

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

October 7, 2024

Approval of Minutes

**WHEREAS**, the Joint Audit Committee has reviewed the minutes of its meeting held on June 3, 2024; it is therefore

**RESOLVED**, that the minutes of the meeting of June 3, 2024 be, and they hereby are, approved.

**JOINT AUDIT COMMITTEE OF  
THE NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY  
AND  
NEW YORK CITY WATER BOARD**

A meeting of the Joint Audit Committee (the “Committee”) of the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Water Board”) was held 4:30 p.m. on June 3, 2024 in Conference Room 6-M4, 255 Greenwich Street, New York, NY 10007. The following members of the Committee were present:

Max Von Hollweg;

Alfonso Carney Jr.;

Selvin Southwell, by designation of Committee member Sean Mahar; and

Adam Freed;

constituting a quorum of the Committee. Mr. Von Hollweg served as Chair of the meeting, and Tyler Prime served as Secretary of the meeting. Members of the public attended in person and via conference call.

**Approval of Minutes of Previous Committee Meeting**

The first item on the agenda was approval of the minutes of the meeting of October 11, 2023. There being no discussion, upon unanimous vote of the Committee members present, the following resolution was approved:

**WHEREAS**, the Joint Audit Committee has reviewed the minutes of its meeting held on October 11, 2023; it is therefore

**RESOLVED**, that the minutes of the meeting of October 11, 2023 be, and they hereby are, approved.

**Self-Evaluation and Review of Annual Report of the Audit Committee**

The next item on the agenda was the review and approval of the Audit Committee’s annual report and self-evaluation. Mr. Von Hollweg explained that this review is a requirement of the Audit Committee’s charter, and that the proposed resolution would authorize the findings

of the self-evaluation to be presented to the respective Boards of the Authority and Water Board. Then, upon unanimous vote of the Committee members present, the following resolution was approved:

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

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

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

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

**RESOLVED**, that the Annual Report of the Audit Committee is hereby approved and shall be presented to the Board of Directors of the New York City Municipal Water Finance Authority and the New York City Water Board, copies of which shall be sent to the Bureau of Accountancy of the City of New York Office of the Comptroller and filed with the minutes of the Audit Committee.

### **Presentation by Management and Independent Auditors Regarding the Planned Fiscal Year 2023 Audit**

The next item on the agenda was a presentation by Grant Thornton LLP (“Grant Thornton”), the Authority’s current independent auditors, relating to the New York City Water and Sewer System’s (the “System”) audit for the fiscal year ended June 30, 2024 and June 30, 2023. Mr. Von Hollweg introduced Nicholas Lazzaruolo of Grant Thornton to the Committee. Mr. Lazzaruolo Grant Thornton’s approach to the upcoming audit. Mr. Lazzaruolo also touched on Grant Thornton’s new partnership with New Mountain Capital LLC and described the impact of New Mountain Capital LLC’s investment on the firm in relationship to the services to be

provided to the System. Brief discussion ensued, including on the subject of System rent charged to the Water Board and such rent's inclusion in the upcoming audit.

### **Recommendation to the Board of Directors – Approval of Independent Auditor Contract**

The next item on the Committee's agenda was a resolution recommending the Board of Directors of the Authority and the Water Board approve entering into a contract with Grant Thornton to provide independent auditor services to System. Mr. Von Hollweg noted that representatives of the System had participated in the City's competitive request for proposal process seeking independent auditor services, and that Grant Thornton was recommended as a result of that process. He explained that the proposed resolution would recommend entering into a contract with Grant Thornton for the System's financial statements for Fiscal Years 2024, 2025, 2026 and 2027. Mr. Von Hollweg also noted that the Authority had approved the contract subject to the Audit Committee's recommendation and that the Water Board is expected to vote on the contract at its next meeting. Mr. Carney Jr. made an inquiry regarding the duration of the term of the contract. The Authority's Comptroller, Raymond Lee, explained that the proposed four-year term was customary in the industry, and was consistent with the System's previous practice. Then, upon unanimous vote of the Committee members present, the following resolution was approved:

**WHEREAS**, the Joint Audit Committee of the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board") is authorized, under the Audit Committee Charter, to recommend to the Board of Directors of the Authority and the Water Board the appointment and retention of independent auditors for the water and sewer system of the City of New York (the "System");

**WHEREAS**, the Authority, in conjunction with the City of New York (the "City"), issued a competitive Request for Proposals for independent auditor services;

**WHEREAS**, Grant Thornton LLP ("Grant Thornton") was selected based on their proven record of quality of service, as well as compatibility in the coordination of the audit of the System with the City's audit;

**WHEREAS**, the Board of the Authority have authorized the management of the Authority to sign engagement letters with Grant Thornton to serve as the independent auditors for the System’s financial statements for the fiscal years ending June 30, 2024, 2025, 2026, and 2027 for the fees listed in Schedule I, contingent on the Audit Committee’s recommendation of the action; and

**WHEREAS**, pursuant to the Audit Committee Charter, the Audit Committee has evaluated the recommended selection of Grant Thornton as independent auditor and finds it reasonable and prudent; it is hereby

**RESOLVED**, that the Audit Committee recommends that the Board of the Authority and the Water Board authorize the management of the Authority and the Water Board to sign engagement letters with Grant Thornton to serve as the independent auditors for the System’s financial statements for the fiscal years ending June 30, 2024, 2025, 2026, and 2027 for the fees listed in Schedule I, as well as any other documents necessary to effectuate the retention of the independent auditors.

**Schedule I**

**Fees (by Fiscal Year)**

Fiscal 2024	\$ 210,000
Fiscal 2025	\$ 222,600
Fiscal 2026	\$ 233,725
Fiscal 2027	\$ 245,425

**Hourly Rates for Special Projects**

Hourly Rate for Special Projects	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027
Partners	\$ 545	\$ 570	\$ 590	\$ 620
Directors	\$ 510	\$ 540	\$ 555	\$ 575
Managers	\$ 435	\$ 450	\$ 465	\$ 480
Seniors	\$ 340	\$ 355	\$ 370	\$ 385
Semi- Seniors	\$ 275	\$ 290	\$ 300	\$ 310
Staff	\$ 185	\$ 190	\$ 195	\$ 205

**Adjournment**

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

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Assistant Secretary of the Authority

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Secretary of the Water Board

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

October 7, 2024

Financial Statements

**WHEREAS**, the Joint Audit Committee of the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Water Board”) has met with the independent auditors of the water and sewer system of the City of New York (the “System”) and has reviewed the independent auditors’ report on the audited financial statements of the Authority for the fiscal years ended June 30, 2024 and June 30, 2023 and such financial statements, as submitted to the Committee; and

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

**RESOLVED**, that the Joint Audit Committee recommends to the Board of Directors of the Authority and the Water Board the acceptance of the independent auditors’ report and the authorization of the release of the audited financial statements of the System for the fiscal years ended June 30, 2024 and June 30, 2023; provided that both the independent auditors’ report and the audited financial statements may be amended to reflect non-material changes acceptable to the Comptroller of the Authority.

## NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY POLICIES AND PROCEDURES MANUAL

### INTERNAL CONTROLS

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

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

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

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

#### **Organization**

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

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



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

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

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

~~a. — A supervisor of accounting services (“SAS”) who directs and reviews the work of the other staff and reports to the Accounting Managers;~~

~~b. — An accounts payable staff (“APS”) member who is responsible for entering accounts payable vouchers and payment information and approved journal entries into NYW's computerized accounting system, Microsoft Dynamics GP (the “Accounting System”) and reports to the Accounting Managers; and~~

~~c. — Other members of the Accounting Unit staff (“AUS”) who are assigned to prepare journal entries, monitor account activity, and maintain schedules and analyses necessary for the preparation of year-end financial statements and other recurring and ad-hoc financial reports, and reports to the Accounting Managers.~~

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

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

## **Relationship of NYW's Operations to those of Other Entities**

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

## **RECEIPTS**

### **Transfers from the New York City Water Board**

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

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

The Accounting ~~U~~Staff updates the daily spreadsheet receipt report, which includes all the monies received by the Water Board and transfers of those monies. Monthly reconciliation of the receipts and transfers is done by the Accounting ~~U~~Staff by comparing the NYW receipt report with the Water Board monthly schedule. The Accounting ~~U~~Staff prepares and signs the journal entries and then an Accounting Manager reviews and signs the journal entries. The Accounting ~~P~~Staff enters the journal entries into the general-accounting system ledger. ~~The posting list is reviewed by an Accounting Manager for accuracy of posting codes and amounts, etc. before acceptance into the general ledger. The AUS verifies approved journal entries after acceptance for~~

~~proper posting. Monthly total transfers are compared to the bank statement. In order to post the journal entries in the accounting system, the system requires Accounting Staff request approval from an Accounting Manager. After approving the entries, Accounting Staff posts the journal entries and verifies that they were posted accurately in the general ledger and subledgers, as applicable.~~

### **Bond Proceeds/Commercial Paper/Bond Anticipation Notes**

The Treasurer or his or her designee instructs the Trustee to open new accounts for bond proceeds, costs of issuance (“COI”), commercial paper (“CP”) proceeds, Bond Anticipation Notes (“BANs”) proceeds, or escrow accounts if there is a defeasance escrow established. At bond closings or after issuance of CP or BANs, the Treasurer or his or her designee instructs the Trustee to transfer proceeds into the appropriate accounts. The amount of proceeds for deposit into the construction fund are confirmed by the Accounting Staff who prepares a report of the available construction fund amounts. This report of bond proceeds is sent to the City Comptroller’s Office.

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

### **Miscellaneous Cash Receipts**

While all major sources of cash for NYW, such as transfers from the Water Board, bond and note proceeds, and interest income (see the *Interest Income* section of the Manual), are received through bank wires, there is an occasional receipt of a check.

~~An Analyst (a staff member with no accounting responsibilities) opens all mail in the accounting department and distributes the mail to the appropriate person.~~ If a check is received, ~~the Analyst records the receipt of the check~~ receipt is recorded in the Check Control Log, detailing the date, amount, payer, and other relevant information. The ~~Analyst Accounting Staff~~ then gives the check to the Accounting Manager, who in turn gives the check to the appropriate AUS Accounting Staff to research the reason for the receipt and the proper accounting and to deposit it into the appropriate bank account. Any check received by OMB or NYW (regardless of department) is hand delivered to the ~~Analyst Accounting Staff responsible for the Check Control Log~~. The ~~Analyst Accounting Staff~~ follows the same procedures detailed above for recording the check. The check is endorsed immediately and secured in a locked area until deposit by AUSan Accounting Staff. The deposit receipt along with all supporting documentation is filed, and an entry recording the cash receipt is made in the general ledger accounting system. At month end, the Accounting Manager confirms the deposit is reflected in the bank statement and in the general ledger accounting system.

### **Interest Income**

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

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

Interest earnings on debt service reserve funds are transferred to the Revenue Fund and the Arbitrage Fund on July 1 of each year. Interest earnings on construction funds are transferred to the Water Board Local Water Fund on the 15<sup>th</sup> of October, January or April following the satisfaction of the Authority's annual debt service requirement for that fiscal year. Interest earnings on expense funds are transferred to the Revenue Fund on or about June 20 of each year.

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

## **DISBURSEMENTS**

### **Debt Service Deposits and Payments**

The Treasurer or his or her designee prepares a monthly letter to the Trustee (the "Minimum Monthly Balance Letter" or ("MMBL")) which is signed by the Executive Director, indicating the minimum amounts that must be held in each debt service fund by the end of the month, based on the amounts calculated in accordance with the bond resolution. The Treasurer emails the MMBL to the Trustee. The Trustee determines if the amounts agree with the Trustee's own calculation of the amounts to be held for each debt service fund. Amounts needed to meet the minimum requirements are transferred from the Revenue Fund on the first day of the month. The AUS-Accounting Staff confirms that the amounts transferred are correct and records the amounts in the general ledger during the subsequent month.

#### **1. Fixed rate bonds - Interest and principal payments**

All fixed interest rate bonds pay interest semi-annually on December 15<sup>th</sup> and June 15<sup>th</sup>. Principal payments are made annually on June 15<sup>th</sup>. The Trustee compares the payments with NYW schedule of payments, which is provided by the Treasurer or his or her designee at the beginning of the fiscal year.

#### **2. Variable rate bonds - interest and principal payments and Payments under swap contracts**

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

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

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

### **3. Cash Defeasance**

NYW periodically uses operating revenue to defease certain outstanding bonds (“Cash Defeasance”). Bonds for defeasance are selected in consultation with NYW’s rate consultant and financial advisors. In a defeasance, the Treasurer’s Office instructs the Trustee to apply funds to redeem bonds or to deposit funds into an escrow account and invest all or a portion of them pursuant to an escrow agreement. Such escrowed cash and investments should be sufficient to retire the principal of and interest on the defeased bonds. There are two types of defeasances: legal defeasance and economic defeasance. In case of a legal defeasance, a bond counsel opinion is obtained, which states that the defeased bonds no longer constitute an obligation of NYW. In case of an economic defeasance, the defeased bonds remain a legal obligation of NYW.

In case of a legal defeasance or an economic defeasance that meets certain criteria defined in governmental accounting standards, at the end of the month, the AUS Accounting Staff prepares a journal entry to remove defeased bonds, and any discount or premium associated with the defeased bonds and record any gain or loss associated from Cash Defeasance. Such entry is reviewed by the Accounting Manager and recorded by the APS Accounting Staff. The AUS Accounting Staff reviews the trial balance to determine that the amounts recorded agree with the transaction worksheets used to prepare the journal entry. In case of an economic defeasance that does not meet the aforementioned criteria defined in governmental accounting standards, the defeased bonds remain on NYW’s books until they are redeemed or paid off. At the end of the year, the Accounting Manager verifies the amount of outstanding bonds with the Treasurer’s Office and the Trustee for accuracy.

### **Construction Payments**

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

The ~~AUS~~ Accounting Staff updates the ~~e~~Construction ~~f~~Fund balance report, reflecting the amounts transferred and sends this report to the Accounting Managers for review, after which the report is submitted to the City.

### **Vendor Payments**

In addition to checking for mathematical accuracy of all invoices, the Finance Unit compares the invoices to the orders, reviews the receiving reports or contracts for the correct pricing of goods and services, and verifies that no sales tax has been included on the invoices. After the verification by the Finance Unit, the Executive Director approves those invoices and forwards to the ~~APS~~ Accounting Unit for payments. Other invoices not approved by the Finance Unit are processed by the ~~APS~~ Accounting Staff following the same procedures as above. ~~The APS Accounting Staff then enters the invoice into the accounting system, including attaching a digital copy of the invoice. In order to release and post invoices in the accounting system, the system requires Accounting Staff request approval from an Accounting Manager. After approving and releasing the invoices, the Accounting Staff posts the invoices.~~ initials the invoices and forwards them for approval to a NYW officer/manager with the most direct knowledge of and / or responsibility for the goods or services for which payment is to be made.

~~The approved invoice is entered by the APS into The GP Dynamics and the data entry is reviewed by the SAS for accuracy of posting codes, amounts, vendor name, and other relevant information.~~

After the invoices are reviewed and posted, the ~~APS~~ Accounting Staff uses pre-numbered company checks to generate payment, or manually creates an online wire or ACH in the JP Morgan Chase Access banking portal.

#### **1. Check Payments**

All checks are kept in a locked file cabinet under the control of an Accounting Manager. To confirm that there is no break in the sequential order of checks, each time a check run is generated the check register is printed with details of the numerical listing of both the check run and the previous check run to confirm that there is no breakage in the sequential order of checks. All invoices paid by checks are entered in ~~The GP Dynamics~~ the accounting system and a check



number is generated. The checks are presented to the authorized check signers along with the check register for review and signature. If a person approved the invoice, he/she cannot sign the check. All checks must have two authorized signatures. The checks are placed in a windowed envelope and mailed via the mailroom operations of OMB.

## 2. Wire and ACH Payments

All wires and ACH are created by the APS Accounting Staff in the online JP Morgan Access banking program portal for the total voucher amount. ~~The APS reviews, signs, and dates the payment vouchers.~~ The vouchers, along with all backup are submitted to ~~the SAS an Accounting Manager~~ for his or her review. ~~An The~~ Accounting Manager reviews the payment support and electronically approves the online wire or ACH. ~~All approvals are documented on the payment voucher.~~ A second Accounting Manager reviews, signs, and releases the online payment for clearing.

Following payment, the APS Accounting Staff enters all electronic payments into the GP Dynamics accounting system via payment journal entries. Digital copies of the check or copies of the wire or ACH, along with the approval history for the payment from the banking portal, are attached to the payment journal entries. Payment journal entries are reviewed, approved, and posted under the same process as monthly journal entries (see the Journal Entries section of this Manual).

~~The processed invoices are stamped as "Paid", and the check number or Electronic Funds Transfer number and payment date are entered on the vouchers. A copy of the wire or ACH and all supporting documentation are filed by the vendor name.~~

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### 1099 Preparation and Issuance

All ~~vendors payees~~ must complete and sign an Internal Revenue Service ("IRS") Form W-9 (or its equivalent) and send it to NYW ~~Accounts Payable Department~~ before payment can be made ~~to the vendor~~. This information ~~will be used is required~~ to determine if any Forms 1099 form must be issued to the ~~vendor payee~~ for payments from NYW. Forms 1099 are required to be distributed annually for payments made during each calendar year.

### 1099 Preparation and Issuance

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

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

To prepare the Forms 1099, an Accounting Staff ~~The APS~~ compiles a schedule showing all payments from January 1<sup>st</sup> to December 31<sup>st</sup> of the year. The Accounting Staff then enters the disbursement information for each vendor and form type into the IRS Information Return Intake System (“IRIS”). PDFs of each Form 1099 are then generated by the IRIS system for each vendor and form type. Prior to mailing to recipients, the Forms 1099 are checked by the Accounting Staff ~~prepares the IRS forms 1099 and 1096 for distribution to payees and the IRS annually. Although there are several types of 1099 forms, NYW uses only the 1099-NEC form to report gross proceeds paid to attorneys and payments to entities for services performed by non-employees.~~

~~The 1096 is used as a transmittal document when reporting 1099 forms to the IRS. The APS compiles a schedule showing all payments from January 1<sup>st</sup> to December 31<sup>st</sup>. The 1099 and 1096 forms are checked by the APS for accuracy before being submitted to an Accounting Manager (generally the Comptroller) for review and signatures.~~

~~While deadlines to distribute Forms 1099 to recipients and e-filing with the IRS depends on the form type, most of NYW’s Forms 1099 (specifically, Forms 1099-NEC) are due to recipients by January 31. Similarly, e-filing with the IRS is also generally due by January 31. All 1099s are mailed out to the payees on or prior to January 31<sup>st</sup>, and all 1096s are mailed out to the IRS on or prior to February 28<sup>th</sup>.~~

## **Payroll**

The New York City Office of Payroll Management (“OPA”) acts as a service bureau for processing NYW’s bi-weekly payroll. Every payroll period the OPA-generated payroll reports are distributed by OMB to an officer of NYW, generally the Comptroller. -The payroll reports are reviewed for accuracy by comparing the bi-weekly total gross pay to base period bi-weekly total gross pay and explaining variances. These reports also include NYW’s share of fringe benefits (ei.ge. FICA, health insurance).- The Comptroller prepares and authorizes a letter instructing ~~the APS~~ an Accounting Staff to prepare a wire on JP Morgan Chase’s online banking system, for the transfer of funds to the City of NY DOF OPA account based on the bi-weekly reports and e-mail received from OPA’s Direct Deposit and Electronic Funds Transfer (“EFT”) Unit.

-The completed payroll along with all backup is given to two Officers (other than the Comptroller) to verify the calculations. Upon their complete sign off, one Officer approves, and the other releases the wire. -A copy of the wire is kept by the APS Accounting Staff for entry into the general ledger accounting system. The complete package is returned to the Comptroller and a copy is electronically saved.



~~Quarterly reports showing changes to payroll that occurred during a quarter are prepared by the AUS. At fiscal year end, reports for the prior four quarters are submitted by email to NYW's Chief Executive Officer, Executive Director and the Secretary for their review. Such reports also record variances from the employee's base pay due to overtime, supper money and personnel actions.~~

### **Internal Funds Transfers**

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

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

### **INVESTMENTS**

The universe of allowable investments for NYW is defined in the Bond Resolutions. Additionally, NYW has Investment Guidelines adopted by the Board of Directors. All investments are made within the constraints imposed by the Resolutions and Investment Guidelines. Based upon instructions received from the Treasurer or his or her designee, investment letters are prepared authorizing the Trustee to invest funds on behalf of NYW. The direction letter for the purchase, sale, or roll-over of investments, instructs the Trustee how the funds are to be invested including the investment vehicle and the required maturity date of the investments. The letter is signed by one authorized signer, either the Treasurer or his or her designee or an Accounting Manager.

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

NYW typically employs an investment manager for its ~~D~~e~~b~~t ~~s~~S~~e~~rv~~i~~c~~e~~ ~~F~~u~~n~~d and Revenue Fund accounts. The investment manager invests monies in accordance with the annual investment plan reviewed and approved by NYW Treasurer's office.

### **FINANCIAL ACCOUNTING AND REPORTING**

The recording of NYW's financial transactions into the ~~A~~a~~c~~c~~o~~u~~n~~t~~i~~n~~g~~ ~~S~~s~~y~~s~~t~~e~~m~~ is through vouchers for vendor payments and through journal entries for all other transactions.

### **Recording of Bond Issuance Costs**

Bond issuance costs are paid from bond proceeds either directly at the time of the closing or at a later date. For payments made at the closing, closing documents are forwarded to the Accounting department Unit for recording in the general ledger accounting system as part of the recording of the bond issuance. Payments after the closing date are processed in the same manner as all other invoices as described in more detail in the *Vendor Payments* section of this Manual.

### **EFC Subsidy**

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

### **BABs Subsidy**

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

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

### **Journal Entries**

Monthly journal entries are prepared by the AUS Accounting Staff to record all transactions other than vendor payments.

The AUS Accounting Staff reconciles the Trustee bank statements and verifies that all transactions reported were made in accordance with NYW direction letters for transfers between accounts, investment of funds and disbursements. Any discrepancies are immediately investigated and resolved with the Trustee. Activity in each account is

summarized by the AUS Accounting Staff, and the transaction summaries are used by the AUS Accounting Staff to prepare journal entries for the month.

The ~~SAS or an~~ Accounting Manager reviews the journal entries prepared by the AUS Accounting Staff. If there are no discrepancies, an Accounting Manager approves and signs ~~before the entries~~ into the general ledger accounting system. The APS Accounting Staff enters the journal entries into the general ledger accounting system. In order to post the journal entries in the accounting system, the system requires Accounting Staff request approval from an Accounting Manager. After approving the entries, Accounting Staff posts the journal entries and verifies that they were posted accurately. The posted journal entry is examined by the AUS for accuracy after the entries are accepted. If adjusting journal entries are required, they are reviewed and approved by an Accounting Manager before entry into the general ledger accounting system. The new trial balance is reviewed by the AUS Accounting Staff to determine that the amounts agree with the transaction summaries and bank statements used to prepare the journal entries.

### **Checking Account Reconciliation**

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

All checks outstanding for six (6) months are cancelled through the bank and in the accounting system. Accounting Staff attempts to contact the vendor to verify whether NYW has the correct address and / or establish the reason for non-deposit of the check by the vendor in order to re-issue the check. Until there is a resolution as to the reissuance, only the check is cancelled with the outstanding liability remaining on NYW's books.

### **Fiscal Year End Closing and Financial Reporting**

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

At year end, the AUS Accounting Staff, an Accounting Manager, and Finance Unit prepare all closing schedules and analyses needed for adjusting entries, disclosures and auditors (including but not limited to: amortization schedules for bond premiums and discounts, bond interest payable accruals, investment income accruals, deposit and investment categorization, fixed asset additions and deletions, accounts receivable and

allowance for doubtful accounts). Where required, due to technical complexity, selected schedules and analyses are prepared by an Accounting Manager.

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

~~Adjusting journal entries are prepared, reviewed, approved, and posted under the same process as monthly journal entries (see the *Journal Entries* section of this Manual).by the AUS and reviewed, approved and signed by an Accounting Manager prior to entry into the Accounting System general ledger. The APS enters the journal entry into the general ledger. The posted journal entries are examined by the AUS for accuracy after the entries are accepted. If adjusting journal entries are required, they are reviewed and approved by an Accounting Manager prior to entry into the general ledger.~~

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

After the conclusion of the independent audit, any adjusting entries needed are prepared by or at the direction of an Accounting Manager and entered into the general ledgeraccounting system. Before closing the general ledger at the end of the fiscal year, a final trial balance is produced and the AUS-Accounting Staff reviews that all balances are in agreement with the audited financial statements. The final trial balance is initialed by the AUS-Accounting Staff and an Accounting Manager and retained in the fiscal year work paper files.

