New York City Water and Sewer System

(A Component Unit of The City of New York)

Financial Statements as of and for the
Years Ended June 30, 2013 and 2012,
Required Supplementary Information, and
Independent Auditor's Report

NEW YORK CITY WATER AND SEWER SYSTEM

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Combining Financial Statements

We have audited the accompanying combining statements of net position 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 June 30, 2013 and 2012, and the related combining statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combining financial statements, which collectively comprise the System's basic combining financial statements as listed in the table of contents.

Management's Responsibility for the Combining Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the combining financial statements 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, we express no such opinion. 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 presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the net position of the New York Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2013 and 2012, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the combining financial statements, in 2013, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, and the Schedule of Funding Progress for the Other Postemployment Benefit Plan on page 52 be presented to supplement the basic combining financial statements. Such information, although not a 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Deloitte & Touche LLP

October 17, 2013

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2013 and 2012. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The System is a component unit of The City of New York ("The City").

The basic financial statements of the System, which include the combining statements of net position, the combining statements of revenues, expenses and changes in net position 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") standards. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

In fiscal year 2013, the System implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB Statement No. 63") and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB Statement No. 65"). GASB Statement No. 63 renames the Statement of Net Assets to Statement of Net Position, as well as renaming reported Net Assets, and components thereof, to Net Position. GASB Statement No. 65 resulted in the restatement of the System's fiscal year 2012 financial statements to reflect the recognition of bond issuance costs in the period they were incurred. Prior to GASB Statement No. 65, bond issuance costs were carried on the Statement of Net Position and amortized over the life of the bonds. Since GASB Statement No. 65 requires retroactive treatment, any carrying costs and amortization thereof have been excluded pursuant to the Statement and reported as a restatement of beginning net position in fiscal year 2012. (See Note 2 for a detail of GASB Statement No. 65 adjustments).

Hurricane Sandy

On Monday, October 29, 2012, Hurricane Sandy made landfall in The City. The storm caused widespread damage to the System's facilities, including some of its water supply facilities outside of The City. Extensive flooding also occurred at many System facilities in The City. The City, along with the State and federal governments, is engaged in a major effort to address the repair and long-term stabilization of its infrastructure and other storm-damaged property. The System has recognized a $17.3 million asset impairment loss. The System anticipates that all of its costs relating to the storm will ultimately be paid by the federal government.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2013, 2012 and 2011 (in thousands):

	2013	2012 Restated	2011	Variance 2013 v 2012	Variance 2012 v 2011
REVENUES:					
Water supply and distribution	$ 1,278,646	$ 1,238,352	$ 1,158,977	$ 40,294	$ 79,375
Sewer collection and treatment	2,033,047	1,857,527	1,797,777	175,520	59,750
Other operating revenues	172,283	140,595	111,552	31,688	29,043
Total operating revenues	3,483,976	3,236,474	3,068,306	247,502	168,168
Subsidy income	174,862	196,241	180,986	(21,379)	15,255
Investment income	58,793	48,936	38,313	9,857	10,623
Total revenues	3,717,631	3,481,651	3,287,605	235,980	194,046
EXPENSES:					
Operation and maintenance	1,361,055	1,373,038	1,294,533	(11,983)	78,505
Other operating expenses	14,685	73,814	103,334	(59,129)	(29,520)
Bad debt expense	16,983	28,541	76,799	(11,558)	(48,258)
Administration and general	56,763	47,402	40,424	9,361	6,978
Depreciation expense	677,560	692,296	628,339	(14,736)	63,957
Capital distribution	25,429	42,005	53,591	(16,576)	(11,586)
Loss on retirement of capital assets	3,666	1,646	3,426	2,020	(1,780)
Loss on impairment of capital assets	17,310	-	-	17,310	-
Interest expense	1,225,771	1,246,863	1,178,226	(21,092)	68,637
Total expenses	3,399,222	3,505,605	3,378,672	(106,383)	126,933
Net gain/loss before capital contributions	318,409	(23,954)	(91,067)	342,363	67,113
CAPITAL CONTRIBUTIONS	7,699	26,903	18,696	(19,204)	8,207
CHANGE IN NET POSITION	326,108	2,949	(72,371)	323,159	75,320
NET POSITION - Beginning	(809,032)	(352,888)	(280,517)	(456,144)	(72,371)
Restatement of beginning net position	-	(459,093)	-	459,093	(459,093)
NET (DEFICIT) POSITION - Ending	$ (482,924)	$ (809,032)	$ (352,888)	$ 326,108	$ (456,144)

Operating Revenue

2013-2012

Operating revenues increased by $247.5 million or 7.6% predominantly due to a rate increase of 7.0%.

