0	306	56
June 30, 2005	0	308	308	0	1,041	29

13. PRIOR PERIOD ADJUSTMENTS

The 2007 financial statements have been restated, from the amounts previously reported, to reflect adjustments to utility plant in service and utility plant construction. Certain amounts previously reported as in utility plant construction were placed into service in prior years and should have been reclassified to utility plant in service and depreciated accordingly. In addition, certain amounts included in utility plant construction should have been expensed in prior fiscal years. The effects of these adjustments to the 2007 financial statements are as follows: Utility plant in service, net of accumulated depreciation, was reduced by \$262.6 million. Utility plant construction was reduced by \$428.0 million. Net assets at the beginning of the year were reduced by \$690.7 million.

14. SUBSEQUENT EVENTS

On July 23, 2008 the Authority issued fiscal 2009 Series AA Second Resolution Bonds in the aggregate amount of \$334.1 million to refund outstanding bonds and to pay certain costs of issuance.

On August 7, 2008, the Authority issued fiscal 2009 Series BB Second Resolution Bonds in the aggregate amount of \$200.9 million to refund outstanding commercial paper notes and to pay for certain costs of issuance.

On August 7, 2008, the Authority issued fiscal 2009 Series CC Second Resolution Bonds in the aggregate amount of \$150.1 million to refund outstanding commercial paper notes and to pay for certain costs of issuance.

As of June 30, 2008, Authority was a party to five debt service reserve fund forward purchase agreements with Lehman Brothers Special Financing, Inc. ("LBSF"). The Bank of New York Mellon is holding U.S government obligations, which were delivered by LBSF pursuant to the agreements, in the Authority's debt service reserve fund accounts. A portion of the securities mature February 1, 2009 in an amount at least equal to the notional amount of the agreement and a portion of the securities mature June 30, 2009 in an amount at least equal to 7 months of interest at the contract rate.

Pursuant to our agreements, LBSF is in default as a result of the filing of a bankruptcy petition by Lehman Brothers Holdings, Inc., the guarantor of LBSF. Consequently, the Authority terminated its agreements with LBSF on September 23, 2008. Since the contract rate for these agreements is higher than the current estimated market rate the Authority would receive if it were to enter into similar investment agreements, LBSF is obligated under the agreements to pay NYW an amount such that NYW would maintain the economic equivalent of the LBSF agreements. However, the actual amount received and the timing of such payments is uncertain and the Authority may realize less interest earnings than it would have earned if the LBSF agreements were to continue through the termination dates.

The Authority will reinvest its debt service reserve fund proceeds from the maturing securities described above in accordance with its bond resolution and investment guidelines. Termination of these agreements will not have a significant impact on the System.

14. SUBSEQUENT EVENTS (Continued)

The credit markets in the United States are experiencing a period of volatility and instability. Certain adjustable rate debt instruments issued by the Authority contain provisions that allow holders of the instruments to put the instruments back to the Authority. The Authority relies on its remarketing agents to remarket this debt and should the agent be unable to remarket this debt, the Authority has in place liquidity facilities from banks to support this debt. The Authority has on occasion drawn on its liquidity facilities because of unsuccessful remarketing of its debt.

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NEW YORK CITY WATER AND SEWER SYSTEM

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NEW YORK CITY WATER AND SEWER SYSTEM

Schedules of Financial Trends Information

Net Assets by Category Nine Year Trend*

	2008	2007	2006	2005	2004	2003	2002	2001	2000
		Restated							
Invested in capital assets net of related debt	\$1,737,181	\$2,056,879	\$2,556,766	\$2,803,031	\$3,368,355	\$3,271,440	\$2,663,804	\$3,493,709	\$3,692,419
RESTRICTED FOR:									
Debt service	209,130	161,661	171,859	152,544	179,106	203,695	245,072	241,090	124,712
Operations and maintenance	200,438	175,161	157,806	145,693	135,701	132,107	118,848	120,074	118,196
Unrestricted (deficit)	(980,858)	(667,418)	12,950	53,836	(128,979)	147,223	1,584,435	817,010	851,375
Total net assets	\$1,165,891	\$1,726,283	\$2,899,381	\$3,155,104	\$3,554,183	\$3,754,465	\$4,612,159	\$4,671,883	\$4,786,702

*Reporting for net assets began in fiscal year 2000.