An Accounting Manager instructs the APS-Accounting Staff to close the fiscal year, which is done by the aAccounting Ssystem when the APS selects the appropriate field in the Aaccounting sSystem when the close process is run. The Aaccounting sSystem produces a "closing entriesy" which is-are retained in the year-end files. After the closing entries have been generated, reviewed, approved, and posted, the The AUS-Accounting Staff compares the trial balance to the closing entriesy produced by the Aaccounting Ssystem to make sure the assets, liabilities and net position have been properly updated.

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

## **OTHER CONTROL MEASURES**

### **Bank Accounts**

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

All non-active bank accounts are closed immediately following a letter to the Trustee, signed by one NYW officer or his / her designee.

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

### **Incumbency Certificate**

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

### **Computer Equipment and System Usage**

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

### **Overhead Allocation**

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

### **Inventory**

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

### **Procurement**

The Board of Directors has adopted a **POLICY ON THE PROCUREMENT OF GOODS AND SERVICES**. Staff are required to familiarize themselves with this policy. -Any changes in the procurement policy adopted by the Board of Directors will be disseminated to staff by the Secretary's Office.

### **Travel and Business Expense Reimbursement**

The Board of Directors has adopted a **POLICY ON TRAVEL ALLOWANCE** and a **POLICY ON SALARY, COMPENSATION, REIMBURSEMENTS, TIME AND ATTENDANCE** of senior management.- Staff are required to familiarize themselves with these policies. All internal control measures detailed above under Disbursements-- Vendor Payments will be followed in the issuance of a reimbursement check to an employee.- Any changes in the reimbursement policies adopted by the Board of Directors will be disseminated to staff by the Secretary's Office.

### **Disposition of Personal and Real Property**

The Board of Directors has adopted a **POLICY ON THE DISPOSITION OF PERSONAL PROPERTY** and a **POLICY ON THE ACQUISITION and DISPOSITION OF REAL PROPERTY**. Staff are required to familiarize themselves with these policies. Any changes in the property policies adopted by the Board of Directors will be disseminated to staff by the Secretary's Office.

### **RECORD RETENTION**

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

Bond documents (closing transcripts) are maintained by the Secretary's Office. Arbitrage rebate reports are maintained by the NYW's Comptroller or Deputy Comptroller.

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

Calculations of allocated costs (management fees, rent, and overhead costs incurred by OMB and bond financing entities) are maintained by NYW's Comptroller, Deputy Comptroller or designated staff.

[S:\Acctg Files\Administration\Internal controls\FINAL Internal Controls and P&S\WFA Internal Controls\WFA Internal Controls Amended May 2022 \(Track changes\).docx](#)

AMENDED: ~~May 8, 2023~~October 7, 2024

## **NEW YORK CITY WATER BOARD**

### **POLICY ON INTERNAL CONTROLS**

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

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

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

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

### **ORGANIZATION**

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



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

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

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

## **RECEIPT OF REVENUE AND DAILY ALLOCATION OF FUNDS**

### **Customer Payments**

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

### **Miscellaneous Receipts and Upstate Payments**

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

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

### **Interest Income**

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

### **Allocation of Funds**

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

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

### **Funds Transfers**

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

## **DISBURSEMENTS**

### **Vendor Payments**

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

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

### **1. Check Payments**

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

### **2. Electronic Wire or ACH Payments**

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

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

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

### **Payroll**

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

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

### **Annual IRS Filings: Preparation and Issuance**

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

## **INVESTMENTS**

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

## **FINANCIAL REPORTING**

### **Daily Reports**

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

### **Checking Account Reconciliation**

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

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

### **Fiscal Year End Closing and Financial Reporting**

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

## **OTHER CONTROL MEASURES**

### **Bank Accounts**

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

### **Board Staff Payroll**

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

### **Computer Equipment and System Usage**

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

### **Inventory**

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

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

### **Procurement**

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

### **Travel and Business Expense Reimbursement**

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

### **Disposition of Personal and Real Property**

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

### **Record Retention**

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

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

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

October 7, 2024

Review and Approval of the Audit Committee Charter

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

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

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

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

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

**Audit Committee Charter**

This Audit Committee Charter was adopted by the New York City Water Board (the “Water Board”) on January 25, 2008 and by the Board of Directors of the New York City Municipal Water Finance Authority (the “Authority”) on February 4, 2008 and amended on October 7, 2009 by the Authority and October 30, 2009 by the Water Board.

**I. Purpose**

The purpose of the Audit Committee (the “Committee”) is to review current best practices of the New York City Water and Sewer System (the “System”), which consists of the Authority and the Water Board, with respect to the management of funds, financial reporting, audit processes, and internal control, and to oversee the implementation of such practices.

**II. Committee Membership**

- a. The Committee shall be comprised of the following:
  - i. The member of the Authority Board of Directors consisting of the Commissioner of Environmental Conservation of the State of New York;
  - ii. The two members of the Authority Board of Directors appointed by the Mayor of the City of New York;
  - iii. The member of the Authority Board of Directors appointed by the Governor of the State of New York; and
  - iv. Three members of the Water Board elected by the Water Board.
- b. The members shall serve until their resignation, retirement or until their successor shall be appointed, or, in the case of the members elected by the Water Board, until such time as a successor is elected.
- c. The Committee shall elect a Chairperson from among the members of the Committee who are members of the Authority Board of Directors.

**III. Committee Powers and Responsibility**

The Committee, to the extent it deems necessary or appropriate, shall:

- a. Recommend to the Authority Board of Directors and the Water Board the appointment and retention of the System’s independent auditors, including



the terms of engagement. The System's independent auditors shall be prohibited from providing non-audit services unless they have received previous written approval from the Committee. Non-audit services include tasks that are properly the responsibility of management and directly support the Water Board and Authority's operations, such as bookkeeping or other services related to the preparation of entries into accounting records or financial statements of the System, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services, internal control procedure design and implementation, and other tasks that may involve performing management functions or making management decisions.

- b. Annually review the independent auditors' annual audit plan.
- c. Evaluate and oversee the System's independent auditors.
- d. Review the System's audited financial statements and auditors' reports and, when appropriate, recommend to the Authority Board of Directors and the Water Board the acceptance of the auditors' report and issuance of the System's audited financial statements and auditors' reports.
- e. Review auditors' communications and, if necessary, present to the Authority Board of Directors and the Water Board.
- f. Review the management letter and the Water Board and Authority's formal written response to the management letter, which outlines corrective actions taken with respect to comments contained in the management letter.
- g. Review complaints and concerns regarding accounting, internal controls or auditing matters.
- h. Recommend to the Authority Board of Directors and the Water Board policies on internal controls, oversee implementation and review such policies annually.
- i. Review the Agency Financial Integrity Compliance Statements to be sent to the Comptroller of the City of New York each four years, which includes a self-assessment, report on and attestation to the adequacy of the system of internal controls of the Authority and the Water Board.
- j. Conduct an annual self-evaluation of its performance, including its effectiveness and compliance with this charter and present such evaluation to the Authority Board of Directors and the Water Board.
- k. At least annually report its activities and findings to the Authority Board of Directors and the Water Board, including an annual report to be prepared no later than October 30. This annual report shall detail the activities and decisions of the Committee for the prior calendar year and shall be sent to the Comptroller of the City of New York.
- l. Review significant accounting and reporting issues and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- m. Meet with the independent auditors to discuss any significant issues that may have surfaced during the course of the audit.

- n. Conduct or authorize investigations into any matters within its scope of responsibility.
- o. Seek any information it requires from Authority or Water Board employees and employees of other corporations or public authorities who provide services to the System, all of whom should be directed by the Authority Board of Directors and the Water Board to cooperate with Committee requests.
- p. Meet with staff of the Authority, the Water Board and the Department of Environmental Protection of the City, independent auditors and/or outside counsel, as necessary.
- q. Upon the affirmative vote of at least four Committee members, enter into contracts with legal counsel or financial experts, subject to the applicable procurement guidelines and approval by the Board of the entity entering into the contract. The name of any financial expert retained by the Committee shall be disclosed in the annual report of the System. Any such financial expert should have (1) an understanding of generally accepted accounting principals and financial statements; (2) experience in preparing or auditing financial statements; (3) experience in applying such principles in connection with the accounting for estimates, accruals and reserves; (4) experience with internal accounting controls; and (5) an understanding of audit committee functions.
- r. Obtain any information and training needed to enhance the Committee management process, internal controls and a certain level of familiarity in financial reporting standards and processes.
- s. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Governance Committee of the Authority Board of Directors and the Governance Committee of the Water Board.
- t. Make such recommendations to the Authority Board of Directors and the Water Board related to internal controls, preparation of the annual financial statements, or the independent audit of the System as the Committee deems appropriate.

#### **IV. Committee Meetings**

The Committee will meet as often as it deems necessary or appropriate, but no less than twice a year, with at least one meeting each year with the System's independent auditors to review and discuss the independent auditors' audit plan and one meeting with the System's independent auditors to review the audited financial statements and management letter of the System. Meetings may be called at any time by the Chairperson of the Committee and shall be called by the Chairperson at the request of two members of the Committee. When meeting to discuss the financial statements of the System, the Committee shall have the opportunity both to meet with the independent auditors outside the presence of the management and to meet with the management outside the presence of the

independent auditors. Notice of meetings shall be given in the same manner as notices of Board of Directors meetings as provided in the Authority's By-Laws. The presence of a majority of the members of the Committee (including at least one member from each of the Authority and the Water Board) shall constitute a quorum for the transaction of business. The Committee shall act only on the affirmative vote of a majority of the members at a meeting. Minutes of Committee meetings shall be recorded and kept with the minute books of the Authority and the Water Board; provided, however that no minutes shall be recorded for portions of meetings held in executive session unless action is taken in such executive session.

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

**Audit Committee Schedule**

Adopted February 4, 2008  
Amended October 10, 2013  
Amended October 11, 2019  
Amended October 11, 2023

January/February

1. Review the management letter and the management's formal written response to the management letter, which outlines corrective actions taken with respect to comments contained in the management letter (if applicable).

May/June

1. Evaluate the System's independent auditors and, as applicable, either decide on plan of retention or procurement of new independent auditors, or authorize management to enter into an engagement letter with existing auditors.
2. Conduct an annual self-evaluation of Committee's performance, including its effectiveness and compliance with its charter and present such evaluation to the New York City Municipal Water Finance Authority (the "Authority") Board of Directors and the Water Board.
3. At least annually report the Committee's activities and findings to the Authority Board of Directors and the Water Board, including an Annual Report which details the activities and decisions of the Committee for the prior calendar year.
4. Annually review this schedule of dates
5. Recommend to the Authority Board of Directors and the Water Board a policy on internal controls, oversee its implementation and review such policy annually.
6. Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Authority Board of Directors and the Water Board.
7. Review significant accounting and reporting issues and recent professional and regulatory pronouncements, and understand their impact on the financial statements (to be done by presentation of the auditors).

8. If applicable, recommend to the Authority Board of Directors and the Water Board the appointment and retention of independent auditors, including terms of engagement.
9. Review audit plan.
10. Review the Agency Financial Integrity Compliance Statement to be sent to the Comptroller of the City of New York each four years, which includes a self-assessment, report on and attestation to the adequacy of the system of internal controls.

#### October

1. Review the Authority's audited financial statements and auditors' reports and recommend to the Board of Directors and the Water Board the acceptance of the System's auditors' reports and issuance of the financial statements.
2. Meet with the independent audit firm to discuss any significant issues that may have surfaced during the course of the audit



# 2024 Annual Audit Results Presentation

**New York City Municipal Water Finance Authority  
New York City Water Board**

October 7, 2024

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

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# Our Responsibilities

We are responsible for:

- Performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* of the combining financial statements of the New York City Municipal Water Finance Authority and New York City Water Board (collectively, the “New York City Water and Sewer System” or the “System”) as of and for the year ended June 30, 2024.
- Forming and expressing an opinion about whether the combining financial statements are presented fairly, in all material respects, in accordance with US GAAP.
- Reading other information in the combining financial statements such as Management’s Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) and assessing whether it is materially consistent with the combining financial statements.
- Communicating fraud and/or abuse in connection with the combining financial statements.
- Communicating material weaknesses and/or significant deficiencies in internal control to you in a timely fashion; we do not design out audit for this purpose.
- Reporting material non-compliance related to laws, regulations, contracts, and grant agreements.

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

# Those Charged With Governance and Management Responsibilities

## Those Charged With Governance are responsible for:

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

## Management is responsible for:

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



# Significant risks

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

Significant risk area	Results
<b>Management override of internal controls</b> Presumed fraud risk and therefore significant risk in all audits.	<ul style="list-style-type: none"><li>• Considered the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud.</li><li>• Assessed the ability of the System to segregate duties in its financial reporting, information technology, and at the activity-level.</li><li>• Conducted interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period.</li><li>• Performed risk assessment for journal entries and detail test a sample of journal entries based on our risk assessments to ensure propriety of the entries.</li><li>• <i>No exceptions noted during our testing</i></li></ul>



# Significant risks

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

Significant risk area	Results
Billed and unbilled revenue and receivables: <ul style="list-style-type: none"><li>• Water and supply distribution</li><li>• Sewer collection and treatment</li><li>• Upstate water and late payments</li><li>• Connection fees and permits</li><li>• Service line protection program</li><li>• Change in residual interest in sold items</li></ul>	<ul style="list-style-type: none"><li>• Performed reasonableness testing on related revenue and receivables</li><li>• Performed detailed substantive testing of a sample of transactions, across various revenue streams, agreeing to source documentation</li><li>• Gained an understanding of the allowance methodology and, policy(ies) governing additional charges</li><li>• Ensured that all revenues recognized in fiscal 2024 were recorded in the proper period</li><li>• <i>No exceptions noted during our testing</i></li></ul>



# Areas of audit focus

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

Areas of focus	Results
Utility Plant in-service and construction	<ul style="list-style-type: none"> <li>• Obtained fiscal 2024 roll forwards for the System's in-service and construction utility plant assets</li> <li>• Tested capital additions, disposals and transfers</li> <li>• Tested depreciation for reasonableness</li> </ul> <p><b>No exceptions noted during our testing</b></p>
Bonds and notes payable	<ul style="list-style-type: none"> <li>• Confirmed all outstanding debt balances</li> <li>• Reviewed fiscal 2024 debt related activity for reasonableness</li> <li>• Assessed the adequacy of footnote disclosures</li> </ul> <p><b>No exceptions noted during our testing</b></p>
Expenses	<ul style="list-style-type: none"> <li>• Tested a sample of expenses including those relating to the lease with the City of New York for accuracy, recognition in the appropriate period, and proper support</li> <li>• Performed testing over select disbursements</li> </ul> <p><b>No exceptions noted during our testing</b></p>
Valuation of investments	<ul style="list-style-type: none"> <li>• Tested reasonableness of investment-related income, including unrealized appreciation/(depreciation) in fair market values.</li> <li>• Confirmed investment positions as of June 30, 2024</li> <li>• Ensured prioritization of inputs used to fair value investment assets is reasonable and in accordance with pertinent Fair Value Measurement standards</li> </ul> <p><b>No exceptions noted during our testing</b></p>

# Technology support as part of the audit process



An important component of our audit approach is to understand how IT is used and deployed in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices. Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

In scope systems included: Great Plains, Microsoft Money, and Computer Information Systems.

# Required communications

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

- Going concern matters
- Fraud and noncompliance with laws and regulations
- Significant deficiencies and material weaknesses in internal control over financial reporting
- Use of other auditors
- Use of internal audit
- Related parties and related party transactions
- Significant unusual transactions
- Disagreements with management
- Management's consultations with other accountants

- Significant issues discussed with management
- Significant difficulties encountered during the audit
- Other significant findings or issues that are relevant to you and your oversight responsibilities
- Modifications to the auditor's report
- Other information in documents containing audited combining financial statements



# Quality of accounting practices

## Topic

## Discussion

### Accounting policies

The System's significant accounting policies are disclosed in Note 2 of the fiscal 2024 combining financial statements. There were no significant changes to report.

### Accounting estimates

The preparation of the combining 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, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosures of contingent liabilities at the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant judgments and estimates include the following:

- Allowance for uncollectible billed and unbilled water and sewer receivables
- Useful lives/depreciation of capital assets
- Judgments and claims

We reviewed such judgments and estimates and concurred with management's calculations.

### Disclosures

Disclosures were determined to be clear and sufficient

### Other related matters

There were no other matters noted related to the financial statements or the quality of accounting practices identified.

# Auditor independence

Our firm maintains a robust quality control system supported by comprehensive policies and procedures that meets or exceeds regulatory requirements. Our system enables us to evaluate and maintain our independence and serve audit clients with requisite integrity, objectivity, and independence. As you exercise your oversight responsibilities, you should understand the more significant aspects of this system:

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

.....

Obtaining annual written confirmations of compliance from personnel and member firms

.....

Monitoring individual compliance, including periodic audits and disciplinary mechanisms

.....

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

.....

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

## Monitoring independence for new opportunities

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



# Review of the Combining Financial Statements

Audit Wrap Up Presentation



Combining Financial Statements  
Together with Report of Independent  
Certified Public Accountants

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

June 30, 2024 and 2023

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**GRANT THORNTON LLP**757 Third Ave., 9<sup>th</sup> Floor  
New York, NY 10017**D** +1 212 599 0100**F** +1 212 370 4520**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

**Opinion**

We have audited the accompanying combining financial statements 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, which collectively comprise the combining statements of net position (deficit), and the related combining statements of revenues, expenses, and changes in net position (deficit) and combining statements of cash flows as of and for the years ended June 30, 2024 and 2023, and the related notes to the combining financial statements.

In our opinion, the accompanying combining financial statements present fairly, in all material respects, the financial position of the New York City Municipal Water Finance Authority and the New York City Water Board as of June 30, 2024 and 2023, and the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audits of the combining financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combining financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date the combining financial statements are issued.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the combining financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combining financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combining financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combining financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combining financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Required supplementary information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17, the schedule of changes for total OPEB plan liability and related ratios on page 65, the schedule of the Authority's proportionate share of the net pension liability on page 66, and the schedule of the Authority's pension contributions on page 66 be presented to supplement the basic combining financial statements. Such information is the responsibility of management and, although not a required part of the basic combining financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combining financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with US GAAS. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic combining financial statements, and other knowledge we obtained during our audits of the basic combining financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

GRANT THORNTON LLP (signed manually)

New York, New York  
October XX, 2024

**New York City Water and Sewer System****MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)****June 30, 2024 and 2023*****Overview of the Combining Financial Statements***

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") as of and for the fiscal years ended June 30, 2024 and 2023. 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 "Water Board"). The System is a component unit of The City of New York (the "City").

The combining financial statements consist of four parts: (1) management's discussion and analysis (this section), (2) the basic combining financial statements, (3) the notes to the combining financial statements and (4) required supplementary information.

The basic combining financial statements of the System, which include the combining statements of net position (deficit), the combining statements of revenues, expenses and changes in net position (deficit) and the combining statements of cash flows, are presented for the purposes of displaying entity-wide information in accordance with Governmental Accounting Standards Board ("GASB") requirements. These combining financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**Financial Analysis and Results of Operations**

The following summarizes the activities of the System for the fiscal years 2024, 2023, and 2022, respectively (in thousands):

	2024	2023	2022	Variance	
				2024 vs 2023	2023 vs 2022
<b>Revenues</b>					
Operating revenues:					
Water supply and distribution	\$ 1,594,989	\$ 1,582,456	\$ 1,441,310	\$ 12,533	\$ 141,146
Sewer collection and treatment	2,536,031	2,516,104	2,291,683	19,927	224,421
Bad debt expense	(126,487)	(98,632)	(10,013)	(27,855)	(88,619)
Other operating revenues	257,188	203,039	156,062	54,149	46,977
Total operating revenues	<u>4,261,721</u>	<u>4,202,967</u>	<u>3,879,042</u>	<u>58,754</u>	<u>323,925</u>
Non-operating revenues:					
Subsidies/grants	145,355	183,001	156,389	(37,646)	26,612
Investment income (loss)	172,181	96,007	(5,985)	76,174	101,992
Total non-operating revenues	<u>317,536</u>	<u>279,008</u>	<u>150,404</u>	<u>38,528</u>	<u>128,604</u>
Total revenues	<u>4,579,257</u>	<u>4,481,975</u>	<u>4,029,446</u>	<u>97,282</u>	<u>452,529</u>
<b>Expenses</b>					
Other operating expenses	125,328	164,464	89,395	(39,136)	75,069
Operations and maintenance	1,952,826	1,710,007	1,574,864	242,819	135,143
General and administrative	45,122	47,153	46,450	(2,031)	703
Depreciation and amortization	992,055	1,022,165	1,037,925	(30,110)	(15,760)
Capital distributions	51,263	161,577	37,967	(110,314)	123,610
Net loss on retirement and impairment of capital assets	8,270	1,566	3,080	6,704	(1,514)
Gain on defeasance	(11,559)	-	(9,244)	(11,559)	9,244
Interest expense and cost of issuance	1,200,839	1,161,526	1,049,642	39,313	111,884
Total expenses	<u>4,364,144</u>	<u>4,268,458</u>	<u>3,830,079</u>	<u>95,685</u>	<u>438,379</u>
Net income before capital contributions	<u>215,113</u>	<u>213,517</u>	<u>199,367</u>	<u>1,597</u>	<u>14,150</u>
Capital contributions	<u>25,147</u>	<u>19,765</u>	<u>18,544</u>	<u>5,382</u>	<u>1,221</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>	<u>240,260</u>	<u>233,282</u>	<u>217,911</u>	<u>6,979</u>	<u>15,371</u>
<b>Net position (deficit) - beginning</b>	<u>1,893,748</u>	<u>1,660,466</u>	<u>1,442,555</u>	<u>233,282</u>	<u>217,911</u>
<b>Net position (deficit) - ending</b>	<u>\$ 2,134,008</u>	<u>\$ 1,893,748</u>	<u>\$ 1,660,466</u>	<u>\$ 240,261</u>	<u>\$ 233,282</u>

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**Operating Revenues**

Operating revenues are comprised of water supply and distribution, sewer collection and treatment, bad debt expense, and other operating revenues.

**2024-2023**

Operating revenues increased by \$58.8 million, or 1.4% compared to fiscal year 2023. The increase in revenues reflects a combination of (a) 4.42% rate increase for fiscal year 2024, (b) lower billed water consumption by customers during the first half of the year, (c) higher past due customer account balances contributing to higher late payment fees, and (d) amounts received through the New York State Office of Temporary Disability Assistance's Low Income Household Water Assistance Program.

Bad debt expense increased by \$27.9 million. The increase in the bad debt expense is primarily due to the increase in accounts receivable, particularly in accounts with prior outstanding balances.

**2023-2022**

Operating revenues increased by \$324 million, or 8.4% compared to fiscal year 2022. The increase in revenues reflects a combination of (a) 4.90% rate increase for fiscal year 2023, (b) an overall increase in water consumption by customers, and (c) revenues received from customers participating in the Board's Water Bill Amnesty Program and from amounts received through the New York State Office of Temporary Disability Assistance's Low Income Household Water Assistance Program.

Bad debt expense increased by \$88.6 million. During fiscal year 2023, management reviewed the methodology for estimating accounts receivable and reserves for non-utility charges and updated its methodology for reserving those balances.

**Other Operating Revenues**

The following further details other operating revenues for fiscal years 2024, 2023, and 2022, respectively (in thousands):

	2024	2023	2022	Variance	
				2024 vs 2023	2023 vs 2022
Upstate water fees	\$ 98,850	\$ 92,645	\$ 76,071	\$ 6,205	\$ 16,574
Late payment fees	85,315	69,092	29,864	16,223	39,228
Change in residual interest in sold liens	5,575	114	-	5,461	114
Connection fees and permits	18,490	10,391	9,793	8,099	598
Service line protection program	48,958	30,797	40,334	18,161	(9,537)
Total other operating revenues	<u>\$ 257,188</u>	<u>\$ 203,039</u>	<u>\$ 156,062</u>	<u>\$ 54,149</u>	<u>\$ 46,977</u>

**2024-2023**

Upstate water fees increased by \$6.2 million. This was primarily due to rate increases for entitlement quantity water of 6.76% and excess quantity water of 4.42%.

Late payment fees increased by \$16.2 million compared to fiscal year 2023 due to DEP's communication and collection enforcement efforts involving accounts with delinquent balances, an increase in the average effective interest rate the Board was authorized by the New York City Council to charge, and the ability of



## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

DEP's new billing system to charge multiple tiers of interest rates depending on assessed property values. This amount fluctuates depending on the timeliness of customer payment.