2012-2011

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

The following summarizes other operating revenues for fiscal years 2013, 2012, and 2011 (in thousands):

				Variance	
	2013	2012	2011	2013 v 2012	2012 v 2011
Upstate water fees	$ 65,640	$ 60,891	$ 64,737	$ 4,749	$ (3,846)
Late payment fees	47,580	44,069	30,270	3,511	13,799
Change in residual interest in sold liens	7,754	12,777	(1,734)	(5,023)	14,511
Release of escrow/trust	21,960	7,353	4,406	14,607	2,947
Federal funding	1,678	2,632	2,504	(954)	128
Connection fees and permits	11,840	12,873	11,369	(1,033)	1,504
Rental rebate	12,273	-	-	12,273	-
Service Line Program	3,558	-	-	3,558	-
Total other operating revenues	$ 172,283	$ 140,595	$ 111,552	$ 31,688	$ 29,043

Other Operating Revenue

2013-2012

Upstate water fees increased by $4.7 million or 7.8% compared to fiscal year 2012. The increase was due largely to the combination of a 9.8% increase in the wholesale rate for the quantity of water the municipality was entitled to by law and a 7.0% increase for consumption in excess of the entitlement quantity, which was billed at the in-City retail rate.

Late payment fees increased by $3.5 million or 8.0%. This increase is due primarily to the rate increase and a decrease in billing adjustments. The substantial completion of DEP's installation of its wireless meter reading system had increased the number of actual readings and reduced the number of estimated readings that had previously resulted in billing adjustments that cancelled late payment fees.

The change in residual interest in sold liens decreased by $5.0 million or 39.3% compared to fiscal year 2012.

In fiscal year 2013, New York State returned $22.0 million of escrowed funds to the System to assist the System in Hurricane Sandy recovery. The escrow fund had been established in 2010 by Department of Environmental Protection to cover the construction of Biological Nutrient Removal ("BNR") facilities to remove nitrogen from the wastewater in the Newtown Creek Wastewater Treatment Plant.

Federal funding of $1.7 million was received by the Water Board in fiscal year 2013 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

Connection fees and permits decreased by $1.0 million or 8.0%. The decrease in revenue from fiscal year 2013 compared to fiscal year 2012 was because fiscal year 2012 revenues were higher due to the System's special initiative in that year to bring buildings into compliance with the New York State Sanitary Code regarding backflow prevention.

A rental rebate of $12.3 million was received by the System from The City in fiscal year 2013. This amount represents a rebate of rental expense for fiscal year 2012. The System has an agreement with The City to cap the rental expense for a three year period with overpayments being returned in the subsequent fiscal year.

The System has engaged American Water Resources ("AWR") to offer service line protection policies to customers. In fiscal year 2013, related customer fees totaled $3.6 million, this amount is included in other operating revenues.

2012-2011

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

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

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

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

Late payment fees increased by $13.8 million or 45.6%. This increase was due primarily to the rate increase of 7.5% and a decrease in billing adjustments. The substantial completion of DEP's installation of its wireless meter reading system increased the number of actual readings and reduced the number of estimated readings that had previously resulted in billing adjustments.

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

Investment Income

2013-2012

Investment income increased by $9.9 million or 20.1% due predominantly to a net increase on unrealized gains. The market value of a Guaranteed Investment Contract ("GIC") increased by $16.8 million from prior year because the counter party did not elect to exercise a one-time option to terminate during fiscal year 2012.

2012-2011

Investment income increased by $10.6 million or 27.7%. The increase was due to a reduction of the unrealized loss on the agreements to purchase securities in fiscal year 2012 of $6.1 million compared to a loss of $14.4 million in fiscal year 2011. The reduction is primarily due to the maturity of a portion of the

agreements to purchase securities. The fair values of the contracts changed as a result of changes in market interest rates.

Operating Expenses

2013-2012

Total operations and maintenance expenses decreased by $12.0 million or 0.9%. The operating expenses decreased by $22.5 million mainly because certain non-personnel costs were offset by reduction of headcount. Rental expense increased by $11.4 million primarily due to increased debt service. Other operating expenses decreased by $59.1 million primarily due to the reversal of a reserve for legal expenses (see note 8). Water Board general and administrative expenses increased by approximately $2.1 million, largely due to expenditures incurred under new contract with service line protection program and an existing contract to evaluate the effectiveness of the operations and maintenance system. Water Authority general and administrative expenses increased by $7.2 million to cover the increase in remarketing and liquidity fees in connection with new variable rate debt and arbitrage rebate accrued expense.

2012-2011

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

Non-operating Expenses

2013-2012

Hurricane Sandy caused $17.3 million of impairment loss to the System's capital assets. The Board and the Authority anticipate that all of the costs relating to Hurricane Sandy will ultimately be recovered from the federal government.

Interest expense decreased by $21.1 million or 1.7% compared to fiscal year 2012. The fiscal year 2012 restatement increased interest expense previously reported. Bond issuance costs of $21.9 million previously recorded as an asset and the amortization of unamortized deferred bond refunding costs of $26.2 million were reclassified as interest expense.

2012-2011

The fiscal year 2012 restated interest expense was $68.6 million or 5.8% increase from fiscal year 2011. This is due to the inclusion of bond issuance costs as a component of interest expense and an increase in bonds outstanding of $1.5 billion or 5.5%.

Changes in Net Position

2013-2012

The change in net position represents the net total of operating income, non-operating losses, and capital contributions. Net position increased by $323.2 million in fiscal year 2013.