NEW YORK CITY WATER AND SEWER SYSTEM

Schedules of Financial Trends Information

(Continued)

Changes in Net Assets - Nine Year Trend*

	2008	2007	2006	2005	2004	2003	2002	2001	2000
		Restated							
OPERATING REVENUES									
Water Supply and distribution	\$ 784,856	\$ 796,404	\$ 735,200	\$ 755,693	\$ 713,097	\$ 690,093	\$ 648,319	\$ 626,364	\$ 610,949
Sewer collection and treatment	1,220,653	1,238,612	1,143,424	1,043,575	984,753	952,985	907,324	898,568	876,455
Other operating revenues	97,778	98,061	100,306	85,459	75,283	68,842	116,512	96,991	93,194
Total operating revenues	2,103,287	2,133,077	1,978,930	1,884,727	1,773,133	1,711,920	1,672,155	1,621,923	1,580,598
OPERATING EXPENSES									
Operation and maintenance	1,320,439	1,147,157	1,056,379	944,919	933,736	875,762	857,907	842,401	801,255
Bad debt expense	-	226,028	87,222	114,702	116,108	89,400	92,481	122,785	89,062
Administration and general	44,027	35,493	26,727	23,168	19,853	15,181	14,171	11,215	10,092
Total operating expenses	1,364,466	1,408,678	1,170,328	1,082,789	1,069,697	980,343	964,559	976,401	900,409
Depreciation and amortization	646,377	579,860	500,161	515,325	451,585	389,626	320,382	318,709	347,055
Operating income	92,444	144,539	308,441	286,613	251,851	341,951	387,214	326,813	333,134
NONOPERATING REVENUE (EXPENSES)									
Interest expense	(834,085)	(771,656)	(731,563)	(668,675)	(612,054)	(584,347)	(556,784)	(527,914)	(492,747)
Loss on retirement of fixed assets	(14,598)	(23,257)	(7,046)	(7,971)	(25,214)	-			
Subsidy income	104,234	90,601	88,447	78,834	68,311	65,816			
Capital distribution	(24,619)	(33,133)							
Investment income	108,892	98,132	105,239	97,362	86,949	96,236	97,543	84,534	70,478
Net (loss) before capital contributions	(567,732)	(494,774)	(236,482)	(213,837)	(230,157)	(80,344)	(72,027)	(116,567)	(89,135)
Capital contributions	7,340	12,357	(19,241)	(185,242)	29,875	7,233	12,303	1,748	5,637
Change in net assets	(560,392)	(482,417)	(255,723)	(399,079)	(200,282)	(73,111)	(59,724)	(114,819)	(83,498)
Net assets— <i>Beginning of year</i>	1,726,283	2,899,381	3,155,104	3,554,183	3,754,465	3,827,576	4,671,883	4,786,702	4,870,200
Prior period adjustment		(690,681)							
Net assets— <i>End of year</i>	\$1,165,891	\$1,726,283	\$2,899,381	\$3,155,104	\$3,554,183	\$3,754,465	\$4,612,159	\$4,671,883	\$4,786,702

*Reporting for net assets began in fiscal year 2000.

NEW YORK CITY WATER AND SEWER SYSTEM

Revenue Capacity Information

Water and Sewer Rate Increases - Ten Year Trend

Changes in Effective Date	Changes in Flat-Rate Water	Changes in Metered Water	Change in Rate (per ccf)⁽¹⁾	Sewer
July 1, 1999	Increased 4.0%	Increased 4.0%	1.30	No change
July 1, 2000	Increased 4.0%	Increased 4.0%	1.31	No change
July 1, 2001	Increased 1.0%	Increased 1.0%	1.35	No change
July 1, 2002	Increased 3.0%	Increased 3.0%	1.44	No change
July 1, 2003	Increased 6.5%	Increased 6.5%	1.52	No change
July 1, 2004	Increased 5.5%	Increased 5.5%	1.60	No change
July 1, 2005	Increased 5.5%	Increased 5.5%	1.65	No change
July 1, 2006	Increased 3.0%	Increased 3.0%	1.81	No change
July 1, 2007	Increased 9.4%	Increased 9.4%	2.02	No change
July 1, 2008	Increased 14.5%	Increased 14.5%	2.31	No change

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

Average Daily Water Consumption - Ten Year Trend

Fiscal Year	Total (mgd)⁽¹⁾	Upstate Counties (mgd)	City (mgd)	Per capita (gals/day)⁽²⁾
1997	1,334	121	1,213	164
1998	1,294	122	1,172	160
1999	1,342	129	1,213	163
2000	1,359	127	1,231	166
2001	1,340	126	1,201	166
2002	1,281	124	1,157	144
2003	1,232	119	1,113	139
2004	1,213	118	1,095	138
2005	1,211	118	1,093	138
2006	1,088	122	966	121
2007	1,218	120	1,098	137
2008	1,235	119	1,116	140

(1) mgd equals millions gallons per day

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

NEW YORK CITY WATER AND SEWER SYSTEM

Revenue Capacity Information

(Continued)

Ten Largest Customers

Name	2008 Billed
New York City Housing Authority	\$ 90,510,703
The City of New York	57,788,755
New York City Health and Hospitals Corp.	7,098,950
Consolidated Edison Inc.	3,125,410
The City University of New York	3,045,478
Peter Cooper Village	2,929,285
Visy Paper	2,307,585
New York Presbyterian Hospital	1,550,069
Time Warner Center Condo	1,456,703
Brooklyn Navy Yards Partners	1,410,858

NEW YORK CITY WATER AND SEWER SYSTEM

Schedules of Debt Capacity Information

Revenue Bond Coverage Last Ten Fiscal Years

Years Ended June 30, 1999 - 2008 *(in thousands)*

Year	Cash Receipts	Debt Service Requirements ⁽¹⁾			First Resolution Debt Service Coverage	Second Resolution Debt Service Coverage
		Principal	Interest	Total		
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	335,408	511,137	3.91	3.58
2006	1,931,927	197,602	439,839	637,441	3.76	3.03
2007	1,994,909	200,780	483,661	684,441	3.83	2.91
2008	2,236,541	201,791	556,627	758,418	4.23	2.95

(1) Debt service requirements include First Resolution debt service and a portion of Second Resolution debt service.