The amounts received for the service line protection program increased by \$18.2 million, due to an increase in the number of policies in effect during the year and an increase in the price of policies.

**2023-2022**

Upstate water fees increased by \$16.6 million. This was due to a combination of an increase in the volume of water supplied to these customers, including increases to the volume of water sold at both the entitlement and excess rates, and increases to the entitlement and excess rates of 1.4% and 4.9%.

Late payment fees increased by \$39.2 million compared to fiscal year 2022 due to more payments made for delinquent accounts, an increase in the average effective interest rate the Board was authorized by the New York City Council to charge, and the ability of DEP's new billing system to charge multiple tiers of interest rates depending on assessed property values. This amount fluctuates depending on the timeliness of customer payment.

The amounts received for the service line protection program decreased by \$9.5 million, due to a decrease in the number of policies in effect during the year and an increase in customer delinquencies.

**Non-Operating Revenues**

Non-operating revenues are comprised of subsidies, grants and investment income.

**2024-2023**

Investment income increased by \$76.2 million compared to fiscal year 2023. The increase was mainly due to higher yields on new securities purchased and more funds available to invest during fiscal year 2024.

**2023-2022**

Investment income increased by \$102 million compared to fiscal year 2022. The increase was mainly due to higher yields on new securities purchased and more funds available to invest during fiscal year 2023.

**Operating Expenses**

Operating expenses are comprised of operations and maintenance, general and administrative, depreciation and amortization, and other operating expenses.

**2024-2023**

Total operations and maintenance expense increased by \$243 million or 14% compared to fiscal year 2023. This is due primarily to the \$145 million rental payment made to The City, as well as to collective bargaining increases and an increase in the rate used to calculate fringe benefits, higher water and wastewater treatment chemical costs, and investments in management information systems and cybersecurity measures.

Depreciation and amortization decreased by \$30.1 million compared to fiscal year 2023.

Other operating expenses decreased by \$39.1 million compared to fiscal year 2023, primarily due to decreases in program expenses and expenses related to the System's filtration avoidance determination.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**2023-2022**

Total operations and maintenance expense increased by \$135 million or 8.6% compared to fiscal year 2022. This is due primarily to The City's collective bargaining settlement with DC37, an increase in the rate used to calculate fringe benefits, and increases in other than personal services expenses.

Depreciation and amortization decreased by \$15.8 million compared to fiscal year 2022.

Other operating expenses increased \$75.1 million compared to fiscal year 2022, primarily due to increases in program expenses, pollution remediation expenses, and expenses related to the System's filtration avoidance determination.

**Non-Operating Expenses**

Non-operating expenses are comprised of interest expense, gain on defeasance, cost of issuance, net loss on retirement of capital assets, and capital distribution.

**2024-2023**

Capital distribution decreased by \$110 million in fiscal year 2024 compared to fiscal year 2023. The decrease in capital distributions was primarily due to a decrease in the amount distributed to The City for the South Shore of Staten Island Coastal Storm Risk Management project (discussed further below) and a decrease in the land acquired and granted to The City.

Interest expense and cost of issuance increased by \$39.3 million. This increase was primarily due to the issuance of new bonds and higher short term interest expense, offset by amortization of bond premium and deferred refunding cost which decrease interest expense.

Gain on defeasance increased by \$11.6 million because of a cash defeasance in fiscal year, while there was no cash defeasance in fiscal year 2023.

**2023-2022**

Capital distribution increased by \$124 million in fiscal year 2023 compared to fiscal year 2022. In fiscal year 2023, DEP distributed over \$50.0 million for the South Shore of Staten Island Coastal Storm Risk Management project. DEP is collaborating with the U.S. Army Corps of Engineers and other City agencies to design and construct the protective seawall at the Shoreline Parks in Staten Island. DEP is responsible for the interior drainage and stormwater retention components of this project, including bluebelts, to reduce runoff into the sewer system. The capital distributions amount also varies each year based on the land acquired and then granted to The City.

Interest expense and cost of issuance increased by \$112 million. This increase was primarily due to the issuance of new bonds and higher interest expense, offset by amortization of bond premium and deferred refunding cost which decrease interest expense.

Gain on defeasance decreased by \$9.2 million because there was no cash defeasance in fiscal year 2023.

**Capital Contributions**

Capital Contributions are comprised of federal, state and other contributions to the System's capital projects.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**2024-2023**

Capital contributions increased by \$5.4 million in fiscal year 2024.

**2023-2022**

Capital contributions increased by \$1.2 million in fiscal year 2023.

***Change in Net Position (Deficit)*****2024-2023**

The change in net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) increased by \$7.0 million in fiscal year 2024 compared to fiscal year 2023. As explained in more detail above, such increase was due primarily to the combined effect of a \$58.8 million increase in operating revenue, a \$76.2 million increase in investment income, a \$110 million decrease in capital distributions, and a \$39.1 million decrease in other operating expenses, offset by a \$39.3 million increase in interest expense and cost of issuance and a \$243 million increase in operations and maintenance expense.

**2023-2022**

The change in net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) increased by \$15.4 million in fiscal year 2023 compared to fiscal year 2022. As explained in more detail above, such increase was due primarily to the combined effect of a \$324 million increase in operating revenue and \$102 million increase in investment income, offset by a \$124 million increase in capital distributions, a \$112 million increase in interest expense and cost of issuance, a \$135 million increase in operations and maintenance expense, and a \$75.1 million increase in other operating expenses.

***Ending Net Position (Deficit)*****2024-2023**

The ending net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$240 million or 12.7% compared to fiscal year 2023.

**2023-2022**

The ending net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$233 million or 14.0% compared to fiscal year 2022.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

The following is a summary of the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) as of June 30 (in thousands):

	2024	2023	2022	Variance	
				2024 vs 2023	2023 vs 2022
<b>Assets</b>					
Current assets	\$ 4,349,877	\$ 4,132,652	\$ 3,670,122	\$ 217,225	\$ 462,530
Residual interest in sold liens	69,080	63,505	63,391	5,575	114
Capital assets	34,123,301	33,555,582	33,058,749	567,719	496,833
<b>Total assets</b>	<b>38,542,258</b>	<b>37,751,739</b>	<b>36,792,262</b>	<b>790,519</b>	<b>959,478</b>
<b>Deferred outflows of resources:</b>					
Accumulated decrease in fair value of hedging derivative	-	36,705	60,991	(36,705)	(24,286)
Deferred changes in net pension liability	84	412	707	(328)	(295)
Unamortized asset retirement obligation	9,151	9,640	10,158	(489)	(518)
Deferred changes in OPEB liability	1,424	672	632	752	40
<b>Total deferred outflows of resources</b>	<b>10,659</b>	<b>47,429</b>	<b>72,488</b>	<b>(36,770)</b>	<b>(25,059)</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 38,552,917</b>	<b>\$ 37,799,168</b>	<b>\$ 36,864,750</b>	<b>\$ 753,749</b>	<b>\$ 934,418</b>
<b>Liabilities:</b>					
Current liabilities	\$ 1,306,819	\$ 1,445,031	\$ 1,127,273	\$ (138,212)	\$ 317,758
Long-term liabilities	34,865,354	34,264,447	33,957,896	600,907	306,551
<b>Total liabilities</b>	<b>36,172,173</b>	<b>35,709,478</b>	<b>35,085,169</b>	<b>462,695</b>	<b>624,309</b>
<b>Deferred inflows of resources:</b>					
Deferred changes in net pension liability	(23)	36	125	(59)	(89)
Deferred changes in OPEB liability	672	846	1,032	(174)	(186)
Unamortized deferred bond refunding costs	246,087	195,060	117,958	51,027	77,102
<b>Total deferred inflows of resources</b>	<b>246,736</b>	<b>195,942</b>	<b>119,115</b>	<b>50,794</b>	<b>76,827</b>
<b>Net position (deficit):</b>					
Net investment in capital assets	894,731	718,114	685,990	176,617	32,124
Restricted for debt service	1,929,493	1,905,323	1,573,633	24,170	331,690
Restricted for operations and maintenance	333,555	322,235	285,656	11,320	36,579
Unrestricted deficit	(1,023,771)	(1,051,924)	(884,813)	28,153	(167,111)
<b>Total net position (deficit)</b>	<b>2,134,008</b>	<b>1,893,748</b>	<b>1,660,466</b>	<b>240,260</b>	<b>233,282</b>
<b>Total liabilities, deferred inflows of resources, and net position (deficit)</b>	<b>\$ 38,552,917</b>	<b>\$ 37,799,168</b>	<b>\$ 36,864,750</b>	<b>\$ 753,749</b>	<b>\$ 934,418</b>

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**Current Assets**

Current assets are comprised of restricted cash and cash equivalents, restricted investments, accrued interest and subsidy receivable, receivable from The City, and accounts receivable.

**2024-2023**

Current assets increased by \$217.2 million or 5.3%. Restricted investments, including restricted cash and cash equivalents, increased by \$97.0 million primarily in the revenue fund and construction fund. Construction fund balances fluctuate due to the timing of bonds issuances and payments to The City for capital costs. Restricted assets held in the Authority's escrow accounts and in the debt service reserve fund declined by \$45.1 million and \$69.1 million, respectively. Assets held in the escrow accounts decline when funds are applied to repayment of debt. The decline in the debt service reserve fund is largely due to a \$60.5 million release of funds held in the reserve fund as a result of a reduction in the reserve requirement. Accounts receivable net of allowance for uncollectable increased by \$82.3 million and receivable from The City decreased by \$0.7 million.

**2023-2022**

Current assets increased by \$462.5 million or 12.6%. Restricted investments, including restricted cash and cash equivalents, increased by \$397 million primarily in the revenue fund and construction fund. Construction fund balances fluctuate due to the timing of bonds issuances and payments to The City for capital costs. Restricted assets held in the Authority's escrow accounts and in the debt service reserve fund declined by \$84.6 million and \$68.0 million, respectively. Assets held in the escrow accounts decline when funds are applied to repayment of debt. The decline in the debt service reserve fund is largely due to a \$60.5 million release of funds held in the reserve fund as a result of a reduction in the reserve requirement. Accounts receivable net of allowance for uncollectable increased by \$84.7 million and receivable from The City decreased by \$23.5 million.

**Current Liabilities**

Current liabilities are comprised of accounts payable, interest payable, revenue received in advance, current portion of bonds and notes payable, payable to The City, and service credits on customer accounts.

**2024-2023**

Current liabilities decreased by \$138.2 million, or 9.6%, compared to fiscal year 2023. This was primarily due to a decrease in the current portion of bonds and notes payable.

**2023-2022**

Current liabilities increased by \$317.8 million, or 28.2%, compared to fiscal year 2022. This was primarily due to an increase in the current portion of bonds and notes payable.

**Long-Term Liabilities**

Long-term liabilities are comprised of bonds and notes payable, pollution remediation obligation, interest rate swap agreements net of revenue requirements payable to the Authority, net pension liability, net OPEB liability, and other long-term liabilities.

**2024-2023**

Long-term liabilities increased by \$600.9 million, or 1.7%, primarily due to the issuance of new debt to fund capital projects, offset by the retirement of existing debt through debt service payments and refundings.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

**2023-2022**

Long-term liabilities increased by \$307 million, or 1.0%, primarily due to the issuance of new debt to fund capital projects, offset by the retirement of existing debt through debt service payments and refundings.

**Capital Assets**

The System's capital assets include buildings, machinery and equipment, vehicles, water supply and wastewater treatment systems, and water distribution and sewage collection systems, as well as utility construction.

Capital assets as of June 30 are detailed as follows (in thousands):

	2024	2023	2022	Variance	
				2024 vs 2023	2023 vs 2022
Nondepreciable assets					
Utility construction in progress	\$ 7,154,102	\$ 6,881,740	\$ 6,271,077	\$ 272,362	\$ 610,663
Depreciable assets					
Utility plant in service:					
Buildings	35,821	35,821	35,821	-	-
Machinery and equipment	5,750,220	5,630,449	5,549,134	119,771	81,315
Vehicles	286,826	277,656	287,885	9,170	(10,229)
Water supply and distribution and wastewater treatment and sewage collection systems	41,551,667	40,416,747	39,595,255	1,134,920	821,492
Total utility plant in service	47,624,534	46,360,673	45,468,095	1,263,861	892,578
Less accumulated depreciation for:					
Buildings	31,467	31,184	30,900	283	284
Machinery and equipment	3,658,051	3,404,626	3,156,160	253,425	248,466
Vehicles	157,669	146,626	146,485	11,043	141
Water supply and distribution and wastewater treatment and sewage collection systems	16,808,148	16,104,395	15,346,878	703,753	757,517
Total accumulated depreciation	20,655,335	19,686,831	18,680,423	968,504	1,006,408
Total utility plant in service - net	26,969,199	26,673,842	26,787,672	295,357	(113,830)
Total capital assets - net	\$ 34,123,301	\$ 33,555,582	\$ 33,058,749	\$ 567,719	\$ 496,833

**2024-2023**

The Authority issues debt to pay for the capital improvements to the System and related costs. Costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed area and certain costs associated with pollution remediation, are financed with debt but are not recorded as the System's assets on the combining statements of net position (deficit). The cumulative amount of expenses not capitalized as assets as of June 30, 2024, was \$1.98 billion. These costs or distributions are expensed in the System's combining statements of revenues, expenses, and changes in net position (deficit) in the years incurred. The land purchased is granted to The City and becomes The City's capital asset because it is not subject to the method of capitalization under which the System reports its capital assets.

## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

Total gross additions to non-depreciable assets utility construction in progress were \$1.6 billion and a total of \$1.3 billion of completed projects were moved from utility construction in progress into depreciable assets utility plant in service. This resulted in a \$272 million increase in utility construction in progress, representing a 4.0% net increase compared to fiscal year 2023. The System completed \$237 million of construction work involving the Catskill Aqueduct repair and rehabilitation, constructed sanitary and storm sewers at Sheldon Avenue in Staten Island with a project value of \$42.7 million, constructed additional sanitary and storm sewers at Beach 20<sup>th</sup> Street in Rockaway Beach, Queens involving a project value of \$39.8 million, completed \$28.6 million of solid facility modifications at North River, and installed \$26.8 million of centrifuges at Wards Island. Total capital assets, net of depreciation, increased by \$568 million, a 1.7% increase from fiscal year 2023 (see Note 3).

**2023-2022**

The Authority issues debt to pay for the capital improvements to the System and related costs. Costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed area and certain costs associated with pollution remediation, are financed with debt but are not recorded as the System's assets on the combining statements of net position (deficit). The cumulative amount of expenses not capitalized as assets as of June 30, 2023, was \$1.77 billion. These costs or distributions are expensed in the System's combining statements of revenues, expenses, and changes in net position (deficit) in the years incurred. The land purchased is granted to The City and becomes The City's capital asset because it is not subject to the method of capitalization under which the System reports its capital assets.

Total gross additions to non-depreciable assets utility construction in progress were \$1.52 billion and a total of \$909 million of completed projects were moved from utility construction in progress into depreciable assets utility plant in service. This resulted in a \$611 million increase in utility construction in progress, representing a 9.7% net increase compared to fiscal year 2022. The System completed the construction of 1,900 bioswales around the areas of Jamaica Bay Watershed of \$104 million, constructed Level 1 Biological Nutrient Removal system at Coney Island Waste Water Treatment Plant of \$51.8 million, completed the overflow chamber expansions at Westchester Creek of \$30.4 million, and built bluebelt, storm and sanitary sewers, and water main replacement at New Creek in Staten Island for \$49.0 million. Total capital assets, net of depreciation, increased by \$497 million, a 1.5% increase from fiscal year 2022 (see Note 3).

**Deferred Outflows of Resources**

Deferred outflows of resources are comprised of accumulated decrease in fair value of hedging derivative, deferred changes in net pension liability, unamortized asset retirement obligation, and deferred changes in OPEB liability.

**2024-2023**

Deferred outflows from hedging decreased by \$36.7 million, or 100%, compared to fiscal year 2023 due to the termination of the Authority's hedging derivative instruments.

**2023-2022**

Deferred outflows from hedging decreased by \$24.3 million, or 39.8%, compared to fiscal year 2022 due to an increase in the fair value of the hedging derivative instruments.

**Debt Administration**

The debt program of the Authority includes commercial paper notes and long-term debt issued to the public, as well as bond anticipation notes ("BANs") and interest-subsidized bonds issued to the New York State EFC. Commercial paper notes and BANs are interim financing instruments. In fiscal years 2024 and 2023, the Authority did not issue any commercial paper notes, relying instead on bond and BANs proceeds to



## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

reimburse The City for payments made for water and sewer capital projects. The Authority periodically issues long-term debt to retire outstanding BANs and commercial paper notes. The Authority also issues refunding bonds to refinance higher cost debt and uses current revenues to defease debt.

As of June 30, 2024, the total outstanding debt of the System was \$32.58 billion, which was comprised of adjustable-rate bonds, fixed-rate bonds and BANs. The following table summarizes debt program activities for the fiscal year ended June 30, 2024 (in thousands) (see Note 9):

	Outstanding Principal Balance at June 30, 2023	Issued	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2024
First resolution bonds	\$ 455,741	\$ -	\$ -	\$ (50,000)	\$ 405,741
Second resolution bonds	31,616,997	3,605,006	(546,685)	(2,516,982)	32,158,336
Second resolution BANs	179,857	331,423	-	(500,331)	10,949
Total bonds payable	<u>\$ 32,252,595</u>	<u>\$ 3,936,429</u>	<u>\$ (546,685)</u>	<u>\$ (3,067,313)</u>	<u>\$ 32,575,026</u>

In fiscal year 2024, the Authority issued \$2.85 billion of water and sewer system revenue bonds to the public, including \$1.76 billion of refunding bonds and \$1.08 billion of new money bonds. Additionally, the Authority issued \$296 million of refunding water and sewer system revenue bonds and \$464 million of new money bonds to EFC. The Authority also drew down \$331 million of proceeds from BANs issued to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to refinance BANs, and to pay for bond issuance costs.

During fiscal year 2024, the Authority issued \$2.06 billion of bonds to refund \$2.35 billion of outstanding bonds. These refundings resulted in an accounting gain of \$117 million. This amount is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The Authority reduced its aggregate debt service for principal and interest by \$198 million and obtained an economic benefit (present value savings) of \$224 million.

During fiscal year 2024, the Authority did not legally defease any outstanding bonds. The Authority executed an in-substance defeasance of \$213 million using current resources.

As of June 30, 2023, the total outstanding debt of the System was \$32.3 billion, which was comprised of adjustable-rate bonds, fixed-rate bonds and BANs. The following table summarizes debt program activities for the fiscal year ended June 30, 2023 (in thousands) (see Note 9):

	Outstanding Principal Balance at June 30, 2022	Issued	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2023
First resolution bonds	\$ 789,871	\$ -	\$ -	\$ (334,130)	\$ 455,741
Second resolution bonds	30,651,162	3,317,911	(348,911)	(2,003,165)	31,616,997
Second resolution BANs	101,126	613,298	-	(534,567)	179,857
Total bonds payable	<u>\$ 31,542,159</u>	<u>\$ 3,931,209</u>	<u>\$ (348,911)</u>	<u>\$ (2,871,862)</u>	<u>\$ 32,252,595</u>

In fiscal year 2023, the Authority issued \$2.4 billion of water and sewer system revenue bonds to the public, including \$1.8 billion of refunding bonds and \$596 million of new money bonds. Additionally, the Authority issued \$367 million of refunding water and sewer system revenue bonds and \$538 million of new money bonds to EFC. The Authority also drew down \$613 million of proceeds from BANs issued to EFC. The



## New York City Water and Sewer System

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2024 and 2023

Authority used new money bond proceeds to finance capital improvements to the System and to pay for bond issuance costs.

During fiscal year 2023, the Authority issued \$2.2 billion of bonds to refund \$2.3 billion of outstanding bonds. These refundings resulted in an accounting gain of \$106 million. This amount is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The Authority reduced its aggregate debt service for principal and interest by \$298 million and obtained an economic benefit (present value savings) of \$200 million.

During fiscal year 2023, the Authority did not legally defease any outstanding bonds using current resources.

***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 Investor Relations, New York City Municipal Water Finance Authority, 255 Greenwich Street, New York, New York 10007 or to NYWInvestors@omb.nyc.gov.

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**NEW YORK CITY WATER AND SEWER SYSTEM**  
**COMBINING STATEMENTS OF NET POSITION (DEFICIT)**

June 30, 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
ASSETS	(in thousands)			
<b>Current assets</b>				
Restricted cash and cash equivalents	\$ 303,832	\$ 2,369,492	\$ -	\$ 2,673,324
Restricted investments	43,851	396,351	-	440,202
Accrued interest and federal subsidy receivable	3,294	46,076	-	49,370
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$748,227	780,856	-	-	780,856
Unbilled - less allowance for uncollectable water and sewer receivables of \$30,849	332,077	-	-	332,077
Receivable from The City of New York	74,048	-	-	74,048
Total current assets	<b>1,537,958</b>	<b>2,811,919</b>	-	<b>4,349,877</b>
<b>Non-current assets</b>				
Utility plant in service - less accumulated depreciation of \$20,655,334	26,969,199	-	-	26,969,199
Utility plant construction	7,154,102	-	-	7,154,102
Total capital assets	34,123,301	-	-	34,123,301
Residual interest in sold liens	69,080	-	-	69,080
Revenue required to be billed by and received from the Water Board	-	9,287,203	(9,287,203)	-
Total non-current assets	<b>34,192,381</b>	<b>9,287,203</b>	<b>(9,287,203)</b>	<b>34,192,381</b>
Total assets	<b>35,730,339</b>	<b>12,099,122</b>	<b>(9,287,203)</b>	<b>38,542,258</b>
<b>Deferred outflows of resources</b>				
Deferred changes in net pension liability	-	84	-	84
Unamortized asset retirement obligations	9,151	-	-	9,151
Deferred changes in OPEB liability	-	1,424	-	1,424
Total deferred outflows of resources	<b>9,151</b>	<b>1,508</b>	-	<b>10,659</b>
Total assets and deferred outflows of resources	<b>\$ 35,739,490</b>	<b>\$ 12,100,630</b>	<b>\$ (9,287,203)</b>	<b>\$ 38,552,917</b>

See notes to combining financial statements.

## NEW YORK CITY WATER AND SEWER SYSTEM

## COMBINING STATEMENTS OF NET POSITION (DEFICIT) - CONTINUED

June 30, 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
		(in thousands)		
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 10,180	\$ 7,671	\$ -	\$ 17,851
Interest payable	-	61,912	-	61,912
Current portion of bonds and notes payable	-	534,617	-	534,617
Payable to the City of New York	-	583,042	-	583,042
Service credits on customer accounts	109,397	-	-	109,397
Total current liabilities	<b>119,577</b>	<b>1,187,242</b>	<b>-</b>	<b>1,306,819</b>
<b>Long-term liabilities</b>				
Bonds and notes payable	-	34,765,150	-	34,765,150
Pollution remediation obligation	77,069	-	-	77,069
Interest rate swap agreement - net	-	-	-	-
Revenue requirements payable to the Authority	9,287,203	-	(9,287,203)	-
Net pension liability	-	588	-	588
Net OPEB liability	-	3,097	-	3,097
Other long-term liability	18,405	1,045	-	19,450
Total long-term liabilities	<b>9,382,677</b>	<b>34,769,880</b>	<b>(9,287,203)</b>	<b>34,865,354</b>
Total liabilities	<b>9,502,254</b>	<b>35,957,122</b>	<b>(9,287,203)</b>	<b>36,172,173</b>
<b>Deferred inflows of resources</b>				
Unamortized deferred bond refunding costs	-	246,087	-	246,087
Deferred changes in net pension liability	-	(23)	-	(23)
Deferred changes in OPEB liability	-	672	-	672
Total deferred inflows of resources	<b>-</b>	<b>246,736</b>	<b>-</b>	<b>246,736</b>
<b>Net position (deficit)</b>				
Net investment in capital assets	34,123,301	(33,228,570)	-	894,731
Restricted for debt service	-	1,929,493	-	1,929,493
Restricted for operations and maintenance	333,555	-	-	333,555
Unrestricted deficit	(8,219,621)	7,195,850	-	(1,023,771)
Total net position (deficit)	<b>26,237,235</b>	<b>(24,103,227)</b>	<b>-</b>	<b>2,134,008</b>
and net position (deficit)	<b>\$ 35,739,490</b>	<b>\$ 12,100,630</b>	<b>\$ (9,287,203)</b>	<b>\$ 38,552,917</b>

See notes to combining financial statements.