2012-2011

Net position decreased by $75.3 million in fiscal year 2012 due primarily to the implementation of GASB Statement No. 65 which required the System to (1) expense bond issuance costs in the period they were incurred, rather than amortize them over time and (2) eliminate the impact of unamortized bond issuance costs within the bond refunding costs. Fiscal year 2012 Net Position was restated by $459.1 million to reflect these changes.

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

	2013	2012 Restated	2011	Variance 2013 v 2012	Variance 2012 v 2011
Current assets	$ 3,020,559	$ 2,496,428	$ 2,251,021	$ 524,131	$ 245,407
Residual interest in sold liens	59,531	51,777	39,000	7,754	12,777
Deferred financing expenses	-	-	176,139	-	(176,139)
Capital assets	27,460,482	26,474,776	24,988,836	985,706	1,485,940
Total assets	$ 30,540,572	$ 29,022,981	$ 27,454,996	$ 1,517,591	$ 1,567,985
Deferred outflows of resources:					
Deferred outflows from hedging	81,108	134,752	53,216	(53,644)	81,536
Unamortized deferred bond refunding costs	9,928	18,071	-	(8,143)	18,071
Total deferred outflows of resources	91,036	152,823	53,216	(61,787)	99,607
Total assets and deferred outflows	$ 30,631,608	$ 29,175,804	$ 27,508,212	$ 1,455,804	$ 1,667,592
Long-term liabilities	29,059,291	$ 28,224,092	$ 26,115,749	$ 835,199	$ 2,108,343
Current liabilities	2,055,241	1,760,744	1,745,351	294,497	15,393
Total liabilities	31,114,532	29,984,836	27,861,100	1,129,696	2,123,736
Net position (deficit):					
Net Investment in capital assets	(945,890)	(840,201)	(215,322)	(105,689)	(624,879)
Restricted for debt service	918,230	687,656	573,461	230,574	114,195
Restricted for operations and maintenance	212,233	212,885	199,636	(652)	13,249
Unrestricted (deficit)	(667,497)	(869,372)	(910,663)	201,875	41,291
Total net (deficit) position	(482,924)	(809,032)	(352,888)	326,108	(456,144)
Total liabilities and net position	$ 30,631,608	$ 29,175,804	$ 27,508,212	$ 1,455,804	$ 1,667,592
		-	-	-	-

2013-2012

Current assets increased by $524.1 million or 21.0%. The increase was due to an increase in debt service funds held by the Authority at June 30, 2013. Customer receivables increased by $67 million and receivable from The City for operations and maintenance increased by $91 million.

Residual interest in sold liens increased by $7.8 million or 15.0% compared to fiscal year 2012.

Deferred outflows from hedging decreased by $53.6 million due to an increase in the fair value of the hedging derivative instruments.

Long-term liabilities increased by $835.2 million or 3.0% primarily due to the increase in the-long term portion of bonds payable of $798.1 million.

Current liabilities increased by $294.5 million or 16.7%, primarily due to a bond anticipation note ("BAN") of $217 million that matures in fiscal year 2014, an increase of $100 million in commercial paper and also an increase of $10.2 million in revenue received in advance. A reserve liability for legal expenses of $44 million was deemed unnecessary. (See note 8)

2012-2011

Current assets increased by $245.4 million or 10.9%. The increase is due to an increase in monies held by the Authority for debt service in fiscal year 2012.

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

Long term liabilities increased by $2.1 billion primarily due to the increase in long-term portion of bonds payable of $1.5 billion and unamortized deferred bond refunding costs.

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

Capital Assets

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

	2013	2012	2011	Variance 2013 v 2012	Variance 2012 v 2011
Nondepreciable assets -					
Utility construction	$ 9,063,048	$ 8,422,470	$ 7,804,563	$ 640,578	$ 617,907
Utility plant in service:					
Buildings	34,877	34,877	34,877	-	-
Equipment	2,211,487	2,014,704	1,723,907	196,783	290,797
Vehicles	157,118	150,531	150,591	6,587	(60)
Water supply and wastewater treatment systems and water distribution and sewage collection systems	26,470,360	25,669,088	24,407,185	801,272	1,261,903
Total utility plant in service	28,873,842	27,869,200	26,316,560	1,004,642	1,552,640
Less accumulated depreciation for:					
Buildings	(21,189)	(19,820)	(18,447)	(1,369)	(1,373)
Equipment	(927,797)	(790,180)	(667,675)	(137,617)	(122,505)
Vehicles	(104,798)	(98,639)	(93,086)	(6,159)	(5,553)
Water supply and wastewater treatment systems and water distribution and sewage collection systems	(9,422,624)	(8,908,255)	(8,353,079)	(514,369)	(555,176)
Total accumulated depreciation	(10,476,408)	(9,816,894)	(9,132,287)	(659,514)	(684,607)
Total - net utility plant in service	18,397,434	18,052,306	17,184,273	345,128	868,033
Total capital assets - net	$ 27,460,482	$ 26,474,776	$ 24,988,836	$ 985,706	$ 1,485,940

The increase in the System's capital assets, net of depreciation during fiscal year 2013 was $985.7 million or 3.7%. Capital asset additions for fiscal year 2013 were $1.7 billion. See Note 3 (Utility Plant) for further details.