Debt Outstanding Ten Year Trend

Years Ended June 30, 1999 - 2008 *(in thousands)*

Year	Total Debt Outstanding
1999	\$ 9,371,710
2000	9,776,372
2001	10,621,848
2002	12,147,004
2003	13,483,150
2004	14,032,917
2005	15,434,051
2006	16,285,351
2007	18,071,184
2008	20,018,937

NEW YORK CITY WATER AND SEWER SYSTEM

Demographic and Economic Information

Population Ten Year Trend

Year	United States	Percentage Change From Prior Period	City of New York	Percentage Change From Prior Period
1998	275,854,104	1.18%	7,858,259	1.09%
1999	279,040,168	1.15	7,947,660	1.14
2000	282,194,308	1.13	8,017,506	0.88
2001	285,112,030	1.03	8,070,650	0.66
2002	287,888,021	0.97	8,094,004	0.29
2003	290,447,644	0.89	8,144,343	0.62
2004	293,191,511	0.94	8,184,492	0.49
2005	295,895,897	0.92	8,213,839	0.36
2006	298,754,819	0.97	8,250,567	0.45
2007	301,621,157	0.96	8,274,527	0.29

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

Personal Income Ten Year Trend

Year	Personal Income			Per Capita		
	Total United States	Total City of New York	New York City as a Percentage of the United States	United States	City of New York	New York City as a Percentage of the United States
1998	\$ 7,415,709,000	\$ 262,000,244	4%	\$ 26,883	\$ 33,342	124%
1999	7,796,137,000	275,446,866	4	27,939	34,656	124
2000	8,422,074,000	295,955,343	4	29,845	36,911	124
2001	8,716,992,000	302,713,766	3	30,574	37,506	123
2002	8,872,871,000	299,848,760	3	30,821	37,046	120
2003	9,150,320,000	306,146,313	3	31,504	37,592	119
2004	9,711,363,000	327,824,837	3	33,123	40,057	121
2005	10,284,356,000	353,578,997	3	34,757	43,046	124
2006	10,968,393,000	383,106,915	3	36,714	46,432	126
2007	11,645,882,098	N/A	N/A	38,611	N/A	N/A

N/A = data not available

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

NEW YORK CITY WATER AND SEWER SYSTEM

Operating Information

Water Pollution Control Plants Daily Flow

Plant	Design Flow (mgd)⁽¹⁾	12 month avg. (mgd)⁽¹⁾ July 06 - June 07	12 month avg. (mgd)⁽¹⁾ July 07 - June 08
Wards Island	275	222	221
North River	170	127	128
Hunts Point	200	130	132
26th Ward	85	56	52
Coney Island	110	87	86
Owls Head	120	103	94
Newtown Creek	310	241	239
Red Hook	60	34	31
Jamaica	100	88	88
Tallmans Island	80	55	58
Bowery Bay	150	108	105
Rockaway	45	24	22
Oakwood Beach	40	31	29
Port Richmond	60	31	29
Total	1,805	1,337	1,314

(1) mgd equals millions gallons per day

Water System Tunnels and Aqueducts

Connections	Length (miles)	Diameter (feet)	In Service Date	
TUNNELS UPSTATE				
Shandanken	18.1	11.5 x 10.251 ⁽¹⁾	1924	
West Delaware	44.0	11.33	1964	
East Delaware	25.0	11.33	1955	
Neversink	6.0	10	1954	
AQUEDUCTS				
New Croton	New Croton to Jerome Park	24.0	3.5 x 13.61 ⁽¹⁾	1893
	Jerome Park to 135 St. Gatehouse	9.0	12.25-10.52 ⁽²⁾	1893
Catskill Delaware	Ashokan to Kensico	75.0	17 x 17.51 ⁽¹⁾	1915
	Kensico to Hillview	17.0	17 x 18.1 ⁽¹⁾	1915
	Rondout to West Branch	44.2	13.5	1944
	West Branch to Kensico	27.2	15	1943
	Kensico to Hillview	13.6	19.5	1942
TUNNELS DOWNSTATE				
Tunnel 1	Hillview to distribution system	18.0	15-112 ⁽²⁾	1917
Tunnel 2	Hillview to distribution system	20.0	17-152 ⁽²⁾	1936
Tunnel 3, Stage 1	Hillview to distribution system	13.0	24-202 ⁽²⁾	1998
Richmond Tunnel	Tunnel 2 to Staen Island Uptake Shaft	5.0	10	1970

(1) Tunnels are not round

(2) Variable diameter tunnels