**NEW YORK CITY WATER AND SEWER SYSTEM**  
**COMBINING STATEMENTS OF NET POSITION (DEFICIT)**

June 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
<b>ASSETS</b>				
<b>Current assets</b>				
Restricted cash and cash equivalents	\$ 311,573	\$ 2,677,390	\$ -	\$ 2,988,963
Restricted investments	22,991	4,598	-	27,589
Accrued interest and federal subsidy receivable	692	10,050	-	10,742
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$623,506	700,077	-	-	700,077
Unbilled - less allowance for uncollectable water and sewer receivables of \$29,082	330,526	-	-	330,526
Receivable from The City of New York	74,755	-	-	74,755
Total current assets	<b>1,440,614</b>	<b>2,692,038</b>	-	<b>4,132,652</b>
<b>Non-current assets</b>				
Utility plant in service - less accumulated depreciation of \$19,686,831	26,673,842	-	-	26,673,842
Utility plant construction	6,881,740	-	-	6,881,740
Total capital assets	33,555,582	-	-	33,555,582
Residual interest in sold liens	63,505	-	-	63,505
Revenue required to be billed by and received from the Water Board	-	9,829,264	(9,829,264)	-
Total non-current assets	<b>33,619,087</b>	<b>9,829,264</b>	<b>(9,829,264)</b>	<b>33,619,087</b>
Total assets	<b>35,059,701</b>	<b>12,521,302</b>	<b>(9,829,264)</b>	<b>37,751,739</b>
<b>Deferred outflows of resources</b>				
Accumulated decrease in fair value of hedging derivative	-	36,705	-	36,705
Deferred changes in net pension liability	-	412	-	412
Unamortized asset retirement obligations	9,640	-	-	9,640
Deferred changes in OPEB liability	-	672	-	672
Total deferred outflows of resources	<b>9,640</b>	<b>37,789</b>	-	<b>47,429</b>
Total assets and deferred outflows of resources	<b>\$ 35,069,341</b>	<b>\$ 12,559,091</b>	<b>\$ (9,829,264)</b>	<b>\$ 37,799,168</b>

See notes to combining financial statements.

## NEW YORK CITY WATER AND SEWER SYSTEM

## COMBINING STATEMENTS OF NET POSITION (DEFICIT) - CONTINUED

June 30, 2023

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City			
	Water Board	Municipal Water	Eliminations	Total
		Finance Authority		
(in thousands)				
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 21,496	\$ 5,507	\$ -	\$ 27,003
Interest payable	-	60,228	-	60,228
Current portion of bonds and notes payable	-	725,401	-	725,401
Payable to the City of New York	-	542,710	-	542,710
Service credits on customer accounts	89,689	-	-	89,689
Total current liabilities	<b>111,185</b>	<b>1,333,846</b>	<b>-</b>	<b>1,445,031</b>
<b>Long-term liabilities</b>				
Bonds and notes payable	-	34,141,381	-	34,141,381
Pollution remediation obligation	62,240	-	-	62,240
Interest rate swap agreement - net	-	36,705	-	36,705
Revenue requirements payable to the Authority	9,829,264	-	(9,829,264)	-
Net pension liability	-	824	-	824
Net OPEB liability	-	2,024	-	2,024
Other long-term liability	18,048	3,225	-	21,273
Total long-term liabilities	<b>9,909,552</b>	<b>34,184,159</b>	<b>(9,829,264)</b>	<b>34,264,447</b>
Total liabilities	<b>10,020,737</b>	<b>35,518,005</b>	<b>(9,829,264)</b>	<b>35,709,478</b>
<b>Deferred inflows of resources</b>				
Unamortized deferred bond refunding costs	-	195,060	-	195,060
Deferred changes in net pension liability	-	36	-	36
Deferred changes in OPEB liability	-	846	-	846
Total deferred inflows of resources	<b>-</b>	<b>195,942</b>	<b>-</b>	<b>195,942</b>
<b>Net position (deficit)</b>				
Net investment in capital assets	33,555,582	(32,837,468)	-	718,114
Restricted for debt service	-	1,905,323	-	1,905,323
Restricted for operations and maintenance	322,235	-	-	322,235
Unrestricted deficit	(8,829,213)	7,777,289	-	(1,051,924)
Total net position (deficit)	<b>25,048,604</b>	<b>(23,154,856)</b>	<b>-</b>	<b>1,893,748</b>
and				
net position (deficit)	<b>\$ 35,069,341</b>	<b>\$ 12,559,091</b>	<b>\$ (99,829,264)</b>	<b>\$ 37,799,168</b>

See notes to combining financial statements.

## NEW YORK CITY WATER AND SEWER SYSTEM

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

For the year ended June 30, 2024

	New York City		
	Water Board	Municipal Water Finance Authority	Total
		(in thousands)	
<b>Operating revenues</b>			
Water supply and distribution	\$ 1,594,989	\$ -	\$ 1,594,989
Sewer collection and treatment	2,536,031	-	2,536,031
Bad debt expense	(126,487)	-	(126,487)
Other operating revenues	257,188	-	257,188
	<u>4,261,721</u>	<u>-</u>	<u>4,261,721</u>
<b>Operating expenses</b>			
Operations and maintenance	1,952,826	-	1,952,826
General and administrative	3,764	41,358	45,122
Other operating expenses	125,328	-	125,328
Depreciation and amortization	992,055	-	992,055
	<u>3,073,973</u>	<u>41,358</u>	<u>3,115,331</u>
<b>Operating income (loss)</b>	1,187,748	(41,358)	1,146,390
<b>Non operating revenues (expenses)</b>			
Interest expense	-	(1,176,562)	(1,176,562)
Gain on defeasance	-	11,559	11,559
Cost of issuance	-	(24,277)	(24,277)
Net loss on retirement and impairment of capital assets	(8,270)	-	(8,270)
Subsidy income	-	145,355	145,355
Capital distributions	(51,263)	-	(51,263)
Investment income	35,269	136,912	172,181
	<u>1,163,484</u>	<u>(948,372)</u>	<u>215,113</u>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	1,163,484	(948,372)	215,113
Capital contributions	25,147	-	25,147
	<u>1,188,631</u>	<u>(948,371)</u>	<u>240,260</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>	1,188,631	(948,371)	240,260
<b>NET POSITION (DEFICIT) - Beginning of year</b>	25,048,604	(23,154,856)	1,893,748
	<u>\$ 26,237,235</u>	<u>\$ (24,103,227)</u>	<u>\$ 2,134,008</u>
<b>NET POSITION (DEFICIT) - End of year</b>	<u>\$ 26,237,235</u>	<u>\$ (24,103,227)</u>	<u>\$ 2,134,008</u>

See notes to combining financial statements.

## NEW YORK CITY WATER AND SEWER SYSTEM

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

For the year ended June 30, 2023

	New York City		
	Water Board	Municipal Water Finance Authority	Total
	(in thousands)		
<b>Operating revenues</b>			
Water supply and distribution	\$ 1,582,456	\$ -	\$ 1,582,456
Sewer collection and treatment	2,516,104	-	2,516,104
Bad debt expense	(98,632)	-	(98,632)
Other operating revenues	203,039	-	203,039
	<u>4,202,967</u>	<u>-</u>	<u>4,202,967</u>
<b>Operating expenses</b>			
Operations and maintenance	1,710,007	-	1,710,007
General and administrative	4,222	42,931	47,153
Other operating expenses	164,464	-	164,464
Depreciation and amortization	1,022,165	-	1,022,165
	<u>2,900,858</u>	<u>42,931</u>	<u>2,943,789</u>
	1,302,109	(42,931)	1,259,178
<b>Operating income (loss)</b>			
<b>Non operating revenues (expenses)</b>			
Interest expense		(1,142,733)	(1,142,733)
Gain on defeasance	-	-	-
Cost of issuance	-	(18,793)	(18,793)
Net loss on retirement and impairment of capital assets	(1,566)	-	(1,566)
Subsidy income	-	183,001	183,001
Capital distributions	(161,577)	-	(161,577)
Investment income	31,089	64,918	96,007
	<u>1,170,055</u>	<u>(956,538)</u>	<u>213,517</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS			
Capital contributions	19,765	-	19,765
	<u>1,189,820</u>	<u>(956,538)</u>	<u>233,282</u>
CHANGE IN NET POSITION (DEFICIT)			
NET POSITION (DEFICIT) - Beginning of year	23,858,784	(22,198,318)	1,660,466
	<u>\$ 25,048,604</u>	<u>\$ (23,154,856)</u>	<u>\$ 1,893,748</u>
NET POSITION (DEFICIT) - End of year			

See notes to combining financial statements.

## NEW YORK CITY WATER AND SEWER SYSTEM

## COMBINING STATEMENT OF CASH FLOWS

For the year ended June 30, 2024

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 4,160,707	\$ -	\$ 4,160,707
Payments for operations and maintenance	(2,009,944)	-	(2,009,944)
Payments for administration	(5,526)	(42,062)	(47,588)
<b>Net cash provided by (used in) operating activities</b>	<b>2,145,237</b>	<b>(42,062)</b>	<b>2,103,175</b>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	4,347,679	4,347,679
Receipts from capital grants awarded to the governmental enterprise	-	-	-
Receipts from contribution made by other organization	292	-	292
Acquisition and construction of capital assets	-	(1,582,683)	(1,582,683)
Payments by the Water Board to the Authority	(2,165,075)	2,165,075	-
Repayments of bonds, notes and other borrowings	-	(3,618,357)	(3,618,357)
Interest paid on bonds, notes and other borrowings	-	(1,323,433)	(1,323,433)
<b>Net cash used in capital and related financial activities</b>	<b>(2,164,783)</b>	<b>(11,718)</b>	<b>(2,176,501)</b>
<b>Cash flows from investing activities:</b>			
Sales and maturities of investments	512,744	(31,980)	480,764
Purchases of investments	(534,367)	(360,558)	(894,925)
Interest on investments	33,429	138,420	171,849
<b>Net cash provided by (used in) investing activities</b>	<b>11,806</b>	<b>(254,118)</b>	<b>(242,312)</b>
<b>NET DECREASE IN RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>(7,741)</b>	<b>(307,898)</b>	<b>(315,638)</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>311,573</b>	<b>2,677,390</b>	<b>2,988,963</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 303,832</b>	<b>\$ 2,369,492</b>	<b>\$ 2,673,324</b>

See notes to combining financial statements.



**NEW YORK CITY WATER AND SEWER SYSTEM**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**

For the year ended June 30, 2024

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
<b>Reconciliation of operating income (loss) to net cash provided by (used in) Operating activities:</b>			
Operating income (loss)	\$ 1,187,748	\$ (41,358)	\$ 1,146,390
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	846	-	846
Depreciation	991,209	-	991,209
Other operating expenses			
paid for with bond proceeds	20,693	-	20,693
Pollution remediation expense	8,718	-	8,718
Changes in assets and liabilities:			
Pollution remediation liability	14,829	-	14,829
Receivables - net	(82,330)	-	(82,330)
Receivable from the City	707	-	707
Residual interest in sold liens	(5,575)	-	(5,575)
Accrued expenses payable	(6)	-	(6)
Accounts payable	(11,310)	(704)	(12,014)
Revenues received in advance	-	-	-
Refunds payable	19,708	-	19,708
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 2,145,237</b>	<b>\$ (42,062)</b>	<b>\$ 2,103,175</b>

The following are the noncash capital and related financing activities (in thousands):

Interest expense includes the amortization of net (premium) and discount in the amount of \$211,784 at June 30, 2024.

Capital expenditures in the amount of \$583,042 had been incurred but not paid at June 30, 2024.

The Water Board received federal, state, and other capital contributions of \$24,855 in fiscal year 2024.

## NEW YORK CITY WATER AND SEWER SYSTEM

## COMBINING STATEMENT OF CASH FLOWS

For the year ended June 30, 2023

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 4,055,246	\$ -	\$ 4,055,246
Payments for operations and maintenance	(1,723,858)	-	(1,723,858)
Payments for administration	(1,953)	(42,742)	(44,695)
<b>Net cash provided by (used in) operating activities</b>	<b>2,329,435</b>	<b>(42,742)</b>	<b>2,286,693</b>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	4,109,026	4,109,026
Receipts from capital grants awarded to the governmental enterprise	-	33,105	33,105
Receipts from contribution made by other organization	292	-	292
Acquisition and construction of capital assets	-	(1,696,198)	(1,696,198)
Payments by the Water Board to the Authority	(2,323,645)	2,323,645	-
Repayments of bonds, notes and other borrowings	-	(3,221,177)	(3,221,177)
Interest paid on bonds, notes and other borrowings	-	(1,207,510)	(1,207,510)
<b>Net cash provided by (used in) capital and related financial activities</b>	<b>(2,323,353)</b>	<b>340,891</b>	<b>(1,982,462)</b>
<b>Cash flows from investing activities:</b>			
Sales and maturities of investments	137,500	207,767	345,267
Purchases of investments	(20,913)	75,557	54,644
Interest on investments	27,900	62,801	90,701
<b>Net cash provided by investing activities</b>	<b>144,487</b>	<b>346,125</b>	<b>490,612</b>
<b>NET INCREASE IN RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>150,569</b>	<b>644,274</b>	<b>794,843</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>161,004</b>	<b>2,033,116</b>	<b>2,194,120</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 311,573</b>	<b>\$ 2,677,390</b>	<b>\$ 2,988,963</b>

See notes to combining financial statements.

**NEW YORK CITY WATER AND SEWER SYSTEM**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**

For the year ended June 30, 2023

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
<b>Reconciliation of operating income (loss) to net cash provided by (used in) Operating activities:</b>			
Operating income (loss)	\$ 1,302,109	\$ (42,931)	\$ 1,259,178
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	840	-	840
Depreciation	1,021,325	-	1,021,325
Other operating expenses			
paid for with bond proceeds	40,617	-	40,617
Pollution remediation expense	13,310	-	13,310
Changes in assets and liabilities:			
Pollution remediation liability	10,562	-	10,562
Receivables - net	(84,670)	-	(84,670)
Receivable from the City	23,473	-	23,473
Residual interest in sold liens	(114)	-	(114)
Accrued expenses payable	6	-	6
Accounts payable	7,925	189	8,114
Revenues received in advance	-	-	-
Refunds payable	(5,948)	-	(5,948)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 2,329,435</b>	<b>\$ (42,742)</b>	<b>\$ 2,286,693</b>

The following are the noncash capital and related financing activities (in thousands):

Interest expense includes the amortization of net (premium) and discount in the amount of \$197,890 at June 30, 2023.

Capital expenditures in the amount of \$542,710 had been incurred but not paid at June 30, 2023.

The Water Board received federal, state, and other capital contributions of \$19,765 in fiscal year 2023.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS

June 30, 2024 and 2023

**NOTE 1 - ORGANIZATION**

The New York City Water and Sewer System (the "System") provides water supply, treatment and distribution, and sewage collection, treatment, and disposal for the citizenry of The City of New York (the "City"). The System, as presented in the accompanying combining 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 "Water 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 (the "State"), as amended by Chapter 514 of the laws of 1984 of the State of New York. The Water Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act also empowers the Authority to issue debt to finance the cost of capital improvements to the System and to refund any and all outstanding bonds and general obligation bonds that The City issued for water and sewer purposes. The Act empowers the Water Board to lease the System from The City and to set and collect water rates, fees, rents and other charges for use of, or for services furnished, rendered, or made available by, the System to generate enough revenue to pay debt service on the Authority's debt and to place the System on a self-sustaining basis.

The Financing Agreement by and among The City of New York, the New York City Municipal Water Finance Authority and the New York City Water Board dated as of July 1, 1985 provides that the Authority will issue bonds to finance the cost of capital investment and related costs of the System. It also sets forth the funding priority for debt service costs of the Authority, operating costs of the System, and the rental payment to The City, if requested.

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Component Unit***

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

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

***Investments and Cash Equivalents***

Investments and cash equivalents primarily consist of securities of the United States and its agencies, guaranteed investment contracts, forward purchase agreements, and the State of New York obligations. All investments are carried at fair value with the exception of money market funds that are carried at cost plus accrued interest. For purposes of the combining statement of cash flows and combining statement of net position (deficit), the System generally considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

***Restricted Assets***

Proceeds from the issuance of debt and monies set aside for debt service and operation and maintenance of the System are classified as restricted cash and cash equivalents and restricted investments in the combining statements of net position (deficit). These restrictions are based on the requirements of the applicable bond resolutions.

***Lien Sales and Residual Interest in Sold Liens***

The City periodically sells tax liens secured by water and sewer rents and surcharges, for which the Water Board receives the applicable sale proceeds. At the time of sale, the Water Board recognizes the proceeds as operating revenue and removes the related receivables. The Water Board maintains a residual interest in the liens, which represents the amount estimated to be received by the Water Board if and when liens held by the purchasing trusts generate cash flows above the amounts needed by the trusts to pay their operating costs, bondholders, and satisfy reserve requirements. As of June 30, 2024 and 2023, the Water Board had a receivable from the Tax Lien Trust of \$69.1 million and \$63.5 million, respectively.

***Bond Premium and Discount and Bond Issuance Cost***

Bond premiums and discounts are capitalized and amortized over the life of the related bond issue, using the effective yield method. Bond premiums and discounts are presented as additions or reductions to the face amount of the long-term bonds payable on the combining statement of net position (deficit). The amortized bond premiums and discounts are an off set to interest expense on the combining statement of revenues, expenses and changes in net position (deficit). Bond issuance costs are recognized and expensed in the period incurred, except for bond insurance premiums that are amortized over the life of the related bonds.

***Utility Plant***

Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Water Board's policy to capitalize assets with a cost of \$50,000 or more and a useful life of three 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 accumulated depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

Assets	Years
Buildings	40-50
Water supply and wastewater treatment systems	15-50
Water distribution and sewage collection systems	15-99
Machinery and equipment	3-35
Vehicles	10

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Maintenance and repairs of property are recorded as maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for certain improvements of assets that are not owned by The City or the System, as well as certain pollution remediation activities, through bond proceeds. These costs are reported as other operating expenses in the System's combining statement of revenues, expenses and changes in net position (deficit).

***Contributed Capital***

The System received federal, state and other capital contributions of \$25.1 million and \$19.8 million in fiscal years 2024 and 2023, respectively. These amounts are reported in the System's combining statements of revenues, expenses and changes in net position (deficit) as "Capital contributions" below net income (loss) before capital contributions. In addition, the System received \$292 thousand in both fiscal years 2024 and 2023, from Westchester County (the "County") to compensate the System for constructing a water conduit that provides treated water to the County. The County payments are reported as capital contributions in the System's combining statements of revenues, expenses and changes in net position (deficit) below net income (loss) before capital contributions and as receipts from contribution made by other organization in the System's combining statements of cash flows.

***Operating Revenues and Operating Expenses***

Operating revenues consist of services provided to customers of the System. Revenues are reported net of allowances, discounts and refunds and are based on billing rates imposed by the Water Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records unbilled revenue at year end based on meter readings collected as of June 30.

Operating expenses include, but are not limited to, costs incurred for maintenance, repair, and operations of the System; administration costs of the Water Board and the Authority; and rental payments to The City, if requested. In fiscal years 2023 no rental payment was requested by The City. In fiscal year 2024, The City requested and the System paid \$145 million.

***Revenues Received in Advance***

Revenues received in advance of the period to which they relate are unearned and recorded as revenue when earned. Customer account credit balances are reported as a current liability "service credits on customer accounts" and are not included in accounts receivable.

***Unamortized Deferred Bond Refunding Costs***

Deferred bond refunding costs represent the accounting gains or losses incurred in bond refundings. They are reported as "unamortized deferred bond refunding costs in "Deferred Inflows of Resources" and are amortized over the lesser of the remaining life of the old debt or the life of the new debt. The amortized deferred bond refunding cost is an off set to interest expense on the combining statement of revenues, expenses and changes in net position (deficit).

***Use of Estimates***

The preparation of the combining 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, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent liabilities at the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Pensions**

Net pension liabilities are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for New York City Employee Retirement System ("NYCERS") Qualified Pension Plan (Pension Plan") in which it participates, which represents the Authority's proportional share of excess total pension liability over the Pension Plan assets, actuarially calculated, of a cost-sharing multiple-employer plan, measured as of the fiscal year end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources are amortized over the weighted-average remaining service life of all participants in the qualified Pension Plan and recorded as a component of pension expense beginning with the period in which they are incurred. The change in the Authority's proportion of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to the pension since the prior measurement date is recognized in the current reporting period over a closed period that is equal to the average of the expected remaining service lives of all employees provided with a pension through the Pension Plan.

For the contribution to the Pension Plan, the difference during the measurement period between the total amount of the Authority's contribution and the amount of the Authority's proportionate share of the total of such contributions from all employers and all nonemployee contributing entities is recognized in the Authority's pension expense, beginning in the current reporting period, over a closed period that is equal to the average of the expected remaining service lives of all employees provided with pension through the Pension Plan. The amount not recognized in pension expense is reported as deferred outflow of resources or deferred inflow of resources related to the pension.

Projected earnings on qualified Pension Plan investments are recognized as a component (reduction) of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Changes in total pension liability arising from changes of benefit terms are required to be included in pension expense in the period the change is first reported in the net pension liability. The changes in the total pension liability resulting from (1) differences between expected and actual experience with regard to economic and demographic factors and (2) changes of assumptions regarding the expected future behavior of economic and demographic factors or other inputs are recognized as deferred outflows of resources or deferred inflows of resources related to the pension and included in the pension expense over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the Pension Plan.

**Recent Accounting Pronouncements**

As a component unit of The City, the System implements new GASB standards in the same fiscal year as they are implemented by The City. The following are discussions of the standards requiring implementation in the current year and standards that may impact the System in future years.

- In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections-An Amendment to GASB Statement No. 62*, ("GASB 100"). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements for GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

thereafter. Early application is encouraged. The adoption of GASB 100 did not have an immediate impact on the System's combining financial statements as there were no accounting changes or error corrections in the current fiscal year.

- In June 2022, GASB issued Statement No. 101, *Compensated Absences* ("GASB 101"). GASB 101 updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements for GASB 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Early application is encouraged. The System has not completed the process of evaluating GASB 101.
- In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures* ("GASB 102"). GASB 102 improves financial reporting by requiring disclosures of certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements for GASB 102 are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged. The System has not completed the process of evaluating GASB 102.
- In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements* ("GASB 103"). The requirements for GASB 103 are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. The System has not completed the process of evaluating GASB 103 but expects it to have an impact on the presentation of the System's combining financial statements.

## NOTE 3 - UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2024 and 2023, respectively (in thousands):

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024
Nondepreciable assets:							
Utility construction in progress	\$ 621,271,077	\$ 1,519,724	\$ 909,061	\$ 6,881,740	\$ 1,567,196	\$ 1,294,834	\$ 7,154,102
Depreciable assets:							
Utility plant in service:							
Buildings	35,821	-	-	35,821	-	-	35,821
Machinery and equipment	5,549,134	82,271	956	5,630,449	121,370	1,599	5,750,220
Vehicles	287,885	1,889	12,118	277,656	9,282	112	286,826
Water supply and distribution and wastewater treatment and sewage collection systems	39,595,255	824,901	3,409	40,416,747	1,164,183	29,263	41,551,667
Total utility plant in service	45,468,095	909,061	16,483	46,360,673	1,294,835	30,974	47,624,534
Less accumulated depreciation for:							
Buildings	30,900	284	-	31,184	283	-	31,467
Machinery and equipment	3,156,160	249,354	888	3,404,626	255,002	1,577	3,658,051
Vehicles	146,485	11,434	11,293	146,626	11,144	101	157,669
Water supply and distribution and wastewater treatment and sewage collection systems	15,346,878	760,253	2,736	16,104,395	724,780	21,027	16,808,148
Total accumulated depreciation	18,680,423	1,021,325	14,917	19,686,831	991,209	22,705	20,655,335
Total utility plant in service - net	26,787,672	(112,264)	1,566	26,673,842	303,626	8,269	29,969,199
Total capital assets - net	\$ 33,058,749	\$ 1,407,460	\$ 910,627	\$ 35,555,582	\$ 1,870,822	\$ 1,303,103	\$ 34,123,301



## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**NOTE 4 - DEPOSITS AND INVESTMENTS*****Cash and Cash Equivalents***

The System maintains deposits only at the depository banks designated by the New York City Banking Commission. Further, as required by the Water and Sewer System General Revenue Bond Resolution and the Water and Sewer System Second General Revenue Bond Resolution (the “resolutions”), every bank that holds the Authority’s cash deposits is required to have its principal office in the State of New York and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. As of June 30, 2024 and 2023, cash was comprised of bank deposits and there was no difference between the carrying amounts and bank balances.