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

Debt Administration

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

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

At June 30, 2013, the total outstanding debt of the System was $29.5 billion, of which $500 million was commercial paper and $217 million was outstanding against Fiscal Series 2013-2 BAN issued to EFC. The commercial paper and Fiscal Series 2013-2 BAN are included in current liability. The remaining $28.8 billion consisted of variable and fixed-rate bonds maturing in varying installments through 2047 and Fiscal Series 2010-1 BAN.

The total outstanding long-term debt at June 30, 2013 was as follows (in thousands):

Issue Date	Principal Outstanding
2013	$ 2,295,050 *
2012	3,648,100
2011	4,460,285
2010	3,275,393
2009	3,465,417
2008 and prior	11,632,140
Total long-term debt	$ 28,776,385

* includes $206 million of 2010-1 BAN.

In the summary above, bonds retired through refunding in fiscal year 2013 are removed from the year in which the refunded bonds were issued, and the refunding bonds are included in the fiscal year 2013 amount.

In fiscal year 2013 the Authority issued $2.0 billion of water and sewer revenue bonds directly to the public, including $594.7 million of refunding bonds and $1.4 billion of new money bonds. The Authority also issued $316.8 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, all of which were refunding bonds. The Authority also drew down an additional $97.8 million against its Fiscal 2010 Series 1 BAN and $217 million against its Fiscal 2013 Series 2 BAN issued to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of

commercial paper notes, which had previously financed capital improvements to the system, and to pay for bond issuance costs.

On July 12, 2012, the Authority issued $316.8 million of refunding fixed rate Second Resolution Revenue Bonds, Fiscal 2013 Series 1 bonds to EFC. The source of funds to the Authority for the bonds was from tax-exempt bonds issued by EFC (2012 D). The proceeds from this issuance were used to refund all of EFC's outstanding Series 2002 E and Series K bonds and the Authority's Fiscal 2002 Series 6 and Fiscal 2003 Series 2 bonds issued to EFC as security for the EFC bonds being refunded and to pay the bond issuance costs.

On September 27, 2012, the Authority issued Fiscal 2013 Series 2 BAN to EFC in the amount of $217 million. The Authority drew the full amount of the BAN on November 8, 2012. The BAN was paid down on September 27, 2013.

On October 4, 2012, the Authority issued $200 million of new money tax-exempt adjustable rate Second Resolution Revenue Bonds, Fiscal 2013 Series AA-1 and AA-2. The bonds are backed by a standby bond purchase agreement from two banks. These bonds will mature in 2046 and were used to refund the Authority's commercial paper notes Series 6.

On December 13, 2012, the Authority issued $440.5 million of new money tax-exempt fixed rate Second Resolution Revenue Bonds, Fiscal 2013 Series BB. This bond issue included term bonds maturing in 2047. The Authority used proceeds to pay for new money projects, refund commercial paper notes, and to pay the bond issuance costs.

On March 1, 2013, the Authority issued $455.9 million of new money tax-exempt fixed rate Second Resolution Revenue Bonds, Fiscal 2013 Series CC. This bond issue included term bonds maturing in 2047. The Authority used proceeds to pay for new money projects, refund commercial paper notes and pay bond issuance costs.

On March 21, 2013, the Authority issued $543.3 million of refunding tax-exempt fixed rate Second Resolution Revenue Bonds, Fiscal 2013 Series DD. The bonds included serial bonds maturing from 2027 through 2038. The proceeds of the bonds were used to refund all of the Authority's outstanding General (first) Resolution Revenue Bonds Fiscal 2003 Series E and Fiscal 2004 Series A bonds and pay the bond issuance costs.

On June 27, 2013, the Authority issued $344.3 million of new money and refunding tax-exempt fixed rate Second Resolution Revenue Bonds, Fiscal 2013 Series EE. The new money bonds included two term bonds maturing in 2047. The bonds refunded $41.1 million of General Resolution Revenue Bonds, Fiscal 2004 Series C bonds and $11.3 million of General Resolution Revenue Bonds, Fiscal 2005 Series B bonds. The refunding bonds included serial bonds maturing from 2028 through 2035. The Authority used the new money proceeds to refund commercial paper and to pay bond issuance costs.

Economic Factors and Next Year's Rates

In May of each year, the Board adopts rates for the following fiscal year. A rate increase of 5.6% for fiscal year 2014, based on projected revenues and costs, became effective July 1, 2013.

Request for Information

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

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NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
June 30, 2013
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 8,008	$ 10	$ -	$ 8,018
Restricted cash and cash equivalents	1,043	1,324,186	-	1,325,229
Restricted investments	211,190	590,742	-	801,932
Accrued interest and subsidy receivable	-	21	-	21
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of $356,300	414,019	-	-	414,019
Unbilled	318,461	-	-	318,461
Receivable from The City of New York	152,879	-	-	152,879
Total current assets	1,105,600	1,914,959	-	3,020,559
NON-CURRENT ASSETS:				
Utility plant in service – less accumulated depreciation of $10,476,406	18,397,434	-	-	18,397,434
Utility plant construction	9,063,048	-	-	9,063,048
Total capital assets	27,460,482	-	-	27,460,482
Residual interest in sold liens	59,531	-	-	59,531
Revenue required to be billed by and received from the Board	-	15,862,826	(15,862,826)	-
Total non-current assets	27,520,013	15,862,826	(15,862,826)	27,520,013
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows from hedging	-	81,108	-	81,108
Unamortized deferred bond refunding costs	-	9,928	-	9,928
Total deferred outflows of resources	-	91,036	-	91,036
Total assets and deferred outflows	$ 28,625,613	$ 17,868,821	$ (15,862,826)	$ 30,631,608