Restricted cash and cash equivalents were comprised of the following at June 30, 2024 and 2023, respectively (in thousands):

	2024	2023
Restricted cash and cash equivalents:		
Cash	\$ 14,132	\$ 12,492
Cash equivalents	2,659,192	2,976,471
Total restricted cash and cash equivalents	\$ 2,673,324	\$ 2,988,963

***Custodial Credit Risk***

Custodial credit risk is the risk that, in the event of the failure of the custodian, the System may not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the System’s name. As of both June 30, 2024 and 2023, the System had \$14.1 million of deposits. \$500,000 was covered by federal depository insurance and the remaining balances were collateralized with securities held by the trustee’s trust department in the trustee’s name.

***Investments***

The System invests funds that are not immediately required for operations, debt service, or capital expenses. Funds held by the Authority are invested pursuant to the Authority’s bond resolutions and in accordance with its investment guidelines, which restrict investments to obligations of, or guaranteed by, the United States of America, to certain highly rated obligations of the State of New York, to certain certificates of deposit and similar instruments issued by highly rated commercial banks, to certain highly rated corporate securities or commercial paper securities, to certain repurchase agreements with highly rated institutions, to certain investment agreements with highly rated institutions, to certain highly rated money market funds, and to certain highly rated municipal obligations. All accounts held by the Water Board are invested in accordance with the Water Board’s investment guidelines, which restrict investments to obligations of, or guaranteed by, the United States of America and to certain repurchase agreements with highly rated institutions.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

The System had the following restricted investments at June 30, 2024 and 2023 (in thousands):

	2024			2023		
	Water Board	Municipal Water Finance Authority	Total	Water Board	Municipal Water Finance Authority	Total
<b>Restricted investments</b>						
U.S. Agencies securities	\$ -	\$ -	\$ -	\$ -	\$ 167,474	\$ 167,474
U.S. Treasury securities	170,805	1,010,886	1,181,691	168,375	781,357	949,732
New York State instrumentalities	-	17,265	17,265	-	20,441	20,441
Money market funds	162,750	1,734,062	1,896,812	153,861	1,705,804	1,859,665
Forward purchase agreements	-	3,626	3,626	-	6,747	6,747
Total investments including cash equivalents	333,555	2,765,839	3,099,394	322,236	2,681,823	3,004,059
Less amounts reported as cash equivalents	(289,704)	(2,369,488)	(2,659,192)	(299,245)	(2,677,225)	(2,976,470)
Total restricted investments	<u>\$ 43,851</u>	<u>\$ 396,351</u>	<u>\$ 440,202</u>	<u>\$ 22,991</u>	<u>\$ 4,598</u>	<u>\$ 27,589</u>

**Fair Value Hierarchy**

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The System has the following recurring fair value measurements as of June 30, 2024 and 2023:

- U.S. Agencies securities of \$0 and \$167 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- U.S. Treasury securities of \$1.81 billion and \$950 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- New York State instrumentalities of \$17.3 million and \$20.4 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- Money Market Funds of \$1.90 billion and \$1.86 billion, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- Forward Purchase Agreements of \$3.6 million and \$6.7 million, respectively, are valued using the market approach, with observable inputs and using a matrix pricing technique (Level 2 inputs).
- Interest Rate Derivatives of \$0 and \$(36.7) million, respectively, are valued using the income approach (Level 2 inputs).

**Credit Risk**

Both the Water Board and the Authority have Board of Directors approved investment guidelines and policies in place designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. Investments held by the System at June 30, 2024 and 2023 may include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Agriculture Mortgage Corporation, and the Federal Farm Credit

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Bank. Also, held by the Authority, are direct obligations of agencies or public authorities of the State of New York, which at the time of purchase were rated in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and a guaranteed investment contract with financial institutions whose long-term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long-term debt obligations were rated in one of the two highest rating categories for comparable types of obligations by each rating agency at the time such agreement or contract was entered into.

**Interest Rate Risk**

Changes in interest rates impact fair value of investments. Investments by the System are not expected to be liquidated prior to maturity and investment agreements are not expected to be terminated prior to their expiration dates, thereby limiting cash flow exposure from rising interest rates.

Segmented time distribution on investments and cash equivalents as of June 30, 2024 (in thousands):

<u>Maturity Date</u>	<u>Fair Value Amount</u>
Under 6 months	\$ 3,076,618
Over 6 months to 1 year	8,582
Over 1 year to 3 years	2,586
Over 3 years and beyond	7,982
Over 3 years and beyond (Forward Purchase Agreement adj.) <sup>1</sup>	<u>3,626</u>
Total	<u>\$ 3,099,394</u>

<sup>1</sup>Includes the fair value of \$3.6 million related to Forward Purchase Agreements

Segmented time distribution on investments and cash equivalents as of June 30, 2023 (in thousands):

<u>Maturity Date</u>	<u>Fair Value Amount</u>
Under 6 months	\$ 2,932,270
Over 6 months to 1 year	47,024
Over 1 year to 3 years	9,114
Over 3 years and beyond	8,904
Over 3 years and beyond (Forward Purchase Agreement adj.) <sup>1</sup>	<u>6,747</u>
Total	<u>\$ 3,004,059</u>

<sup>1</sup>Includes the fair value of \$6.7 million related to Forward Purchase Agreements

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy limits the amount the System may invest in any particular issuer. As of June 30, 2024, the System had 38% of its restricted investments invested in Federally Guaranteed Securities 1% in Municipal Bonds, and 61% in First American Government Obligation Money Market Fund.

**Custodial Credit Risk**

With respect to investments, custodial credit risk is the risk that, in the event of the failure of the custodian, the System may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of their government, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the government. None of the investments were registered in the System's name. The types and amounts of investments are listed in the table on page 34.

**NOTE 5 - DERIVATIVE INSTRUMENTS**

On April 23, 2024, the Authority terminated its two remaining derivatives. The Authority paid a combined \$19.3 million to terminate the \$401 million in outstanding fixed payor swaps. Prior to termination, the Authority was paying 3.439% and receiving 67% of SOFR plus 7.67 basis points. Terminating these swaps eliminated risk from and enabled the Authority to refund the underlying bonds for savings.

As of June 30, 2024, the Authority had no outstanding derivatives.

As of June 30, 2023, the Authority had the following (in thousands):

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value	Counterparty Credit Rating (Moody's/S&P/Fitch)
Hedging derivatives						
Synthetic fixed rate	\$ 240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	\$ (22,025)	Aa2/AA-/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(14,680)	Aa1/A+/AA
Totals	<u>\$ 401,000</u>				<u>\$ (36,705)</u>	

LIBOR: London Interbank Offered Rate Index

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

***Hedging Derivative Instruments***

Effective October 24, 2007, the Authority executed two interest rate exchange agreements, in conjunction with its sale of \$401 million of Adjustable Rate Fiscal 2008 Series BB Second Resolution Bonds. Under these agreements, the Authority paid fixed interest rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR on the combined notional amount of \$401 million. The agreements are with two separate counterparties: one agreement with Goldman Sachs Mitsui Marine Derivative Products in the amount of \$241 million and the second agreement with Bank of America in the amount of \$160 million. These agreements allowed the Authority to achieve a fixed rate cost lower than the cost of conventional fixed rate debt at the time of issuance. The Authority's obligations under these interest rate exchange agreements are payable on a parity with the related Second Resolution revenue bonds.

***LIBOR Discontinuation***

On March 5, 2021, IBA and the Financial Conduct Authorities announced a LIBOR cessation date for most USD LIBOR tenors, including 1-month LIBOR, as of June 30, 2023.

The Authority has amended its interest rate agreements by adhering to the Fallback Protocol published by the International Swaps and Derivatives Association on October 23, 2020, which provides a mechanism to incorporate the fallback rate equivalent to the sum of the Secured Overnight Financing Rate ("SOFR") and a spread adjustment of 11.448 basis points. As a result, when terminated, the derivatives had a floating rate of 67% of SOFR plus 7.67 basis points (67% of the fallback rate of SOFR plus 67% of 11.448 basis points), effective July 1, 2023.

***Financial Statements Effect***

The fair value of hedging derivatives at June 30, 2024 and 2023 was \$0 and \$(36.7) million, respectively. The Authority does not currently have investment derivatives.

**NOTE 6 - AGREEMENT**

The Water Board is a party to an Agreement of Lease (the "Agreement") with The City, which transfers the water and sewer related property to the Water Board for the term of the Agreement. The Agreement term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the Agreement or the date on which all bonds, notes or other obligations of the Authority are paid in full or provision for such payment has been made pursuant to the applicable debt instrument. The Agreement 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 Agreement property, which includes overhead costs incurred by The City that are attributable to the Agreement property, net of the amount of any federal, the State, or other operating grants received by The City; and
- b. An amount sufficient to reimburse The City for capital costs incurred by The City for the construction of capital improvements to the Agreement property that are not paid or reimbursed from any other source.

In addition to the payments described above, the Water Board pays rent to The City, if requested, 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. In fiscal year 2023, no rental payment was requested by The City. In fiscal year 2024, The City requested and the System paid \$145 million.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

A summary of operations and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	2024	2023
Water supply, treatment, transmission and distribution	\$ 626,951	\$ 589,560
Sewer collection and treatment systems	810,179	763,091
The City agency support cost	69,979	68,618
Fringe benefits	317,274	277,243
Judgments and claims	11,970	13,306
Reversal of prior year payables	(28,527)	(1,811)
	<u>1,807,826</u>	<u>1,710,007</u>
Operation and maintenance	1,807,826	1,710,007
Rental payments to The City	<u>145,000</u>	<u>-</u>
Total operations and maintenance expenses	<u>\$ 1,952,826</u>	<u>\$ 1,710,007</u>

**NOTE 7 - PAYABLE TO AND RECEIVABLE FROM THE CITY**

As of June 30, 2024 and 2023, all utility construction and other projects financed by the Authority debt and recorded by the System, which have not been reimbursed to The City, are recorded as a payable to The City. The Authority had a payable to The City of \$583 million and \$543 million as of June 30, 2024 and 2023, respectively, net of the amount of state or federal and other capital grants recognized by The City.

As of June 30, 2024 and 2023, the Water Board had a receivable from The City of \$74.0 million and \$74.8 million, respectively. The receivable from The City is a result of the difference between budget estimates and actual expenses for operations and maintenance.

**NOTE 8 - OTHER OPERATING EXPENSES**

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

	2024	2023
Pollution remediation	\$ 23,547	\$ 23,872
Payments for watershed improvements	20,692	38,553
Program expense	<u>81,089</u>	<u>102,039</u>
Total other operating expenses	<u>\$ 125,328</u>	<u>\$ 164,464</u>

The City's DEP manages both the System's operations and its capital program, and it also manages other projects with long-term benefits to the System, which do not result in capital assets of the System and that are paid for using the Authority's bond proceeds. Such long-term benefit projects include payment for environmental protection, related improvement in the watershed areas, and pollution remediation projects throughout the System. The System has estimated these amounts based on the current value of outlays expected to be incurred for pollution remediation, which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from the estimates.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

In fiscal years 2024 and 2023, the System incurred program expenses of \$81.1 million and \$102 million, respectively.

The System offers its residential customers the option to enroll into a protection program on their water and sewer lines against any breakage for a monthly fee. The fee is included in the participating customer utility bill. This protection program is offered by American Water Resources.

The System also operates two core assistance programs available to eligible customers, the Home Water Assistance Program and the Multi-Family Water Assistance Program. Both programs were offered to customers in fiscal year 2023 and fiscal year 2024. In addition, from time to time the Board also offers one-time customer programs. During fiscal year 2023, the Board made a Water Bill Amnesty Program available to eligible customers, as well as programs benefiting certain affordable multi-family residential properties and accounts participating in the New York State Low Income Household Water Assistance Program.

**NOTE 9 - LONG-TERM LIABILITIES*****Debt Program Description***

The Authority issues debt to finance the capital needs of the System. The Authority's debt is issued under two bond resolutions, the Water and Sewer System General Revenue Bond Resolution (the "First Resolution") and the Water and Sewer System Second General Revenue Bond Resolution ("the Second Resolution", each a "Resolution"). Bonds and notes issued by the Authority are special obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenues of the System, subject to the priorities set forth in each Resolution, and from money and securities in any of the funds and accounts defined and established under each Resolution, other than the arbitrage rebate fund, subject to the priorities set forth in each Resolution. The Water Board is obligated to set rates and collect revenues sufficient to fund principal and interest requirements, as well as to meet certain debt service coverage and operating cost funding requirements. Each Resolution specifies certain events of default, such as failure to pay debt service, the Authority's filing or otherwise seeking relief in bankruptcy court, failure to comply with the certain provisions of each respective Resolution and certain other governing documents, that under certain conditions could, upon the written request of the holders of not less than a majority in principal amount of the bonds outstanding under each Resolution, result in acceleration of debt service payments.

The debt program of the Authority includes commercial paper notes and long-term debt, as well as bond anticipation notes ("BANs") and interest-subsidized bonds issued to the New York State Environmental Facilities Corporation ("EFC"). While historically, proceeds of commercial paper notes were the main source of funds to reimburse The City for payments made for water and sewer capital projects, in fiscal years 2024 and 2023, the Authority exclusively relied on proceeds from BANs and long-term bond issuances to reimburse The City for the System's capital expenditures. The Authority issues long-term debt to retire commercial paper notes and BANs. The Authority also periodically issues refunding bonds to refinance higher-coupon debt and defeases bonds using current revenues.

The Authority is currently authorized to have outstanding up to \$600 million of commercial paper notes. As of June 30, 2024 and 2023, none were outstanding. As of June 30, 2024 and 2023, there was \$11.0 million and \$180 million of BANs outstanding, respectively. As of June 30, 2024 and 2023, the BANs principal balance of \$172 million and \$354 million, respectively, was available for future draw down.



## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Changes in Long-Term Liabilities**

In fiscal years 2024 and 2023, the long-term debt was as follows (in thousands):

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024	Due Within One Year
<u>Bonds/BANs payable</u>					
First resolution bonds	\$ 455,741	\$ -	\$ (50,000)	\$ 405,741	\$ -
Second resolution bonds issued to the public	25,059,953	2,845,060	(2,068,360)	25,836,653	231,305
Second resolution bonds issued to EFC	6,057,044	759,946	(845,307)	5,971,683	292,364
Second resolution notes issued to EFC	179,857	331,423	(500,331)	10,949	10,948
Second resolution bonds-direct placement	500,000	-	(150,000)	350,000	-
Total before premium and discounts	32,252,595	3,936,429	(3,613,998)	32,575,026	534,617
Premium (discounts) - net	2,614,187	-	-	2,724,741	-
Total debt	<u>\$ 34,866,782</u>	<u>\$ 3,936,429</u>	<u>\$ (3,613,998)</u>	<u>\$ 35,299,767</u>	<u>\$ 534,617</u>
	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023	Due Within One Year
<u>Bonds/BANs payable</u>					
First resolution bonds	\$ 789,871	\$ -	\$ (334,130)	\$ 455,741	\$ -
Second resolution bonds issued to the public	24,285,718	2,443,395	(1,669,160)	25,059,953	250,515
Second resolution bonds issued to EFC	5,865,444	874,516	(682,916)	6,057,044	295,030
Second resolution notes issued to EFC	101,126	613,298	(534,567)	179,857	179,857
Second resolution bonds-direct placement	500,000	-	-	500,000	-
Total before premium and discounts	31,542,159	3,931,209	(3,220,773)	32,252,595	725,401
Premium (discounts) - net	2,716,719	196,609	(299,140)	2,614,187	-
Total debt	<u>\$ 34,258,878</u>	<u>\$ 4,127,818</u>	<u>\$ (3,519,913)</u>	<u>\$ 34,866,782</u>	<u>\$ 725,401</u>

**Debt Program Administration**

In fiscal year 2024, the Authority issued \$2.85 billion of new money bonds to the public. The Authority used new money bond proceeds to finance capital improvements to the System and to pay for bond issuance costs. In addition, in fiscal year 2024, the Authority drew down \$331 million of BANs proceeds and applied them to finance capital improvements to the System.

During fiscal year 2024, as further detailed in the bullets below, the Authority issued \$2.06 billion of bonds to refund \$2.35 billion of outstanding bonds. These refunding transactions resulted in a cumulative accounting gain of \$117 million. The Authority reduced its aggregate debt service for principal and interest by \$198 million and obtained an economic benefit (present value savings) of \$224 million.

The following details the Authority's refunding activity in fiscal year 2024:

On October 5, 2023, NYW issued \$693 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2024 Series AA. \$504 million of proceeds from the sale funded capital projects of the System. The bonds refunded the following Second Resolution fixed rate bonds: \$75.0 million of Fiscal 2020 Subseries BB-2, \$70.0 million of Fiscal 2019 Subseries DD-2, and \$32.9 million of Fiscal 2018 Subseries CC-2. In addition,



## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

the bonds also refunded the following First Resolution variable rate bonds: \$50.0 million of Fiscal 2003 Subseries F-1B. The bonds have a final maturity of 2053.

On February 15, 2024, NYW issued \$42.6 million of fixed rate Second Resolution bonds, Fiscal 2024 Series 1 to the New York State Environmental Facilities Corporation (“EFC”). Proceeds of the bonds were used to pay off \$42.6 million of Fiscal 2022 Series 8-C Bond Anticipation Notes. The bonds have a final maturity of 2053.

On March 19, 2024, NYW issued \$1.4 billion of tax-exempt fixed rate Second Resolution bonds, Fiscal 2024 Series BB. \$225 million of proceeds from the sale funded capital projects of the System. The bonds also refunded the following Second Resolution fixed rate bonds: \$232 million of Fiscal 2014 Subseries CC-1, \$373 million of Fiscal 2014 Series DD, \$50 million of Fiscal 2015 Series AA, \$300 million of Fiscal 2015 Series DD, and \$382 million of Fiscal 2015 Series EE. The Bonds have a final maturity of 2054.

On April 2, 2024, NYW issued \$717 million of fixed rate Second Resolution bonds, Fiscal 2024 Series 3 to EFC. Proceeds of the bonds were used to refund \$149 million of Fiscal 2010 Series 4 and \$187 million of Fiscal 2014 Series 4. In addition, proceeds of the bonds were used to refinance \$274 million of Fiscal 2022 Series 8-C BAN and \$183 million of Fiscal 2024 Series 2 BAN with \$12 million of new money to be provided in future BAN draws. The bonds have a final maturity of 2053.

On April 23, 2024, NYW issued \$789 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2024 Series CC. \$426 million of proceeds from the sale funded capital projects of the System. The bonds refunded \$401 million of Second Resolution variable rate Fiscal 2008 Series BB, and the following Second Resolution fixed rate bonds: \$8.8 million of Fiscal 2013 Series DD and \$43.3 million of Fiscal 2014 Series BB. The bonds have a final maturity of 2054. Concurrent with this transaction, the Authority used \$19.3 million to terminate its existing \$401 million in swaps associated with the 2008 Series BB bonds.

On June 13, 2024, NYW applied \$203 million to defease \$213 million in bonds from Fiscal 2017 Series 4, Fiscal 2017 Series 5, Fiscal 2018 Series 2, Fiscal 2019 Series 3, Fiscal 2020 Series 3, Fiscal 2020 Series 4, Fiscal 2020 Series 6, Fiscal 2020 Series 7, Fiscal 2021 Series 3, Fiscal 2022 Series 4, Fiscal 2022 Series 7, Fiscal 2023 Series 2, Fiscal 2023 Series 5, Fiscal 2023 Series 6, and Fiscal 2024 Series 1. The escrow for this in-substance defeasance will mature on June 15, 2028.

To provide new money funding, over the course of the fiscal year, NYW drew \$331 million on BANs issued to EFC. From time to time the Authority defeases some of its bonds by placing proceeds of refunding bonds or current revenue in irrevocable escrow accounts to provide for all future debt service payments on the defeased bonds. The escrow account assets and the liability for the defeased bonds are not included in the System’s combining financial statements. As of June 30, 2024 and 2023, \$256 million and \$222 million, of the Authority’s defeased bonds, respectively, were still outstanding.

**Index Rate Bonds**

As of June 30, 2024 and 2023, the Authority had outstanding \$350 million and \$500 million of index rate bonds respectively, which were purchased by banks through direct placement. The index rate bonds are adjustable rate bonds that pay interest based on a specified market index. The terms of the index rate bonds provide for a 9% rate of interest, commencing on an identified step-up date, if such bonds are not converted or refunded prior to such date. Interest rates on the Authority’s index rate bonds cannot exceed 9%. In fiscal years 2024 and 2023, interest rates on the Authority’s index rate bonds averaged 4.12% and 3.18%, respectively.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Adjustable Rate Demand Bonds**

As of June 30, 2024 and 2023, the Authority had \$3.9 billion and \$4.2 billion of adjustable rate demand bonds ("VRDBs") outstanding, respectively. VRDBs may be tendered at the option of their holders prior to their maturity. VRDBs are remarketed by remarketing agents on a daily or weekly basis. Interest rates determined by such remarketing agents for such periods represent the lowest rate of interest that would cause the VRDBs to have a market value equal to par. VRDBs interest rates cannot exceed 9%. In fiscal years 2024 and 2023, interest rates on the Authority's variable rate demand bonds averaged 3.36% and 2.29%, respectively.

The VRDBs are backed by either a Standby Bond Purchase Agreement ("SBPA") or a Letter of Credit ("LOC"), providing for the purchase of the VRDBs by a bank in the event they cannot be remarketed. In such case, the interest rate on the VRDBs would typically increase and would be determined by reference to specified index rates plus a spread (in some cases, with a minimum rate), up to a maximum rate of 25%. No VRDBs were held by such banks during the fiscal years ended June 30, 2024 and 2023. SBPAs and LOCs may be terminated by the respective banks upon the occurrence of specified events of default. None of the SBPAs or LOCs supporting adjustable rate demand bonds provides for acceleration. However, in connection with such LOCs, the Authority has agreed that, following a specified period of time in which the LOC bank holds unremarketed VRDBs, the Authority will exchange such VRDBs for refunding bonds maturing within five years and providing for amortization during such period.

The Authority had the following adjustable variable rate demand bonds outstanding as of June 30, 2024:

Series	Outstanding Principal Amount	SBPA or LOC Provider	Expiration or Optional Termination by Provider
2013 AA-1	\$ 50,000,000	PNC Bank, N.A.	10/2/24
2003 F-2	101,655,000	Citibank, N.A.	10/25/24
2016 AA-2	100,000,000	PNC Bank, N.A.	10/25/24
2000-C	107,500,000	Sumitomo Mitsui Banking Corporation	5/2/25
2015 BB-2	100,000,000	Mizuho Bank, Ltd	6/13/25
2015 BB-1	100,000,000	Bank of America, N.A.	7/9/25
2014 AA-5	100,435,000	Mizuho Bank, Ltd	8/19/25
2014 AA-6	100,435,000	Mizuho Bank, Ltd	8/19/25
2023 BB-1	100,000,000	Mizuho Bank, Ltd	12/15/25
2023 BB-2	100,000,000	Mizuho Bank, Ltd	12/15/25
2021 EE-2	225,500,000	State Street Bank and Trust Company	3/6/26
2009 BB-1	100,435,000	UBS AG, Stamford Branch	5/4/26
2009 BB-2	100,435,000	UBS AG, Stamford Branch	5/4/26
2011 FF-2	100,000,000	JPMorgan Chase Bank, N.A.	5/27/26
2015 BB-4	100,000,000	Barclays Bank PLC	6/17/26
2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	9/14/26
2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	9/14/26
2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	9/17/26
2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	9/17/26
2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/5/26
2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/5/26
2016 AA-1	100,000,000	Bank of America, N.A.	10/27/26
2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/26
2007 CC-2	50,000,000	State Street Bank and Trust Company	1/20/27
2014 AA-4	100,000,000	State Street Bank and Trust Company	1/20/27
2017 BB-2	50,000,000	State Street Bank and Trust Company	1/20/27
2011 FF-1	100,000,000	Bank of America, N.A.	3/15/27
2019 BB	100,000,000	TD Bank, N.A.	4/27/27

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Series	Outstanding Principal Amount	SBPA or LOC Provider	Expiration or Optional Termination by Provider
2011 DD-3A	50,000,000	US Bank, N.A.	9/30/27
2011 DD-3B	50,000,000	State Street Bank and Trust Company	9/30/27
2010 CC	200,000,000	State Street Bank and Trust Company	1/19/28
2023 CC	200,000,000	Barclays Bank PLC	2/16/28
2013 AA-2	150,000,000	Barclays Bank PLC	3/2/28
2011 DD-1	100,000,000	TD Bank, N.A.	4/21/28
2014 AA-3	100,000,000	TD Bank, N.A.	4/21/28
2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	7/7/28
2021 EE-1	100,000,000	US Bank, N.A.	8/21/28
	<u>\$ 3,861,395,000</u>		

The Authority had the following adjustable variable rate demand bonds outstanding as of June 30, 2023:

Series	Outstanding Principal Amount	SBPA or LOC Provider	Expiration or Optional Termination by Provider
2000-C	\$ 107,500,000	Sumitomo Mitsui Banking Corporation	5/2/25
2003 F-1-B	50,000,000	US Bank, N.A.	2/27/24
2003 F-2	101,655,000	Citibank, N.A.	10/25/24
2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	9/14/26
2007 CC-2	50,000,000	State Street Bank and Trust Company	1/20/27
2008 BB-1	100,000,000	TD Bank, N.A.	3/2/28
2008 BB-2	101,000,000	Bank of America, N.A.	10/20/23
2008 BB-5	50,000,000	Bank of America, N.A.	10/20/23
2009 BB-1	100,435,000	UBS AG	5/4/26
2009 BB-2	100,435,000	UBS AG	5/4/26
2010 CC	200,000,000	State Street Bank and Trust Company	1/19/28
2011 DD-1	100,000,000	TD Bank, N.A.	4/21/28
2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/26
2011 DD-3A	50,000,000	US Bank, N.A.	9/30/27
2011 DD-3B	50,000,000	State Street Bank and Trust Company	9/30/27
2011 FF-1	100,000,000	Bank of America, N.A.	3/15/24
2011 FF-2	100,000,000	JPMorgan Chase Bank, N.A.	5/27/26
2013 AA-1	50,000,000	PNC Bank, NA	10/2/24
2013 AA-2	150,000,000	Barclays Bank PLC	3/2/28
2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	9/17/26
2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	9/17/26
2014 AA-3	100,000,000	TD Bank, N.A.	4/21/28
2014 AA-4	100,000,000	State Street Bank and Trust Company	1/20/27
2014 AA-5	100,435,000	Mizuho Bank, Ltd.	8/19/25
2014 AA-6	100,435,000	Mizuho Bank, Ltd.	8/19/25
2015 BB-1	100,000,000	Bank of America, N.A.	7/9/25
2015 BB-2	100,000,000	Mizuho Bank, Ltd.	6/13/25
2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	7/7/28
2015 BB-4	100,000,000	Barclays Bank PLC	6/17/26
2016 AA-1	100,000,000	Bank of America, N.A.	10/27/23
2016 AA-2	100,000,000	PNC Bank, NA	10/25/24
2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/5/26
2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/5/26

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Series	Outstanding Principal Amount	SBPA or LOC Provider	Expiration or Optional Termination by Provider
2017 BB-2	50,000,000	State Street Bank and Trust Company	1/20/27
2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	9/14/26
2019 BB	100,000,000	TD Bank, N.A.	4/27/27
2021 EE-1	100,000,000	US Bank, N.A.	3/6/24
2021 EE-2	225,500,000	State Street Bank and Trust Company	3/6/26
2023 BB-1	100,000,000	Mizuho Bank, Ltd.	12/15/25
2023 BB-2	100,000,000	Mizuho Bank, Ltd.	12/15/25
2023 CC	200,000,000	Barclays Bank PLC	2/16/28
	<u>\$ 4,162,395,000</u>		

**Adjustable Rate Remarketed Securities<sup>SM</sup>**

As of both June 30, 2024 and 2023, the Authority had outstanding \$100 million of Adjustable Rate Remarketed Securities<sup>SM</sup>. The Authority's Adjustable Rate Remarketed Securities<sup>SM</sup> are adjustable rate bonds not supported by a credit or liquidity facility. Upon any failure to remarket tendered Adjustable Rate Remarketed Securities<sup>SM</sup>, such Adjustable Rate Remarketed Securities<sup>SM</sup>, if not purchased by the Authority, will continue to be held by the tendering holders, and all of the Adjustable Rate Remarketed Securities<sup>SM</sup> of the applicable series will bear interest at an increased rate of interest of 12%. In fiscal years 2024 and 2023, interest rates on the Authority's Adjustable Rate Remarketed Securities<sup>SM</sup> averaged 3.71% and 2.77%, respectively.

Debt service requirements to maturity, including amounts relating to BANs with maturities greater than one year at June 30, 2024 are as follows (in thousands):

Year ending June 30	Bonds		Bonds and Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest <sup>1</sup>	Principal	Interest <sup>1</sup>	
2025	\$ 231,305,000	\$ 1,190,545,595	\$ 303,312,461	\$ 266,675,135	\$ 1,991,838,191
2026	430,555,000	1,179,455,695	243,640,000	247,081,257	2,100,731,952
2027	489,545,000	1,158,456,545	229,170,000	235,750,804	2,112,922,349
2028	545,140,000	1,134,849,076	250,330,000	224,775,280	2,155,094,356
2029	485,085,000	1,107,869,776	316,680,000	213,458,282	2,123,093,058
2030-2034	2,800,845,000	5,167,270,496	1,403,425,000	881,827,916	10,253,368,412
2035-2039	4,150,350,000	4,372,053,422	1,116,625,000	621,427,775	10,260,456,197
2040-2044	5,967,615,000	3,230,290,901	1,045,880,000	414,841,212	10,658,627,113
2045-2049	7,606,095,000	1,738,882,557	876,494,000	209,384,073	10,430,855,630
2050-2054	3,535,860,000	431,213,592	547,075,193	50,126,517	4,564,275,302
Total	<u>\$ 26,242,395,000</u>	<u>\$ 20,710,887,655</u>	<u>\$ 6,332,631,654</u>	<u>\$ 3,365,348,251</u>	<u>\$56,651,262,560</u>

<sup>1</sup>Projected interest expense for adjustable rate demand bonds and adjustable rate remarketed securities for fiscal year 2024 and thereafter is calculated using weighted-average interest rate as of June 30, 2024 of 3.36%. Projected interest expense for direct placement index rate bonds for fiscal year 2025 and thereafter is calculated using weighted-average interest rate as of June 30, 2024 of 4.12%. Interest rates on adjustable rate bonds are determined on a daily or weekly basis in accordance with the terms of such bonds.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

***Asset Retirement Obligations (“ARO”)***

Existing laws and regulations require the System to take specific action when retiring chemical and petroleum storage tanks. The System has 445 above and underground tanks with a capacity ranging from 10 to 100,000 gallons. The New York State Department of Conservation Under Title 6 of the New York Codes, Rules and Regulations requires that the System take specific steps to permanently take out the service including the removal, transportation and disposal of liquid, sludge, hazardous waste, piping and the tanks themselves; and to take remedial actions on the area surrounding the tanks. Based on contract estimates and invoice for similar projects, the System’s ARO for storage tanks was \$15.5 million and \$15.1 million as of June 30, 2024 and 2023, respectively, with tanks having a remaining useful life ranging from 0 to 39 years.

DEP has entered into office space lease agreements requiring the removal of affixed furnishings including condensed filing systems, HVAC units, and distributions systems and the restoration of premises to original condition existing prior to installation of fixtures for which the System is responsible for paying. Based on engineer and architectural estimates, the ARO for leases was \$2.9 million and \$2.9 million as of June 30, 2024 and 2023, respectively. The remaining lease terms range from two to three years.

***Commitments and Contingencies***

*Construction* – The System had contractual commitments of approximately \$7.7 billion and \$6.8 billion at June 30, 2024 and 2023, 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 officer’s insurance for the Authority. Any claims made against the System are resolved through The City’s legal support, and the amounts of the maximum liability for such judgments are described in the claims and litigation section 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 Agreement, 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, 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 combining financial statements of the System. In addition, the System is required to reimburse The City, to the extent requested by The City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements of the System. In addition, The City has agreed, subject to certain conditions, to indemnify the Authority, the Water 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, 2024, the potential future liability attributable to the System for claims outstanding against The City was estimated to be \$144 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City’s statement of net position (deficit). 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 IRC of 1986, as amended (the “Code”). The Code requires the payment to the United States Treasury of the excess amount earned on all non-purpose obligations over

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds, or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter and within 60 days after retirement of the bonds. During fiscal years 2024 and 2023, the System paid \$428 thousand and \$1.2 million, respectively, in arbitrage rebates. At June 30, 2024 and 2023, the Authority had a liability of \$(1) million and \$3.2 million, respectively. These amounts are included in accounts payable in the combining statements of net position (deficit).

**NOTE 10 - RESTRICTED ASSETS**

As of June 30, 2024 and 2023, certain cash, investments, and accrued interest of the System were restricted as follows (in thousands):

<u>The Water Board</u>	<u>2024</u>	<u>2023</u>
Operation and maintenance reserve fund	\$ 333,555	\$ 322,236
Local water fund	14,118	12,318
WB expense fund	10	10
	<hr/>	<hr/>
Subtotal - The Water Board	347,683	334,564
	<hr/>	<hr/>
<u>The Authority</u>		
Revenue fund	1,830,490	1,721,502
Debt service reserve fund	172,110	241,185
Construction fund	763,233	674,204
Arbitrage rebate fund	10	37
Escrow accounts	-	45,060
	<hr/>	<hr/>
Subtotal - The Authority	2,765,843	2,681,988
	<hr/>	<hr/>
Total restricted assets	\$ 3,113,526	\$ 3,016,552

The operation and maintenance reserve fund is established as a depository to hold a reserve as required by the First Resolution. As of June 30 of each year, the reserve fund is required to hold one-sixth of the operating expenses as set forth in the following year's annual budget. It is funded through the cash receipts of the Water Board.

The local water fund is established as the account to which all revenues are deposited. Its assets are subject to the payment priority set forth in the Resolutions.

The revenue fund is established as a depository to fund the debt service, the Authority's expenses, debt service reserve, and escrow accounts. It is funded through cash transfers from the Water Board.

The debt service reserve fund is established as a depository to hold the First Resolution bond maximum annual debt service requirement for the next or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.



## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

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. On or prior to June 30, the balances in the debt service fund are transferred to the revenue fund.

The construction fund is established as a depository to pay all capital construction costs incurred by The City and reimbursed by the Authority. It is funded through the proceeds of commercial paper, bond, and note sales.

The escrow accounts are established as a depository to refund debt in future years. It is funded through bond proceeds or the revenue fund.

**NOTE 11 - PENSION PLANS*****General information about the Pension Plan***

*Plan Description* – The Authority's eligible employees are provided with pension benefits through the New York City Employee Retirement System ("NYCERS") Qualified Pension Plan ("QPP" or "Pension Plan"). The Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by NYCERS.

The Pension Plan functions in accordance with existing State statutes and City laws that are the basis by which benefit terms and the Authority's and its members' contribution requirements are established and amended. NYCERS issues a publicly available financial report that can be obtained from NYCERS management at 335 Adams Street, Brooklyn, New York 11201 or at [www.nycers.org](http://www.nycers.org).

*Benefits Provided* – The Pension Plan provides pension benefits to retired employees generally based on the salary, length of service, and membership tier ("Tier"). For certain members, voluntary member contributions also impact pension benefits provided. In addition, the Pension Plan provides automatic cost-of-living-adjustments and other supplemental pension benefits to certain retirees and beneficiaries. Subject to certain conditions, members become fully vested as to benefits upon the completion of five years of service. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. The Pension Plan also provides death benefits.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983, and 2012, significant amendments made to the State Retirement and Social Security Law modified certain benefits for employees joining the Pension Plan on or after the effective date of such amendments, creating membership tiers. Currently, there are several Tiers, referred to as Tier I, Tier II, Tier III, Tier IV, and Tier VI. Members are assigned a Tier based on membership date. Chapter 18 of the Laws of 2012 (Chapter 18/12) amended the retirement benefits of public employees who establish membership in the Pension Plan on or after April 1, 2012. Chapter 18/12 is commonly referred to as Tier VI. Tier VI is expected to reduce future employer pension contributions.

Certain members of Tier I and Tier II of the NYCERS QPP have the right to make voluntary excess contributions, which are supplemental voluntary contributions. Members can elect to direct these contributions to an investment program under which such accumulated contributions are credited with interest at rates set by statute. The Authority does not have any Tier I, Tier II, or Tier III members.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

*Contributions and Funding Policy* – Contribution requirements of participating employers and active members are determined in accordance with State statutes and City laws and are generally funded within the appropriate fiscal year. Employer contributions are actuarially determined under the One-Year Lag Methodology (“OYLM”). Under the OYLM, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the June 30, 2022 actuarial valuation was used for determining the fiscal year 2024 employer contributions.

Employer contributions are determined annually to be an amount that, together with member contributions and investment income, provides for the Pension Plan assets to be sufficient to pay benefits when due. The aggregate statutory contribution due to NYCERS QPP from all participating employers for fiscal years 2024 and 2023 was \$3.6 billion and \$3.5 billion, respectively, and the amount of the Authority’s contribution to the Pension Plan for such fiscal years 2024 and 2023 was \$128 thousand and \$160 thousand, respectively.

In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, Tier III and Tier IV members are not required to make any contributions after the 10<sup>th</sup> anniversary of their membership date or completion of 10 years of credited service, whichever is earlier. Tier VI members who joined between April 1, 2012 and March 31, 2013 contribute 3% of salary. Beginning April 1, 2013, when Tier VI took effect, joining members contribute between 3.0% and 6.0% of salary, depending on their salary level.

***Information on the Employer’s Proportionate Share of the Collective Net Pension Liability***

The Authority’s net pension liabilities reported as of June 30, 2024 and 2023 were measured as of those fiscal year-end dates. The total pension liability used to calculate those net pension liabilities were determined by actuarial valuations as of June 30, 2023 and 2022 and rolled forward to the measurement dates of June 30, 2024 and 2023.

Information about the Authority net position and additions to and deductions from NYCERS QPP fiduciary net position has been determined on the same basis as that reported by NYCERS QPP. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan, and investments are reported at fair value.



## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Actuarial Assumptions**

Measurement of the total pension liability, on which the net pension liability is based, requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement. The following table provides a brief description of the significant assumptions used in the June 30, 2023 actuarial valuation to determine the fiscal year 2024 total pension liability:

Item	Assumption
Valuation Date	June 30, 2023 (Lag)
Assumed Rate of Return on Investment	7.0% per annum, net of investment expenses
Post-Retirement Mortality	Tables adopted by the Board of Trustees during fiscal year 2019. Applies mortality improvement scale MP-2020 published by the Society of Actuaries
Active Service: Withdrawal, Death, Disability, and Retirement	Tables adopted by the Board of Trustees during fiscal year 2019. Applies mortality improvement scale MP-2020 published by the Society of Actuaries to active ordinary death mortality rates and pre-commencement mortality rates for deferred vesteds
Salary Increases	Tables adopted by the Board of Trustees during fiscal year 2019. In general, Merit and Promotion Increases plus assumed General Wage increases of 3.0% per year
Inflation	Consumer Price Index (CPI) of 2.50% per year
Assumed Cost-of Living Adjustments	AutoCOLA – 1.5% per year; Escalation – 2.5% per year
Estimates of Certain Obligations	World Trade Center benefits and anticipated increases to pensioner benefits attributable to wage contract settlements

In accordance with the Administrative Code of The City of New York and with appropriate practice, the NYCERS Board of Trustees of the actuarially-funded Pension Plan is to periodically review and adopt certain actuarial assumptions as proposed by the Chief Actuary of the New York City Retirement Systems (the “Actuary”) for use in the determination of Employer Contributions, which are also generally used to determine the total pension liability, as applicable.

In June 2019, Bolton, Inc. issued their actuarial experience study report for the four-year and ten-year periods ended June 30, 2017. Based, in part, on this report, the Actuary proposed and the Boards of Trustees of NYCERS adopted changes in actuarial assumptions including a change to Mortality Improvement Scale MP-2018 beginning in fiscal year 2019. Milliman, Inc. is performing the current experience study that covers the period through June 30, 2021.

In July 2021, the Actuary proposed and the Board of Trustees of NYCERS adopted changes in actuarial assumptions including a change to Mortality Improvement Scale MP-2020 beginning in fiscal year 2021.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Expected Rate of Return**

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target Asset Allocation	Long-Term Expected Real Rate of Return
U.S. public market equities	23.5%	6.8%
Developed public market equities	11.6	7.2
Emerging public market equities	4.9	8.6
Fixed income	31.5	3.3
Private equities	10.0	11.6
Private real estate	8.0	7.0
Infrastructure	4.5	6.3
Opportunistic fixed income	6.5	8.5
Total	<u>100.0%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability of the Pension Plan as of June 30, 2024 and 2023, was 7.0% per annum. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the Pension Plan fiduciary net position is projected to be available to make all projected future benefit payments of current active and non-active members. Therefore, the long-term expected rate of return on the pension fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the Authority's proportionate share of the net pension liability using the discount rate of 7.0% for fiscal years 2024 and 2023, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage point higher (8.0%) than the current rate:

June 30, 2024			June 30, 2023		
	Current Discount Rate (7.0%)			Current Discount Rate (7.0%)	
1% Decrease (6.0%)		1% Increase (8.0%)	1% Decrease (6.0%)		1% Increase (8.0%)
\$ 998,287	\$ 587,898	\$ 241,239	\$ 1,335,044	\$ 823,884	\$ 392,466

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

***Pension Liability***

At June 30, 2024 and 2023, the Authority reported a liability of \$0.6 million and \$0.8 million, respectively, for its proportionate share of the net pension liability. The Authority's portion of the net pension liability was based on projection of the Authority's long-term share of contributions to the Pension Plan relative to the projected contributions of all participating City governments and their component units, actuarially determined. At June 30, 2024 and 2023, the Authority's proportion was 0.004% and 0.005%, respectively.

***Pension Expense***

For the years ended June 30, 2024 and 2023, the Authority recognized pension expense of \$161 thousand and \$176 thousand, respectively.

***Deferred Outflows and Inflows of Resources***

At June 30, 2024 and 2023, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Fiscal Year 2024		Fiscal Year 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,836	\$ 82,870	\$ 92,693	\$ 3,670
Changes of assumptions	5,226	-	1	16,747
Net difference between projected and actual earnings on pension plan investments	-	7,667	102,709	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	(29,715)	(6,299)	216,416	15,140
Total	<u>\$ (22,653)</u>	<u>\$ 84,238</u>	<u>\$ 411,819</u>	<u>\$ 35,557</u>

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2024 will be recognized in pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Fiscal Year 2024</u>	<u>Fiscal Year 2023</u>
2024	\$ -	\$ 92,886
2025	54,408	89,913
2026	150,301	211,909
2027	(45,369)	(10,214)
2028	(43,382)	(8,232)
2029	(8,995)	-

**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS**

***Plan Description***

The Authority’s Other Postemployment Benefits Plan (“OPEB Plan”) is a single-employer defined benefit plan administered by the New York City Office of Labor Relations. The plan provides certain health and related benefits to eligible retirees and their beneficiaries/dependents of the New York City Municipal Water Finance Authority in accordance with GASB Statement No. 75 (“GASB 75”) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The OPEB Plan consists of three programs: (1) the New York City Health Benefits Program; (2) Welfare Fund Program; and (3) Medicare Part B Program. 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 The City retirees and eligible beneficiaries/dependents.

The following presents a summary of the Authority’s census data used in the June 30, 2024 and 2023 OPEB actuarial valuations:

Group	<u>2024</u>	<u>2023</u>
Active	9	10
Inactive plan members entitled to but not yet receiving benefits	3	2
Inactive plan members or beneficiaries currently receiving benefits	<u>7</u>	<u>5</u>
Total	<u><u>19</u></u>	<u><u>17</u></u>

***Funding Policy***

The Authority is not required to provide funding for the OPEB Plan, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2024 and 2023, the Authority had seven retirees and made contributions of \$108 thousand and \$71 thousand, respectively. Members are not required to contribute; although, retirees may elect basic health insurance programs and/or optional coverage that requires contributions. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plan. The OPEB Plan also reimburses covered retirees and eligible spouse 100% of the Medicare Part B premium rate applicable to a given year, and there is no retiree contribution to the welfare fund (the “Welfare Fund”) that covers retirees for various health care benefits not provided through the basic coverage.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Annual OPEB Cost and Net OPEB Liability**

The Authority's annual OPEB cost is calculated based on the annual expense ("Expense"), an amount that was actuarially determined in accordance with GASB 75. Actuarial valuations involve estimates and assumptions about the probability of events far into the future. The entry age actuarial cost method was used in the actuarial valuation prepared as of June 30, 2022 for the fiscal year ended June 30, 2023, which was the basis for the fiscal year 2023 Expense calculation. Under this method, as used in this OPEB Plan valuation, the actuarial present value ("APV") of benefits ("APVB") of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The employer portion of this APVB allocated to the valuation year is the employer normal cost. The portion of this APVB that is not provided for on the valuation date by the APV of future employer normal cost or future member contributions is the total OPEB Plan liability. The excess of the total OPEB Plan liability over the plan fiduciary net position, which represents the assets of the plan, is the net OPEB Plan liability.

All changes in the net OPEB Plan liability as of June 30, 2024 and 2023 are being amortized over the future working lifetime of all plan participants for purposes of calculating the expense except for the amount of change in plan assets, which would be amortized over a five-year period using level-dollar amortization. This plan, however, is not assumed to have any assets.

**Total OPEB Liability**

The Authority's total OPEB Plan liabilities of \$3.1 million and \$2.0 million were measured as of June 30, 2024 and 2023, respectively, and were determined by actuarial valuations as of those dates.

The following table shows changes in the Authority's net OPEB Plan liability for fiscal years 2024 and 2023:

Components	2024	2023
Net OPEB liability – beginning of the year	\$ 2,024,102	\$ 1,770,915
Service cost	68,554	70,742
Interest	84,212	73,891
Differences between expected and actual experience	1,043,358	112,539
Changes in assumptions or other inputs	(14,958)	66,800
Actual benefit payments	(108,326)	(70,785)
Net changes	1,072,840	253,187
Net OPEB liability – end of the year	\$ 3,096,942	\$ 2,024,102

The Authority's annual OPEB Plan expense for fiscal years 2024 and 2023 was as follows:

Components	2024	2023
Service costs	\$ 68,554	\$ 70,742
Interest on the total OPEB Plan liability	84,212	73,891
Changes in assumptions or other inputs	233,970	(129,096)
Difference between expected and actual experience	(131,273)	82,098
Total OPEB plan expense	\$ 255,463	\$ 97,635

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

***Funded Status and Funding Progress***

As of June 30, 2024, the most recent actuarial measurement date, the cost was 0% funded. The total OPEB Plan liability for benefits was \$3.1 million, and the plan fiduciary net position was \$0, resulting in a net OPEB Plan liability of \$3.1 million. The covered employee payroll (annual payroll of active employees covered by the OPEB Plan) was \$1.2 million, and the ratio of the net OPEB Plan liability to the covered employee payroll was 252.2%.

***Actuarial Methods Assumptions and Other Inputs***

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, demographic, salary increase, mortality, and the healthcare cost trend. The actuarial assumptions used in the fiscal year 2024 and the fiscal year 2023 OPEB Plan valuations are a combination of those used in the NYCERS pension actuarial valuations and those specific to the OPEB Plan valuations. These assumptions are generally unchanged from the previous valuation except as noted below.

Amounts determined regarding the funded status of the OPEB Plan and the annual Expense 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 the 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 total OPEB Plan liability, consistent with the long-term perspective of the calculations.

For fiscal year 2019, the Office of the Actuary (the "OA") conducted a full review of the actuarial assumptions and methods used to fund the NYCRS. These reviews led to formalized recommendations titled "Proposed Changes in Actuarial Assumptions and Methods Used in Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2018 for [NYCRS]," also referred to as the 2019 Assumptions and Methods ("2019 A&M") and were adopted by all five of the NYCRS Boards.

On July 27, 2021, the actuary issued a memorandum titled "Proposed Changes to Actuarial Assumptions and Methods." The actuarial assumptions and methods described in that memorandum amend certain assumptions and methods from the 2019 A&M. This revised set of actuarial assumptions and methods are referred to as the "Revised 2021 A&M."

The 2019 A&M and Revised 2021 A&M reports are available on the Reports page of the OA website ([www.nyc.gov/actuary](http://www.nyc.gov/actuary)).