See notes to combining financial statements. (Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
June 30, 2013
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 2,031	$ 55,454	$ -	$ 57,485
Revenue received in advance	61,560	-	-	61,560
Commercial paper payable	-	500,000	-	500,000
Current portion of bonds and notes payable	-	787,654	-	787,654
Payable to The City of New York	-	572,700	-	572,700
Service credits on customer accounts	75,842	-	-	75,842
Total current liabilities	139,433	1,915,808	-	2,055,241
LONG-TERM LIABILITIES:				
Bonds and notes payable - net of current portion	-	28,205,731	-	28,205,731
Net premium on bonds and notes payable	-	658,858	-	658,858
Pollution remediation obligation	116,858	-	-	116,858
Interest rate swap agreement - net	-	74,603	-	74,603
Revenue requirements payable to the Authority	15,862,826	-	(15,862,826)	-
Other long-term liability	-	3,241	-	3,241
Total long-term liabilities	15,979,684	28,942,433	(15,862,826)	29,059,291
Total liabilities	16,119,117	30,858,241	(15,862,826)	31,114,532
NET POSITION:				
Net investment in capital assets	27,460,482	(28,406,372)	-	(945,890)
Restricted for debt service	-	918,230	-	918,230
Restricted for operations and maintenance	212,233	-	-	212,233
Unrestricted (deficit)	(15,166,219)	14,498,722	-	(667,497)
Total net position	12,506,496	(12,989,420)	-	(482,924)
TOTAL	$ 28,625,613	$ 17,868,821	$ (15,862,826)	$ 30,631,608

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
June 30, 2012 (Restated)
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 5,453	$ 7	$ -	$ 5,460
Restricted cash and cash equivalents	49	1,158,351	-	1,158,400
Restricted investments	212,836	391,836	-	604,672
Accrued interest and subsidy receivable	-	27	-	27
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of $339,317	370,643	-	-	370,643
Unbilled	294,855	-	-	294,855
Receivable from The City of New York	62,371	-	-	62,371
Total current assets	946,207	1,550,221	-	2,496,428
NON-CURRENT ASSETS:				
Utility plant in service – less accumulated depreciation of $9,816,893	18,052,306	-	-	18,052,306
Utility plant construction	8,422,470	-	-	8,422,470
Total capital assets	26,474,776	-	-	26,474,776
Residual interest in sold liens	51,777	-	-	51,777
Revenue required to be billed by and received from the Board	-	16,044,536	(16,044,536)	-
Total non-current assets	26,526,553	16,044,536	(16,044,536)	26,526,553
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows from hedging	-	134,752	-	134,752
Unamortized deferred bond refunding costs	-	18,071	-	18,071
Total deferred outflows of resources	-	152,823	-	152,823
Total assets and deferred outflows	$ 27,472,760	$ 17,747,580	$ (16,044,536)	$ 29,175,804

See notes to combining financial statements. (Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
June 30, 2012 (Restated)
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 45,524	$ 54,357	$ -	$ 99,881
Revenue received in advance	51,296	-	-	51,296
Commercial paper payable	-	400,000	-	400,000
Current portion of bonds and notes payable	-	451,409	-	451,409
Payable to The City of New York	-	677,880	-	677,880
Service credits on customer accounts	80,278	-	-	80,278
Total current liabilities	177,098	1,583,646	-	1,760,744
LONG-TERM LIABILITIES:				
Bonds and notes payable - net of current portion	-	27,526,870	-	27,526,870
Net premium on bonds and notes payable	-	465,991	-	465,991
Pollution remediation obligation	108,301	-	-	108,301
Other long-term liability	-	122,930	-	122,930
Revenue requirements payable to the Authority	16,044,536	-	(16,044,536)	-
Total long-term liabilities	16,152,837	28,115,791	(16,044,536)	28,224,092
Total liabilities	16,329,935	29,699,437	(16,044,536)	29,984,836
NET POSITION:				
Net investment in capital assets	26,474,776	(27,314,977)	-	(840,201)
Restricted for debt service	-	687,656	-	687,656
Restricted for operations and maintenance	212,885	-	-	212,885
Unrestricted (deficit)	(15,544,836)	14,675,464	-	(869,372)
Total net position	11,142,825	(11,951,857)	-	(809,032)
TOTAL	$ 27,472,760	$ 17,747,580	$ (16,044,536)	$ 29,175,804