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

The OPEB Plan-specific actuarial assumptions used in the fiscal year 2024 OPEB Plan valuation are as follows:

Item	Assumption
Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Discount Rate <sup>1</sup>	4.21% per annum for the June 30, 2024 measurement date 4.13% per annum for the June 30, 2023 measurement date
Actuarial Cost Method	Entry Age Normal cost method, level percent of pay calculated on an individual basis
Salary Increase	3.00% per annum, which includes an inflation rate of 2.50% and a general wage increase rate of 0.50%
Inflation	Consumer Price Index (CPI) of 2.50% per year

<sup>1</sup>Rates are based solely on the S&P Municipal Bond 20-Year High Grade Rate Index, since the plan has no assets, as per guidance under GASB 75

**Per Capita Claims Costs**

GHI/EBCBS plans are insured via a Minimum Premium arrangement, while the HIP and many of the Other HMOs are community-rated. Costs reflect age-adjusted premiums for all plans.

The initial monthly premium rates used in the valuations are shown in the following table:

Plan	Monthly Rates at Average Age	
	2024	2023
<u>HIP HMO</u>		
Non-Medicare Single	\$ 927.13	\$ 871.42
Non-Medicare Single	2,271.46	2,134.99
Medicare	209.40	199.62
<u>GHI/EBCBS</u>		
Non-Medicare Single	998.60	917.92
Non-Medicare Family	2,620.46	2,409.11
Medicare	208.60	201.59
<u>Other HMOs<sup>1</sup></u>		
Non-Medicare Single	1,403.21	1,302.87
Non-Medicare Family	3,804.02	3,567.29
Medicare Single	328.69	311.73
Medicare Family	657.70	620.28

<sup>1</sup> Other HMO premiums represent the weighted average of the total premium for medical (not prescription drug) coverage, including retiree contributions, of the HMO plans (other than HIP) based on actual enrollment.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Additionally, the individual monthly rates at age 65 used in the valuations are shown the following table:

Plan	Monthly Rates at Age 65	
	2024	2023
<u>HIP HMO</u>		
Non-Medicare	\$ 1,961.99	\$ 1,844.10
Medicare	209.40	199.62
<u>GHI/EBCBS</u>		
Non-Medicare	2,142.97	1,970.02
Medicare	198.54	192.11
<u>Other HMOs</u>	Varies by system	

**Welfare Fund**

For the fiscal year 2023 valuation, the Welfare Fund contribution reported for fiscal year 2024, including any reported retroactive amounts, was used as the per capita cost for valuation purposes. Reported annual contribution amounts for the last two years for NYCERS are shown in Section V-b of the OPEB Plan valuation report dated September 6, 2024. Welfare Fund rates are based on actual reported union Welfare Fund code for current retirees.

The weighted-average annual contribution rates used for future retirees is shown below:

Retirement Plan	Annual Rate	
	2024	2023
NYCERS	\$ 1,729	\$ 1,867

**Medicare Part B Premiums**

Medicare Part B Premiums are as follows:

Calendar Year	Monthly Premium
2019	\$ 134.43
2020	143.21
2021	146.97
2022	167.82
2023	164.90
2024	174.70

Medicare Part B premium reimbursement amounts have been updated to reflect the actual premium rates announced for calendar years through 2024. Due to recent cost-of-living increase in Social Security benefits, the portion of Medicare Part B participants protected by the hold-harmless provision decreased from 3.5% in 2022 to 1.5% in 2023.

For Calendar Years 2023 and 2024, no participants were assumed to be protected by the hold-harmless provision and the monthly premium was set equal to the Calendar Years 2023 and 2024 announced amounts.



New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

For the fiscal year 2023 OPEB Plan valuation, the annual premium used was \$2,037.60, which is equal to 12 times an average of the calendar year 2023 and 2024 monthly premiums shown.

An additional 11.4% load is added to the base Medicare Part B premium amounts each year to account for the income-related Medicare Part B premiums for high-income individuals. This assumption was updated from the previous valuation to reflect more recent experience.

**Medicare Part B Premium Reimbursement Assumption**

90% of Medicare participants are assumed to claim reimbursement; based on historical data.

**Health Care Cost Trend Rate (“HCCTR”)**

Year Ending	Pre-Medicare Plans	Medicare Plans	Medicare Part B Premiums	Welfare Fund Contributions
2024	7.00%	4.80%	5.00%	3.50%
2025	7.00	4.70	5.00	3.50
2026	6.75	4.70	5.00	3.50
2027	6.50	4.60	5.00	3.50
2028	6.25	4.60	5.00	3.50
2029	6.00	4.50	5.00	3.50
2030	5.75	4.50	5.00	3.50
2031	5.50	4.50	5.00	3.50
2032	5.25	4.50	5.00	3.50
2033	5.00	4.50	5.00	3.50
2034	4.75	4.50	5.00	3.50
2035 and later	4.50	4.50	5.00	3.50

**Age and Gender-Related Morbidity**

The premiums are age and gender adjusted for GHI/EBCBS, HIP and Other HMOs. The assumed relative costs of coverage are consistent with information presented in the 2013 study *Health Care Costs – From Birth to Death*, sponsored by the Society of Actuaries.

For non-Medicare costs, a sample of factors used are:

Age	Male	Female	Age	Male	Female
20	0.170	0.225	45	0.355	0.495
25	0.146	0.301	50	0.463	0.576
30	0.181	0.428	55	0.608	0.671
35	0.227	0.466	60	0.783	0.783
40	0.286	0.467	64	0.957	0.917

Children costs assume a factor of 0.229.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Medicare costs prior to age 65 assume an additional disability-related morbidity factor. A sample of factors are:

Age	Male	Female	Age	Male	Female
20	0.323	0.422	65	0.919	0.867
25	0.278	0.565	70	0.946	0.885
30	0.346	0.804	75	1.032	0.953
35	0.432	0.876	80	1.122	1.029
40	0.545	0.878	85	1.217	1.116
45	0.676	0.929	90	1.287	1.169
50	0.883	1.082	95	1.304	1.113
55	1.159	1.260	99 and Older	1.281	0.978
60	1.493	1.470			

The age adjustment for the non-Medicare GHI/EBCBS premium reflects a reduction for the estimated margin anticipated to be returned of 4.0% and 2.0% in the GHI and EBCBS portion of the monthly premium, respectively. The non-Medicare GHI portion is \$467.58 out of \$998.60 for single coverage and \$1,239.79 out of \$2,620.46 for family coverage for fiscal year 2024 rates. The Non-Medicare EBCBS portion is the remainder of the premium.

Similarly, the age adjustment for the Medicare GHI/EBCBS premium reflects a reduction for the Medicare GHI/EBCBS premium reflects a reduction for the estimated margin anticipated to be returned of 4.0% and 3.0% in the GHI and ECBS portion of the monthly premium, respectively. The Medicare GHI portion is \$111.59 out of the \$208.60 for the fiscal year 2024 rates. The EBCBS portion is the remainder of the premium.

**Participation Rates**

Actual elections are used for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on the patterns of elections of Medicare-eligible retirees.

For current retirees who appear to be eligible for health coverage but have not made an election (i.e., non-filers), the valuation reflects single GHI/EBCBS coverage and Part B premium and benefits only, to approximate the obligation if these individuals were to file for coverage. For future retirees, the portion assumed not to file for future benefits, and therefore valued similarly, is 13.0% for NYCERS in 2024. This non-filer group also includes some participants who do not qualify for coverage because they were working less than 20 hours a week at termination.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Detailed assumptions for future retirees are presented below:

Plan Participation Assumptions	
Plan	NYCERS
<u>Pre-Medicare</u>	
GHI/EBCBS	75%
HIP HMO	18
Other HMO	2
Waiver	5
<u>Medicare</u>	
GHI	75
HIP HMO	16
Other HMO	5
Waiver	4
<u>Post-Medicare Migration</u>	
Other HMO to GHI	0
HIP HMO to GHI	0
GHI to HIP HMO	0
GHI to Other HMO	0
HIP HMO to Other HMO	10
Pre-Medicare Waiver	
To GHI at 65	0
To HIP HMO at 65	0
To Other HMO at 65	20

***Dependent Coverage***

Dependent coverage is assumed to terminate when a retiree dies.

***Dependents***

Child dependents of current retirees are assumed to receive coverage until age 26. Children are assumed to be covered for eight years after retirement.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Male retirees were assumed to be four years older than their wives, and female retirees were assumed to be two years younger than their husbands. Dependent assumptions based on distribution of coverage of recent retirees are shown in the following table:

Dependent Coverage Assumptions		
Group		NYCERS
<u>Male</u>		
Single Coverage		35%
Spouse		35
Child/No Spouse		8
Spouse and Child		22
	Total	100%
<u>Female</u>		
Single Coverage		67%
Spouse		22
Child/No Spouse		7
Spouse and Child		4
	Total	100%

**COBRA Benefits**

Employees and beneficiaries who enroll in COBRA coverage contribute 102% of the premium. There is no cost to the Authority for COBRA beneficiaries who enroll in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, The City's costs under the experience-rated GHI/EBCBS coverage are affected by the claims for COBRA-covered individuals, who typically utilize services at a much higher rate than active participants.

The valuation assumes 15% of employees not eligible for OPEB elect COBRA coverage for 15 months based on experience of other large employers. A lump-sum COBRA cost of \$1,700 was assumed for terminations during fiscal year 2024. This lump-sum amount is increased by the Pre-Medicare HCCTR for future years, but is not adjusted for age-related morbidity.

**Active Off-Payroll ("AOP")**

Active members off payroll on known short-term leave of absence are treated as actives, and the remaining members are included as inactive members entitles to but not yet receiving benefits if they have met the OPEB vesting requirements. Otherwise, they are not included in the valuation.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

**Sensitivity of the Net OPEB Plan Liability to Changes in the Discount Rate**

The following table presents the Authority's proportionate share of the net OPEB Plan liability using the discount rate of 4.21% for fiscal year 2022 and 4.13% for fiscal year 2023, as well as what the Authority's proportionate share of the net OPEB Plan liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

June 30, 2024			June 30, 2023		
	Current Discount Rate (4.21%)	1% Increase (5.21%)	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
1% Decrease (3.21%)					
\$ 3,529,525	\$ 3,096,942	\$ 2,745,799	\$ 2,307,404	\$ 2,024,102	\$ 1,792,463

**Sensitivity of the Net OPEB Plan Liability to Changes in the Healthcare Cost Trend Rate**

The following table presents the Authority's proportionate share of net OPEB Plan liability using the healthcare cost trend rate of 7.0% (Pre-Medicare Plans) and 4.8% (Medicare Plans) for fiscal year 2024 and 7.0% (Pre-Medicare Plans) and 4.8% (Medicare Plans) for fiscal year 2023, as well as what the Authority's proportionate share of the net OPEB Plan liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

June 30, 2024			June 30, 2023		
	Current Trend Rate (7.0% / 4.8%)	1% Increase (8.0% / 5.8%)	1% Decrease (6.0% / 3.8%)	Current Trend Rate (7.0% / 4.8%)	1% Increase (8.0% / 5.8%)
1% Decrease (6.0% / 3.8%)					
\$ 2,671,725	\$ 3,096,942	\$ 3,632,372	\$ 1,714,277	\$ 2,024,102	\$ 2,420,800

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB Plan**

At June 30, 2024 and 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	Fiscal Year 2024		Fiscal Year 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,354,064	\$ 117,095	\$ 585,472	\$ 157,891
Changes of assumptions or other inputs	70,183	555,224	86,423	687,779
Total	\$ 1,424,247	\$ 672,319	\$ 671,895	\$ 845,670

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB Plan at June 30, 2024 and 2023 will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30	Fiscal Year 2024	Fiscal Year 2023
2024	\$ -	\$ (46,998)
2025	102,697	(46,322)
2026	103,373	(18,248)
2027	131,447	(17,091)
2028	132,604	(30,474)
2029	119,221	(29,992)
2030	119,703	15,131
2031	145,361	219
2032	219	-

**NOTE 13 - POLLUTION REMEDIATION OBLIGATIONS**

The System reports pollution remediation obligations (“PROs”) as required by the GASB. The System’s PROs may arise as a result of: (1) federal, state, and local laws and regulations; (2) violations of pollution-related permits or licenses; (3) a determination by the System that there is an imminent endangerment to public health and safety as a result of an existing pollution condition; (4) the System being named in a lawsuit to compel remediation or being identified by a regulator as a party responsible or potentially responsible for remediation; and/or (5) the System’s voluntarily commencement of remediation. As of June 30, 2024 and 2023, the System reported \$77.1 million and \$62.2 million of liabilities for known PROs, respectively.

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

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

**NOTE 14 - SUBSEQUENT EVENTS**

The System evaluated its June 30, 2024 combining financial statements for subsequent events through October 1, 2024, the date the combining financial statements were issued and noted the following:

On August 8, 2024, the Authority drew down \$126 million of Fiscal 2022 Series 8 BAN proceeds. The proceeds were used to fund capital projects of the System.

## New York City Water and Sewer System

## NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2024 and 2023

On September 13, 2024, the Standby Bond Purchase Agreement between the Authority and PNC Capital Markets LLC, under which liquidity support is provided for the Authority's Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2013 Series AA, Subseries AA-1, which was scheduled to expire on October 2, 2024, was extended to October 2, 2027.

On September 13, 2024, the Standby Bond Purchase Agreement between the Authority and PNC Capital Markets LLC, under which liquidity support is provided for the Authority's Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2016 Series AA, Subseries AA-2, which was scheduled to expire on October 25, 2024, was extended to October 25, 2027.

On October 2, 2024, the Standby Bond Purchase Agreement between the Authority and Citibank, N.A., under which liquidity support is provided for the Authority's Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2003 Series F, Subseries F-2, which was scheduled to expire on October 25, 2024, was replaced by a Standby Letter of Credit and Reimbursement Agreement between the Authority and Sumitomo Mitsui Banking Corporation. The new agreement is scheduled to expire on October 2, 2029.

On October 2, 2024 the Authority issue \$886.77 million of fixed rate Second Resolution bonds, Fiscal 2025 Series AA. Proceeds of the bonds were used to fund capital projects, refinance \$75.0 million Fiscal 2020 Series BB, Subseries BB-2 bonds, \$35.0 million Fiscal 2020 Series GG, Subseries GG-2 bonds, and \$50.0 million Fiscal 2022 Series CC, Subseries CC-2 bonds, and purchase \$44.455 million tendered bonds (\$42.12 million of Fiscal 2016 Series BB bonds, \$1.4 million of Fiscal 2017 Series EE bonds, \$550 thousand of Fiscal 2018 Series AA bonds, \$25 thousand of fiscal 2018 Series BB bonds, \$295 thousand of Fiscal 2018 Series CC bonds, \$10 thousand of Fiscal 2019 Series CC bonds, \$50 thousand of Fiscal 2021 Series BB bonds and \$5 thousand of Fiscal 2022 Series BB bonds). The Bonds have a final maturity of 2054.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)



## New York City Water and Sewer System

## SCHEDULE OF CHANGES FOR TOTAL OPEB PLAN LIABILITY AND RELATED RATIOS

As of June 30\*, (in thousands):

	2024	2023	2022	2021	2020	2019	2018	2017
<b>Total OPEB liability</b>								
Service cost	\$ 69	\$ 71	\$ 112	\$ 112	\$ 97	\$ 111	\$ 94	\$ 101
Interest	84	74	44	54	53	47	42	43
Differences between expected and actual experience	1,043	112	334	(114)	(43)	572	(106)	(96)
Changes of assumptions	(15)	67	(628)	(34)	33	(336)	35	(222)
Benefits payments	(108)	(71)	(19)	(19)	(21)	(23)	(20)	(15)
Cadillac tax repeal	-	-	-	-	(18)	-	-	-
<b>Net Changes in Total OPEB liability</b>	<b>1,073</b>	<b>253</b>	<b>(157)</b>	<b>(1)</b>	<b>102</b>	<b>371</b>	<b>45</b>	<b>(189)</b>
Total OPEB liability - beginning	2,024	1,771	1,928	1,929	1,828	1,457	1,412	1,601
<b>Total OPEB liability - ending</b>	<b>\$ 3,097</b>	<b>\$ 2,024</b>	<b>\$ 1,771</b>	<b>\$ 1,928</b>	<b>\$ 1,929</b>	<b>\$ 1,828</b>	<b>\$ 1,457</b>	<b>\$ 1,412</b>
Covered employee payroll	\$ 1,228	\$ 1,295	\$ 1,156	\$ 1,209	\$ 1,187	\$ 942	\$ 859	\$ 1,038
Total OPEB Plan liability as a percentage of covered employee payroll	252.2%	156.3%	153.2%	159.4%	162.4%	193.9%	169.6%	135.9%

\*This data is presented for those years for which information is available.

**Notes to the Schedule:**

*Changes of assumption:* Changes of assumption and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

<u>Years</u>	<u>Discount Rate</u>
2024	4.21%
2023	4.13
2022	4.09
2021	2.18
2020	2.66
2019	2.79
2018	2.98
2017	3.13

The Authority funds OPEB benefits on a pay-as-you-go basis and contributions are not actuarially determined. No assets are accumulated in a trust that meet the criteria of GASB codification P22.101 to pay related benefits for the OPEB Plan. Therefore, the required supplementary information related to actuarially determined contributions for the 10 most current fiscal years is not applicable.

## New York City Water and Sewer System

## SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years\* (in thousands):

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	% 0.004	0.005	0.005	0.005	0.002	0.002	0.003	0.004	0.005	0.005
Authority's proportionate share of the net pension liability	\$ 589	824	1,014	343	422	393	516	828	1,215	1,012
Authority's covered payroll	\$ 1,227	1,295	1,156	1,209	1,187	942	859	1,038	1,148	1,289
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	% 48.0	63.6	87.7	28.4	35.6	41.7	60.1	79.8	105.8	78.5
Plan fiduciary net position as a percentage of the total pension liability	% 84.3	82.2	81.3	93.1	76.9	78.8	78.8	74.8	69.6	73.1

## SCHEDULE OF THE AUTHORITY'S PENSION CONTRIBUTIONS

Last 10 Fiscal Years (in thousands):

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 128	160	214	201	75	78	111	136	170	161
Contribution in relation to the actuarially determined contribution	\$ (128)	(160)	(214)	(201)	(75)	(78)	(111)	(136)	(170)	(161)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Authority's covered payroll <sup>1</sup>	\$ 1,227	1,295	1,156	1,209	1,187	942	859	1,038	1,148	1,289
Contribution as a percentage of covered payroll	% 10.4	12.4	18.5	16.6	6.3	8.3	12.9	13.1	14.8	12.5

<sup>1</sup>Covered payroll data from the actuarial valuation date with one-year lag



# Internal Control Letter

Audit Wrap Up Presentation

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**GRANT THORNTON LLP**  
757 Third Ave., 9th Floor  
New York, NY 10017-2013

**D** +1 212 599 0100  
**F** +1 212 370 4520

October XX, 2024

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

Ladies and Gentlemen:

In connection with our audit of the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"), which collectively comprise the New York City Water and Sewer System (the "System") combining financial statements as of June 30, 2024 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") require that we advise management and the Joint Audit Committee of the New York City Municipal Water Finance Authority and New York City Water Board (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

#### **Our responsibilities**

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion on internal control effectiveness.

#### **Identified deficiencies in internal control**

We identified the following internal control matters that are of sufficient importance to merit your attention.

#### **Control deficiencies**

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

We identified the following control deficiencies:

1. We noted that there are two employees that share IDs in use for D365.
2. For the user access review process, we noted the below control deficiencies:
  - a. We noted one new user requiring access to UMAX in which access was granted. However, a security form was not completed as required.
  - b. We noted one terminated user requiring access to be removed from UMAX in which access was removed. However, a security form was not completed.

3. We noted that for SQL authenticated accounts within Great Plains and the SQL database for Great Plains, the password policy for two users was not enforced.

**Recommendations to strengthen internal control**

We recommend that the System and those charged with governance consider the following actions.

1. We recommend that each employee have their own IDs for D365.
2. We recommend that user access reviews should include all users and assigned privileges to ensure the appropriateness of access. User access reviews should be formally documented, including sign-offs/approvals and any access changes required.
3. We recommend that all user accounts utilizing SQL authentication enforce password parameters to ensure strong passwords are in use.

**The System's response**

The System's written response to the internal control matters identified herein has not been subjected to our audit procedures and, accordingly, we express no opinion on it.

1. Pending response

2. Pending response

3. Pending response

**Purpose of this communication**

The purpose of this communication is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control. This communication is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control. Accordingly, this communication is not suitable for any other purpose.

GRANT THORNTON LLP (manually)

October XX, 2024



# Investment Guidelines Report

Audit Wrap Up Presentation

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**GRANT THORNTON LLP**757 Third Ave., 9th Floor  
New York, NY 10017

D +1 212 599 0100

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the combining financial statements 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, as of and for the year ended June 30, 2024, and have issued our report thereon dated October xx, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply, in all material respects, with the terms, covenants, provisions or conditions of the System's Resolutions and Investment Guidelines, which are the responsibility of the System's management, insofar as they relate to financial and accounting matters. However, our audit of the combining financial statements was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the System's Resolutions and Investment Guidelines, insofar as they relate to accounting matters. However, the objective of our audit of the combining financial statements was not to provide an opinion on overall compliance with the System's Resolutions and Investment Guidelines referred to above. Accordingly, we do not express such an opinion.

The report is intended solely for the information of the System's Joint Audit Committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

GRANT THORNTON LLP (signed manually)

New York, New York  
October xx, 2024



# Management Letter

Audit Wrap Up Presentation



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**GRANT THORNTON LLP**757 Third Ave., 9<sup>th</sup> Floor  
New York, NY 10017**D** +1 212 599 0100**F** +1 212 370 4520

October \_\_, 2024

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

Ladies and Gentlemen:

In planning and performing our audit of the combining financial statements of the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"), which collectively comprise the New York City Water and Sewer System (the "System") as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America ("US GAAS"), we considered the System's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combining financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's combining financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that, individually or in combination, might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

**Restriction on use**

This communication is intended solely for the information and use of management, the members of the Joint Audit Committee of the New York City Municipal Water Finance Authority and New York City Water Board (hereinafter referred to as "those charged with governance") and others within the System and is not intended to be and should not be used by anyone other than these specified parties.

**Purpose of this communication**

The purpose of this communication is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control. Accordingly, this communication is not suitable for any other purpose.

New York, New York

October \_\_, 2024



# Audit Engagement Letter

Audit Wrap Up Presentation

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**GRANT THORNTON LLP**

757 Third Ave.  
9th Floor  
New York, NY 10017

**D** +1 212 599 0100

July 26, 2024

Mr. Raymond Lee, Comptroller  
New York City Municipal Water Finance Authority  
255 Greenwich Street, 7<sup>th</sup> Floor  
New York, New York 10007

And

Ms. Nerissa Moray, Executive Director  
New York City Water Board  
59-17 Junction Blvd., 19<sup>th</sup> Floor  
Flushing, New York 11373

Dear Mr. Lee and Ms. Moray:

This letter and Attachment A (collectively, the “Engagement Letter”), as executed by the New York City Municipal Water Finance Authority and the New York City Water Board which, together, comprise the Water and Sewer System of the City of New York (collectively, the “System”) and Grant Thornton LLP (“Grant Thornton”), together with the Agreement for Services of Independent Public Accountant between the System and Grant Thornton dated July 1, 2024 (the “Agreement”) documents our mutual understanding of the arrangements for the services between such parties. If any provision contained in this Engagement Letter is in conflict with, or inconsistent with, any provision in the Agreement, the provision contained in the Agreement shall govern and control.

## Scope of services

### Audit services

In accordance with, and in no way limiting, the specific services set forth in the Agreement, Grant Thornton will audit the combining statement of net position (deficit), combining statement of revenue, expenses and changes in net position (deficit) and combining statement of cash flows, which collectively comprise the basic financial statements (hereinafter collectively referred to as the “financial statements”) of the System, as of and for the year ended June 30, 2024.

Our audit of the System will be conducted in accordance with auditing standards generally accepted in the United States of America (“US GAAS”) established by the American Institute of Certified Public Accountants (“AICPA”) and the standards for financial audits of the U.S. Government Accountability Office’s (“GAO”) Government Auditing Standards (“GAGAS”) issued by the Comptroller General of the United States.

In accordance with professional standards, we will exercise professional judgment and maintain professional skepticism throughout the audit. We will also identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

In assessing the risks of material misstatement, an auditor obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. GAGAS further requires us to perform tests of the System's compliance with laws, regulations, contracts, and grant agreements, in which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, a financial statement audit is not designed to provide assurance on compliance or the effectiveness of internal control over financial reporting or to identify immaterial instances of noncompliance or internal control deficiencies.

When conducting an audit, the auditor is required to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud, to enable the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance. However, an audit is not a guarantee of the accuracy of the financial statements. Even though the audit is properly planned and performed in accordance with professional standards, an unavoidable risk exists that some material misstatements or noncompliance with laws, regulations, contracts, and grant agreements may not be detected due to the inherent limitations of an audit, together with the inherent limitations of internal control. Also, an audit is not designed to detect errors or fraud that is immaterial to the financial statements. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Given the concept of accountability for use of public resources and government authority, evaluating internal control may also include considering internal control deficiencies that result in waste or abuse. Because the determination of waste and abuse is subjective, we are not required to perform specific procedures to detect waste or abuse. Waste and abuse are distinct from, but may be indicative of, fraud and noncompliance. Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose; waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business

associate. We may consider whether and how to communicate waste or abuse detected as a result of our audit, if any.

Upon the completion of our financial statement and compliance audits and subject to our findings, we will render two reports on the System's financial statements and will communicate our findings: (1) one report in accordance with US GAAS; and (2) one report in accordance with both US GAAS and GAGAS.

As required by GAGAS, we will also render a report that includes our findings on the System's internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements, and other matters based on our financial statement audit. Such report will be considered integral to the financial statements and will be referred to in our report thereon. However, providing an opinion on internal control over financial reporting or on compliance with those provisions is not an objective of our financial statement audit, and accordingly, we will not express such an opinion.

It is possible that circumstances may arise in which our report(s) may differ from its expected form and content, resulting in a modified report or disclaimer of opinion. Further, if in our professional judgment the circumstances necessitate, we may resign from the engagement prior to completion.

Our audit does not relieve management or those charged with governance of their responsibilities.

## Communication of key audit matters

Key audit matters (KAMs) are defined as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. US GAAS does not require the auditor to communicate KAMs, and we have not been engaged to communicate KAMs. Thus, our auditor's report will not include KAMs.

## Required supplementary information

The applicable financial reporting framework requires that the management's discussion and analysis, budgetary comparison information, and schedules related to the System's pension and other post-employment benefit plans be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We will apply certain limited procedures to the required supplementary information in accordance with US GAAS. These limited procedures consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We will not express an opinion nor provide any assurance on the information because the limited procedures will not provide us with sufficient evidence to express an opinion or provide any assurance.

## Responsibilities of those charged with governance

Effective two-way communication with the System's Joint Audit Committee (referred to as "those charged with governance") assists us in obtaining information relevant to the audit and also assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process. Those charged with governance play an important role in the System's internal control over financial reporting by setting a positive tone at the top and challenging the System's activities in the financial arena. Accordingly, it is important for those charged with governance to communicate to us matters they believe are relevant to our engagement. As indicated below, management also has a responsibility to communicate certain matters to those charged with governance and to Grant Thornton.

In connection with our engagement, professional standards require us to communicate certain matters that come to our attention to those charged with governance, such as the following:

- fraud involving senior management and fraud that causes a material misstatement
- illegal acts, unless clearly inconsequential
- violations of contracts or grant agreements that causes a material misstatement
- noncompliance with the provisions of a major federal financial assistance program
- failure to report fraud, illegal acts, violations of contracts or grant agreements, waste, or abuse to specified external parties when required by law or regulation. We may also be required to report such matters directly to the external party.
- significant deficiencies and material weaknesses in internal control over financial reporting and federal financial assistance
- disagreements with management and other serious difficulties encountered
- qualitative aspects of significant accounting practices, including accounting policies, estimates, and disclosures
- uncorrected and corrected misstatements related to accounts and disclosures, including missing disclosures.

## Management responsibilities

As you are aware, the financial statements are the responsibility of management. Management is responsible for preparing and fairly presenting the financial statements in accordance with the applicable financial reporting framework, which includes adopting sound accounting practices and complying with changes in accounting principles and related guidance. Management is also responsible for:

- providing us with access to all information of which they are aware that is relevant to the preparation and fair presentation of the financial statements, whether obtained from within or outside of the general and subsidiary ledgers; this includes all financial records, documentation of internal control over financial reporting and federal financial assistance and related information, and any additional information that we may request for audit purposes
- providing us with unrestricted access to persons within the System from whom we determine it necessary to obtain audit evidence
- ensuring that the System identifies and complies with all federal statutes, regulations, and terms and conditions of federal awards applicable to its activities and for informing us of any known violations. The System should identify and disclose to us all federal statutes, regulations, and terms and conditions of federal awards that have a direct and material effect on the determination of financial statement amounts or other significant financial data.
- taking timely and appropriate steps to remedy fraud, illegal acts, violations of contracts or federal awards, waste, or abuse that we may report
- designing, implementing, and maintaining effective internal control over financial reporting and federal financial assistance, which includes adequate accounting records and procedures to safeguard the System's assets, and for informing us of all known significant deficiencies and material weaknesses in, and significant changes in, internal control over financial reporting and federal financial assistance
- informing us of their views about the risk of fraud within the System and their awareness of any known or suspected fraud and the related corrective action proposed
- adjusting the financial statements to correct material misstatements and for affirming to us in a representation letter that the effects of any uncorrected misstatements, including missing disclosures, aggregated by us during the current engagement, including those pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the financial statements as a whole
- establishing and maintaining a process to address and track the status of our findings, conclusions, and recommendations, including providing management's views on such matters as well as planned corrective actions to be included in the report, in a timely manner. This includes informing us of findings and recommendations from previous audits, attestation engagements, or other studies that could have a material effect on the financial statements and whether any related recommendations were implemented.
- informing us of any events occurring subsequent to the date of the financial statements through the date of our auditor's report that may affect the financial statements or the related disclosures



- informing us of any subsequent discovery of facts that may have existed at the date of our auditor's report that may have affected the financial statements or the related disclosures
- distributing the report(s), including the financial statements, supplementary information, and the report(s) thereon, to those officials and organizations requiring them and to make the report(s) available for public inspection upon request.

To assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process, management should discuss with those charged with governance the:

- adequacy of internal control over financial reporting and federal financial assistance and the identification of any significant deficiencies or material weaknesses, including the related corrective action proposed
- significant accounting policies, alternative treatments, and the reasons for the initial selection of, or change in, significant accounting policies
- process used by management in formulating particularly sensitive accounting judgments and estimates and whether the possibility exists that future events affecting these estimates may differ markedly from current judgments
- basis used by management in determining that uncorrected misstatements, including missing disclosures, are immaterial, both individually and in the aggregate, including whether any of these uncorrected misstatements could potentially cause future financial statements to be materially misstated.

We will require management's cooperation to complete our services. In addition, we will obtain, in accordance with professional standards, certain written representations from management, which we will rely upon.

## Other information

In connection with our audit of the financial statements, professional standards require us to perform certain procedures over other information, other than financial statements and the auditor's report thereon, included in the System's annual report. Management is responsible for such other information, which comprises the Annual Comprehensive Financial Report, as well as the introductory and statistical sections presented to fulfill the requirements of the Government Finance Officers' Association Annual Comprehensive Financial Report ("ACFR"). Management is also responsible for providing the annual report, including the other information, prior to the date of our auditor's report. Further, we will request certain representations from management regarding the other information.

Our opinion on the financial statements does not cover the other information, and we will not express an opinion or any other form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. Unresolved material inconsistencies or uncorrected material misstatements of the other information may affect our auditor's report, including its issuance.

We will report on the other information in accordance with professional standards. This includes describing our responsibilities for other information when, at the date of our auditor's report, we have obtained all other information. Providing some or all documents that comprise the other information after the date of our auditor's report could delay its release.

### Other reports

Grant Thornton will also report on the System's compliance with the applicable investment guidelines for the year ended June 30, 2024.

### Use of our reports

Our reports may only be used in accordance with the provisions set forth in the Agreement.

The report on compliance with laws, regulations, contracts, and grant agreements and internal control over financial reporting will include a statement that describes the purpose of the communication, which is to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. Accordingly, this report is not suitable for any other purpose.

### Other services

Any other services that you request will constitute a separate engagement that will be subject to our acceptance procedures. Professional standards, laws, and regulations may prescribe limitations on non-audit services we may perform without impairing our independence.

## Fees

### Billings

Our billings for the services set forth in this Engagement Letter and the Agreement, at the rates which have been delineated in the Agreement, will be rendered and are payable in accordance with the terms of the Agreement.

From time to time, Grant Thornton may receive certain incentives in the form of bonuses and rewards from its corporate card and other vendors. Such incentives to the extent received will be retained by Grant Thornton to cover firm expenses.

### Peer review report

GAGAS requires that we provide you with a copy of our most recent triennial quality control review report. Accordingly, our December 1, 2023 Peer Review Report accompanies the Agreement.

## Authorization

This Engagement Letter, along with the Agreement, sets forth the entire understanding between the System and Grant Thornton regarding the services described herein and supersedes any previous proposals, correspondence, and understandings, whether written or oral. If any portion of this Engagement Letter is held invalid, it is agreed that such invalidity shall not affect any of the remaining portions.

Please confirm your acceptance of this Engagement Letter by signing below and returning one electronic copy to us. This Engagement Letter may be executed via electronic signature, which the parties agree is the legal equivalent of a manual signature. We appreciate the opportunity to continue to work with the System.

Sincerely,

GRANT THORNTON LLP



Nicholas Lazzaruolo  
Partner

Enc: Attachment A –Additional terms  
December 1, 2023 Peer Review Report

Agreed and accepted by:

**NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY**

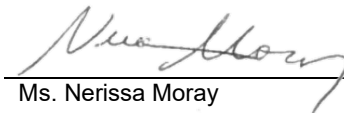


Mr. Raymond Lee

07/26/2024

Date

**NEW YORK CITY WATER BOARD**



Ms. Nerissa Moray

7/29/2024

Date

## Attachment A – Additional terms

It is understood and agreed that the terms and conditions in this Attachment A refer to the Grant Thornton Letter to which it is attached. The parties' representative(s), by signing the Letter, represents that they have the authority to bind the parties to the terms of the Agreement and agree to all of the terms and conditions in this Attachment A. In the event that there is a conflict between this Attachment A and the Letter (or any other attachments to the Letter), the terms of this Attachment A shall control. Any capitalized terms in this Attachment A that are not defined shall have the meanings set forth in the Letter.

### Confidentiality and privacy

Grant Thornton is committed to protecting personal information and will maintain such information in confidence in accordance with professional standards and governing laws and the terms of the Agreement. Further, Grant Thornton will comply with the Citywide Cybersecurity Requirements for Vendors and Contractors set forth by the New York City Office of Technology and Innovation and its Office of Cyber Command as they appear at <https://nyc.gov/infosec> (the "Citywide Cybersecurity Requirements"). Therefore, any personal information provided to us by the System will be kept confidential and not disclosed to any third party unless expressly permitted by the System or required by law, regulation, legal process, or professional standards or the terms of the Agreement or the Citywide Cybersecurity Requirements. The System is responsible for obtaining, pursuant to law or regulation, consents from parties that provided the System with their personal information, which will be obtained, used, and disclosed by Grant Thornton for its required purposes.

### Electronic communications

During the course of our engagement, we may need to electronically transmit confidential information to each other and to third-party service providers or other entities engaged by either Grant Thornton or the System. Electronic methods include telephones, cell phones, e-mail, secure file transfers, use of collaboration sites, and fax. These technologies provide a fast and convenient way to communicate. However, all forms of electronic communication have inherent security weaknesses, and the risk of compromised confidentiality cannot be eliminated. The System agrees to the use of electronic methods to transmit and receive information, including confidential information.

Notwithstanding the above, Grant Thornton will use commercially reasonable efforts and appropriate safeguards to ensure that all System data, documents, and other confidential information is secure. Grant Thornton shall also use all commercially reasonable efforts, in accordance with accepted industry practice, to prevent unauthorized access to System data, documents and other confidential information.

### Relationship to Grant Thornton International Ltd

Grant Thornton is a U.S. member firm of Grant Thornton International Ltd ("GTIL"), an organization of independently owned and managed accounting and consulting firms. References to GTIL are to Grant Thornton International Ltd. GTIL and the member firms are not a worldwide partnership. Services are delivered independently by the member firms. These firms are not members of one international partnership or otherwise legal partners with each other internationally, nor is any one firm responsible for the services or activities of any other firm.

### Relationship to Grant Thornton Advisors LLC

Grant Thornton and Grant Thornton Advisors LLC ("GT Advisors") (Grant Thornton and GT Advisors are collectively referred to as "GT") operate as an alternative practice structure in accordance with the AICPA Code of Professional Conduct. Grant Thornton, a licensed certified public accounting firm, provides audit and other attest services as well as related services to clients within its accounting and auditing practice. GT Advisors, which is not a licensed certified public accounting firm, provides tax, consulting, and other advisory services. Grant Thornton has engaged GT Advisors to provide administrative, operational, and engagement team resources and personnel to support Grant Thornton's professional services. GT Advisors and its professionals are subject to confidentiality obligations to protect the confidentiality of System data. Grant Thornton takes sole responsibility for the services performed under this Agreement and the System agrees that with respect to such services its sole recourse is against Grant Thornton.

## Use of third-party service providers and affiliates

The parties agree and acknowledge that Grant Thornton shall not use any subcontractors to perform the service; provided, however, that Grant Thornton may use personnel from GT Advisors, specialists, or vendors, to assist in providing our professional services.

Grant Thornton may use GTIL member firms or other affiliates (including the GT US Shared Services Center India Private Limited and the Grant Thornton US Knowledge and Capability Center India Private Limited, affiliates of Grant Thornton located in Bangalore, India). Such entities may be located within or outside the United States. For the avoidance of doubt, such entities are not subcontractors.

Grant Thornton intends to use the professional services, technology, and resources of the following entity(ies) to assist us in the performance of the engagement:

- Capital Confirmation, Inc. – electronic confirmation services

Grant Thornton may use third-party service providers to provide administrative or operational support to Grant Thornton, or to provide engagement team resources to assist with our professional services. Such entities may be located within or outside the United States. All of these third-party service providers are subject to confidentiality obligations to protect the confidentiality of client data. For the avoidance of doubt, these entities are not subcontractors.

You hereby consent and authorize us to disclose the System's information to the above-named entities, subject to all data security and confidentiality provisions of the Agreement.

## Access to documentation by other auditors

When an entity is part of a group of entities and/or more than one auditor is involved in performing an audit, a professional responsibility exists under relevant ethical requirements for the auditors to cooperate with each other. In connection with such cooperation, we may have discussions with the other auditors or provide access to our workpapers. In the course of this cooperation, we will comply with relevant ethical and professional standards, including with respect to protecting the confidentiality of client information. The other auditors are also subject to obligations to protect the confidentiality of client information. With this understanding, the System hereby authorizes us to allow access to our workpapers and to respond fully to the other auditors' reasonable inquiries in accordance with relevant ethical and professional standards. The System is aware that our workpapers may contain information privileged under Internal Revenue Code §7525 and that the System's consent to provide access to other auditors may operate as a waiver of that privilege.

## Automated data gathering

Grant Thornton uses automated data gathering tools to efficiently extract large data sets needed to perform our services. These automated data gathering tools are designed to be executed by the System's information technology professionals within the System's information systems environment.

## Other costs

Except with respect to a dispute or litigation between Grant Thornton and the System as it relates to the services provided herein, our costs (including reasonable attorneys' fees), and time spent in legal and regulatory matters or proceedings arising from our engagement, such as subpoenas, testimony, or consultation involving private litigation, arbitration, industry, or government regulatory inquiries, whether made at the System's request or by subpoena, will be billed to the System separately.

Professional standards impose responsibilities regarding the reporting of noncompliance with laws and regulations or illegal acts that have or may have occurred. To fulfill our responsibilities, we may need to consult with the System's legal counsel or counsel of our choosing about any illegal acts that we become aware of. Additional fees, including reasonable attorneys' fees, will be billed to the System. The System agrees to ensure full cooperation with any procedures that we may deem necessary to perform.

### Hiring of personnel

Prior to entering into any employment discussions with such known individuals, you agree to discuss the potential employment, including any applicable independence ramifications, with the engagement partner responsible for the services.

### Standards of performance

We will perform our services in conformity with the terms expressly set forth in this Engagement Letter and the Agreement, including all applicable professional standards. If because of a change in the System's status or due to any other reason, any provision in this Engagement Letter or the Agreement would be prohibited by laws, regulations, or published interpretations by governmental bodies, commissions, state boards of accountancy, or other regulatory agencies, such provision shall, to that extent, be of no further force and effect, and the Engagement Letter shall consist of the remaining portions.

### Dispute resolution

Disputes shall be resolved in accordance with the provisions set forth in the Agreement.



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## Report on the Firm's System of Quality Control

To the Partners of Grant Thornton LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Grant Thornton LLP (the "firm") applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2023. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### *Firm's Responsibility*

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### *Peer Reviewer's Responsibility*

Our responsibility is to express an opinion on the design of and the compliance with the firm's system of quality control based on our review.

### *Required Selections and Considerations*

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; an audit performed under FDICIA; and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### *Opinion*

In our opinion, the system of quality control for the accounting and auditing practice of Grant Thornton LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2023, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Grant Thornton LLP has received a peer review rating of *pass*.

FORVIS LLP

FORVIS, LLP

December 1, 2023



# Management Representation Letter

Audit Wrap Up Presentation



(NYC Water Board letterhead)

October xx, 2024

Grant Thornton LLP  
757 Third Avenue, 9<sup>th</sup> Floor  
New York, NY 10017

We are providing this letter in connection with your audits of the combining financial statements of the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"), which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of The City of New York, which collectively are comprised of the combining statements of net position, the related combining statements of revenue, expenses and changes in net position, and combining statements of cash flows as of June 30, 2024 and 2023 and for the years then ended, and the related notes to the combining financial statements. We understand that your audits were made for the purpose of expressing an opinion as to whether the combining financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

We have fulfilled our responsibility, as set out in the terms of the Audit Contract, for the preparation and fair presentation in the combining financial statements of the respective financial position of the business-type activities and the respective changes in financial position and cash flows, where applicable, in accordance with US GAAP. We acknowledge our responsibility for understanding and complying with the laws, regulations, and provisions of contracts and grant agreements and other matters applicable to the System. We further acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to error or fraud, including programs and controls to prevent and detect fraud.

The representations in this letter, whether or not explicitly so indicated, are made with reference to material matters. Items are considered to be material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of October xx, 2024, the following representations made to you during your audits.

1. The combining financial statements referred to above, including the related notes, have been prepared and are fairly presented in accordance with US GAAP.
2. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the combining financial statements, including all financial records, documentation of internal control over financial reporting, and related information
  - b. Additional information you have requested for audit purposes
  - c. Unrestricted access to persons from whom you determined it necessary to obtain audit evidence
  - d. Minutes of the meetings of the Water Board and Authority's Board, and committees of the respective boards or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. There have been no communications, written or oral, from regulatory agencies or others concerning noncompliance with, or deficiencies in, financial reporting practices.
4. All transactions have been recorded in the accounting records and are reflected in the combining financial statements.
5. There are no significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting of which we are aware.

6. There are no side agreements or other arrangements (either written or oral) that have not been disclosed to you.
7. We have disclosed to you the results of our assessment of the risk that the combining financial statements may be materially misstated as a result of fraud. We have no knowledge of fraud or suspected fraud affecting the System involving:
  - a. Management
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the combining financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's combining financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
9. There are no known violations or possible violations of, or no known instances of noncompliance or suspected noncompliance with, laws and regulations whose effects should be considered by management when preparing the combining financial statements, as a basis for recording a loss contingency or for disclosure.
10. The System has complied with all aspects of contractual agreements that would have a material effect on the combining financial statements in the event of a noncompliance.
11. The System has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
12. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

Events or changes in circumstances may include a significant decrease in the market price, change in the use of an asset, adverse changes in the business or legal climate, loss of customers, operating or cash flow losses, an expectation to sell assets before the end of the previously estimated life, and costs in excess of amounts to acquire or build an asset.

13. We have disclosed to you the identity of all the System's related parties and all related party relationships and transactions of which we are aware. Related party relationships and transactions and related amounts receivable from or payable to related parties (including sales, purchases, loans, transfers, leasing arrangements, and guarantees) have been properly accounted for and disclosed in the combining financial statements in accordance with US GAAP.

We understand that "related parties" include (1) affiliates of the System; (2) entities for which investments in their equity securities would be required to be accounted for by the equity method by the investing entity; (3) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; (4) board members of the System and members of their immediate families; and (5) management of the System and members of their immediate families.

Related parties also include (1) other parties with which the System may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (2) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

14. We have no knowledge of any business relationships, financial relationships, or other relationships that the System or its affiliates has with New Mountain Capital or its affiliates. We also acknowledge our responsibility for communicating to you all relationships, including business relationships, financial relationships, or other relationships, that the System or its affiliates are considering with New Mountain Capital or its affiliates. We have not identified any such relationships.

We understand that "business relationships" include (1) teaming arrangements, (2) alliances, (3) joint investments or joint ventures, and (4) vendor in the ordinary course arrangements. We also understand that

"financial relationships" include (1) direct financial investments, (2) material, indirect financial investments, and (3) lending relationships.

15. We have no knowledge of any participation in, investment in, purchase of, or ownership of the debt of Grant Thornton Advisors LLC by the System or its downstream affiliates (subsidiaries or investees). We have informed the appropriate individuals that make investment decisions for the System and its affiliates, including any investment committee and third-party investment advisors, if applicable, that participating in, investing in, purchasing, or owning the debt of Grant Thornton Advisors LLC may impair your independence. We also acknowledge that, if it comes to our attention that the System or its affiliates are considering participating in, investing in, purchasing, or otherwise owning the debt of Grant Thornton Advisors LLC, we will bring such matters to your attention immediately for further discussion and evaluation.

16. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, are properly disclosed in the financial statements.

Significant estimates are estimates at the date of the statement of financial position that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

17. The methods, significant assumptions, and data used in making accounting estimates and the related disclosures, including those measured at fair value, are reasonable, are consistently applied, and result in a measurement appropriate to achieve recognition, measurement, or disclosure for financial statement and disclosure purposes in accordance with the financial reporting framework. In addition, the data used in making accounting estimates is accurate and complete. No events have occurred subsequent to the date of the combining financial statements through the date of this letter that would require adjustment to these estimates and fair value measurements, or the related disclosures included in the combining financial statements.

18. In accordance with GASB Statement No. 72, *Fair Value Measurements and Application*, the System has categorized its financial instruments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs that are used to measure the securities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

19. Financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk have been properly accounted for and disclosed in the combining financial statements, including disclosures about:

- The extent, nature, and terms of the financial instruments
- The amount of credit risk, including significant concentrations of credit risk
- Information about the collateral supporting the financial instruments.

20. There are no guarantees, whether written or oral, under which the System is contingently liable.

21. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. Expenses have been appropriately classified in or allocated to functions and programs in the combining statement of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.

24. Revenues are appropriately classified in the statement of revenues, expenses and changes in net position within operating revenues, non-operating revenues, or capital contributions.

25. Internal and intra-entity activity and balances have been appropriately classified and reported.

26. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.

27. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
28. The System's ability to continue as a going concern was evaluated and appropriate disclosures are made in the combining financial statements, as necessary, under GASB requirements.
29. There are no known actual or possible litigation, claims, or assessments that our legal counsel has advised us are probable of assertion whose effects should be considered by management when preparing the combining financial statements and that should be accounted for and disclosed in accordance with GASB-62, except as disclosed in the combining financial statements.
30. There are no other liabilities or gain or loss contingencies that are required to be accounted for or disclosed in accordance with GASB-62.
31. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the combining financial statements.
32. We acknowledge our responsibility for the Management's Discussion and Analysis, Schedule of Changes for Total OPEB Plan Liability and Related Ratios, Schedule of the Authority's Proportionate Share of the Net Pension Liability, and Schedule of the Authority's Pension Contributions, which GASB considers to be an essential part of financial reporting for placing the basic combining financial statements in an appropriate operational, economic, or historical context. Such required supplementary information is measured and presented in accordance with US GAAP. The methods of measurement and presentation of the required supplementary information are consistent with those used in the prior period. We have disclosed to you the significant assumptions and interpretations underlying the measurement and presentation of the supplementary information.
33. All events subsequent to the date of the combining financial statements through the date of this letter and for which US GAAP requires recognition or disclosure have been recognized or disclosed.

The New York City Water and Sewer System

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Philip Wasserman  
Executive Director, New York City Municipal Water Finance Authority

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Nerissa Moray  
Executive Director, New York City Water Board

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Raymond Lee  
Comptroller, New York City Municipal Water Finance Authority

# Commitment to promote ethical and professional excellence

**We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.**

## **The Ethics Hotline**

(1.866.739.4134) provides individuals a means to call and report ethical concerns.

## **The EthicsPoint URL**

link can be accessed from our external website or through this link:  
[https://secure.ethicspoint.com/domain/en/report\\_custom.asp?clientid=15191](https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191)

**Disclaimer:** EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.