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2013
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 1,278,646	$ -	$ 1,278,646
Sewer collection and treatment	2,033,047	-	2,033,047
Other operating revenues	172,283	-	172,283
Total operating revenues	3,483,976	-	3,483,976
OPERATING EXPENSES:			
Operation and maintenance	1,361,055	-	1,361,055
Bad debt expense	16,983	-	16,983
Administration and general	11,594	45,169	56,763
Other operating expenses	14,685	-	14,685
Total operating expenses	1,404,317	45,169	1,449,486
Depreciation expense	677,560	-	677,560
OPERATING INCOME (LOSS)	1,402,099	(45,169)	1,356,930
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,225,771)	(1,225,771)
Loss on retirement of capital assets	(3,666)	-	(3,666)
Loss on impairment of capital assets	(17,310)	-	(17,310)
Subsidy income	-	174,862	174,862
Capital distribution	(25,429)	-	(25,429)
Investment income	278	58,515	58,793
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,355,971	(1,037,563)	318,409
CAPITAL CONTRIBUTION	7,699	-	7,699
CHANGE IN NET POSITION	1,363,670	(1,037,563)	326,108
NET POSITION (DEFICIT) - Beginning of year	11,142,826	(11,951,858)	(809,032)
NET POSITION (DEFICIT) - End of year	$ 12,506,496	$ (12,989,421)	$ (482,924)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2012 (Restated)
(In thousands)

	New York City		
	Water Board	**Municipal Water Finance Authority**	**Total**
OPERATING REVENUES:			
Water supply and distribution	$ 1,238,352	$ -	$ 1,238,352
Sewer collection and treatment	1,857,527	-	1,857,527
Other operating revenues	140,595	-	140,595
Total operating revenues	3,236,474	-	3,236,474
OPERATING EXPENSES:			
Operation and maintenance	1,373,038	-	1,373,038
Bad debt expense	28,541	-	28,541
Administration and general	9,478	37,924	47,402
Other operating expenses	73,814	-	73,814
Total operating expenses	1,484,871	37,924	1,522,795
Depreciation expense	692,296	-	692,296
OPERATING INCOME (LOSS)	1,059,307	(37,924)	1,021,383
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,224,943)	(1,224,943)
Bond issuances costs	-	(21,920)	(21,920)
Loss on retirement of capital assets	(1,646)	-	(1,646)
Subsidy income	-	196,241	196,241
Capital distribution	(42,005)	-	(42,005)
Investment income	239	48,697	48,936
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,015,895	(1,039,849)	(23,954)
CAPITAL CONTRIBUTION	26,903	-	26,903
CHANGE IN NET POSITION	1,042,798	(1,039,849)	2,949
NET POSITION (DEFICIT) - Beginning of year	10,100,028	(10,452,916)	(352,888)
Restatement of beginning net position (note 2)	-	(459,093)	(459,093)
NET POSITION (DEFICIT) - End of year	$ 11,142,826	$ (11,951,858)	$ (809,032)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2013
(In thousands)

	New York City		
	Water Board	**Municipal Water Finance Authority**	**Total**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,396,406	$ -	$ 3,396,406
Payments for operations and maintenance	(1,451,563)	-	(1,451,563)
Payments for administration	(9,401)	(42,072)	(51,473)
Net cash provided by (used in) operating activities	1,935,442	(42,072)	1,893,370
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	4,243,673	4,243,673
Acquisition and construction of capital assets	293	(1,857,581)	(1,857,288)
Payments by the Board to the Authority	(1,934,111)	1,934,112	1
Repayments of bonds, notes and other borrowings	-	(2,933,934)	(2,933,934)
Interest paid on bonds, notes and other borrowings	-	(1,035,137)	(1,035,137)
Net cash (used in) provided by capital and related financing activities	(1,933,818)	351,133	(1,582,685)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	234,774	68,881	303,655
Purchase of investments	(233,347)	(243,655)	(477,002)
Interest on investments	498	31,551	32,049
Net cash provided by (used in) investing activities	1,925	(143,223)	(141,298)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,549	165,838	- 169,387
CASH AND CASH EQUIVALENTS - Beginning of year	5,502	1,158,358	1,163,860
CASH AND CASH EQUIVALENTS - End of year	$ 9,051	$ 1,324,196	$ 1,333,247

See notes to combining financial statements. (Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2013
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,402,099	$ (45,169)	$ 1,356,930
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	677,560	-	677,560
Other operations expense paid for with bond proceeds	40,014	-	40,014
Pollution remediation expense	10,122	-	10,122
Changes in assets and liabilities (net):			
Pollution remediation liability	8,557	-	8,557
Receivables - net	(66,983)	6	(66,977)
Receivable from The City	(90,508)	-	(90,508)
Residual interest in sold liens	(7,754)	-	(7,754)
Accounts payable	(43,493)	3,091	(40,402)
Revenues received in advance	10,264	-	10,264
Refunds payable	(4,436)	-	(4,436)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,935,442	$ (42,072)	$ 1,893,370

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of $43,694 in 2013.

Capital expenditures in the amount $572,700 had been incurred but not paid at June 30, 2013.

The Board received capital assets of $7,407 in 2013 which represented capital contributed by The City.

The Board received capital assets of $293 in 2013 which represented capital contributed by Westchester County.

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2012 (Restated)
(In thousands)

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

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2012 (Restated)
(In thousands)

	New York City		
	Water Board	**Municipal Water Finance Authority**	**Total**
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,059,307	$ (37,924)	$ 1,021,383
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	692,296	-	692,296
Operations and maintenance expense paid for with bond proceeds	44,092	-	44,092
Pollution remediation expense	24,074	-	24,074
Changes in assets and liabilities (net):			
Pollution remediation liability	5,648	-	5,648
Other receivables - net	(51,176)	-	(51,176)
Receivable from The City	(26,083)	(25)	(26,108)
Residual interest in sold liens	(12,777)	-	(12,777)
Accounts payable	472	392	864
Revenues received in advance	(10,221)	-	(10,221)
Refunds payable	15,911	-	15,911
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,741,543	$ (37,557)	$ 1,703,986

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of $17,493 in 2012.

Capital expenditures in the amount $677,880 had been incurred but not paid at June 30, 2012.

The Board received capital assets of $26,611 in 2012 which represented capital contributed by The City.

The Board received capital assets of $292 in 2012 which represented capital contributed by Westchester County.

See notes to combining financial statements. (Concluded)

1. ORGANIZATION

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

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

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

In accordance with Governmental Accounting Standards Board ("GASB") standards, the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying combining financial statements for the System present the individual financial statements of the 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 Board and the Authority are eliminated in the entity-wide combining financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Bond Discount and Premium — Bond discount and premium are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and premium.

Utility Plant — Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board's policy to capitalize assets with a cost of $35,000 or more and a useful life of five years or longer. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 included in service credits on customer accounts, not in accounts receivable.

Unamortized Deferred Bond Refunding Costs — Deferred bond refunding costs represent the gains or losses incurred in advance refundings of outstanding bonds. Gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt. As part of implementing GASB Statement No. 65, the unamortized bond issuance costs that were previously included have been eliminated (see discussion below).

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement established new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renamed the statement of net assets to statement of net position, as well as reported net assets, and components thereof, to net position. The Statement was effective for financial statements for periods beginning after December 15, 2011. The System has implemented GASB Statement No. 63 in fiscal year 2013 and, as a result, it has renamed its financial statements to the Statement of Net Position and components thereof, with no financial impact.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB statement No. 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB Statement No. 65 are effective for financial statement for periods beginning after December 15, 2012. In fiscal year 2013, the System implemented GASB Statement No. 65, which required the System to retroactively recognize bond issuance costs as outflows of resources and restate its fiscal year 2012 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof.

The implementation of GASB Statement No. 65 has resulted in a restatement of the System's fiscal year 2012 financial statements, the net impact of which was a reduction of the beginning Net Position (formerly referred to as "Net Asset (deficit)") of $459 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The restatement resulted from the implementation of GASB Statement No. 65, which required the System to (1) to expense bond issuance costs in the period they were incurred, rather than amortize them over time (2) to report the bond issuance costs as a component of interest expense, rather than as amortization of bond issuance costs, as was previously reported by the Authority, and (3) to eliminate the impact of unamortized bond issuance costs within bond refunding costs.

The System's beginning Net Position restatement reflected the cumulative impact of expensing all pre-fiscal year 2012 unamortized bond issuance costs in the amount of $176 million and of all deferred bond refunding costs through call dates of the bonds in the amount of $283 million. The deferred bond refunding costs previously reported on the balance sheet as of June 30, 2012 was $310 million and has been restated to $18 million.

On the Combining Statements of Revenues, Expenses and Changes in Net Position, the expensing of bond issuance costs incurred during fiscal year 2012 resulted in an increase in interest expense of $11.5 million and a decrease in amortization expense of $1.5 million. This created an increase in net loss for fiscal year 2012 of $9 million.

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

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

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

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2013 and 2012 (in thousands):

	Balance at 06/30/11	Additions	Deletions	Balance at 06/30/12	Additions	Deletions[1]	Balance at 06/30/13
Nondepreciable assets/							
Ultility construction	$ 7,804,563	$2,254,102	$ 1,636,195	$ 8,422,470	$1,684,242	$ 1,043,664	$ 9,063,048
Depreciable assets/							
Utility plant in service							
Buildings	34,877	-	-	34,877	-	-	34,877
Equipment	1,723,907	290,946	149	2,014,704	197,385	602	2,211,487
Vehicles	150,591	-	60	150,531	6,587	-	157,118
Water supply and wastewater treatment systems and water distribution and sewage collection systems	24,407,185	1,345,248	83,345	25,669,088	839,693	38,421	26,470,360
Total depreciable assets	26,316,560	1,636,194	83,554	27,869,200	1,043,665	39,023	28,873,843
Less accumulated depreciation for:							
Buildings	(18,447)	(1,373)	-	(19,820)	(1,369)	-	(21,189)
Equipment	(667,675)	(122,535)	(30)	(790,180)	(137,979)	(362)	(927,797)
Vehicles	(93,086)	(5,611)	(58)	(98,639)	(6,159)	-	(104,798)
Water supply and wastewater treatment systems and water distribution and sewage collection systems	(8,353,079)	(572,646)	(17,470)	(8,908,255)	(532,054)	(17,685)	(9,422,625)
Total accumulated depreciation	(9,132,287)	(702,165)	(17,558)	(9,816,894)	(677,561)	(18,047)	(10,476,409)
Total utility plant in service-net	17,184,273	934,029	65,996	18,052,306	366,104	20,976	18,397,434
Total capital assets- net	$ 24,988,836	$3,188,131	$ 1,702,191	$ 26,474,776	$2,050,346	$ 1,064,640	$ 27,460,482

On Monday, October 29, 2012, Hurricane Sandy made landfall in The City. The storm caused widespread damage to the System's facilities, including some of its water supply facilities outside of The City. Extensive flooding also occurred at many System facilities in The City. The System has recognized a $17.3 million asset impairment loss. The System anticipates that all of its costs relating to the storm will ultimately be paid by the federal government.

[1]Fiscal year 2013 deletions include $25.1 million of impaired assets due to Hurricane Sandy consisting of $17.3 million of impaired loss and $7.8 million of accumulated depreciation.

Contributed Capital — The System received Federal, State and other capital contributions of $7.7 million and $26.9 million in fiscal year 2013 and fiscal year 2012 respectively. Westchester County makes semi-annual capital contributions to compensate the System for constructing a water conduit that provides treated water to the county.

4. INVESTMENTS AND CASH DEPOSITS

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

Cash Deposits — The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of The City and uses independent bank rating agencies in part to assess the financial credit worthiness of each bank. The banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least $100 million. The System had $1 million on deposit at June 30, 2013 and 2012 which was covered by Federal depository insurance and the remaining balance was uncollateralized as of June 30, 2013.

At June 30, 2013 and 2012 the cash deposit balances were $373 million and $532 million respectively.

Cash and cash equivalents, including restricted and unrestricted balances were comprised of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Cash	$ 373,254	$ 531,694
Cash equivalents	959,993	632,166
Cash and cash equivalents	$ 1,333,247	$ 1,163,860

The System had the following investments at June 30, 2013 and 2012 (in thousands):

	Fair Value	
Investments	**2013**	**2012**
U.S. Government Sponsored Entities	$ 1,188,300	$ 835,692
New York State Instrumentalities	416,851	290,192
Dreyfus Government Money Market	20,749	9,311
Guaranteed Investment Contracts	107,153	90,354
Forward Purchase Agreements Market Value Adjustment	28,872	11,289
Total investments including cash equivalents	1,761,925	1,236,838
Less amounts reported as cash equivalents	(959,993)	(632,166)
Investments	$ 801,932	$ 604,672

The System invests funds which are not immediately required for operations, debt service or capital project expenses and funds that are held for debt service and operations and maintenance reserves. Each account of the Authority is held pursuant to the Water and Sewer General Revenue Bond Resolution adopted November 14, 1985 and may be invested in securities or categories of investments that are

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

specifically enumerated as permitted investments for such account pursuant to the Resolution. Reserves for operations and maintenance are invested as permitted by the Board's investment guidelines.

Credit Risk — Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. Investments held by the System at June 30, 2013 and 2012 include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank Discount, the Federal National Mortgage Association or the Federal Farm Credit System, and shares of money market funds, all of which are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's. Also held by the Authority are direct obligations of, or obligations guaranteed by the State of New York, or direct obligations of any agency or public authority thereof, which are rated at the time of purchase, in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and guaranteed investment contracts with financial institutions whose long-term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long-term debt obligations have a rating in one of the two highest rating categories for comparable types of obligations by each rating agency, then maintaining the same rating as held at the time such agreement or contract was entered into.

Interest Rate Risk — The System has no formal policy relating to interest rate risk. Approximately 23% of the System's investments are agreements to purchase securities or GICs with guaranteed fixed rates of return. The par value of the agreements to purchase securities and interest earned are held as cash on June 30, 2013. The fair value of the agreements to purchase securities are themselves susceptible to changes in market interest rates because of the fixed interest rates.

Segmented Time Distribution on Investments and Cash Equivalents

Maturity Date		Fair Value Amount (in thousands)
Under 6 months [1]	$	1,286,155
Over 6 months to 1 year		171,709
Over 1 year to 3 years		91,135
Over 3 years and beyond		76,901
Over 3 years and beyond (GIC and Forward Purchase Agreement adjustments) [2]		136,025
Total	$	1,761,925

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

[2] Includes the fair values of Forward Purchase Agreements and GICs of $28,872 and $107,153 respectively.

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

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

5. DERIVATIVE INSTRUMENTS

As of June 30, 2013 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	$ (48,665)	Aa2/AAA/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	pay 3.439% receive 67% of 1-month LIBOR	(32,443)	A3/A/A
Investment Derivative						
Synthetic variable rate	$ 200,000	12/23/03	6/15/14	Pay SIFMA Index receive 3.567%	$ 6,505	A2/AA-/A+

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

Credit Risk — The Authority is exposed to the risk that the counterparties (or their guarantors) will default under its agreement. Under the synthetic fixed rate agreements, the Authority has the right to terminate the swap, regardless of collateral posting, if a counterparty's ratings fall below both A3 and A-

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

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

5. DERIVATIVE INSTRUMENTS (CONTINUED)

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

Basis Risk — The Authority is exposed to basis risk on its synthetic fixed rate agreements because the amount the Authority receives under the synthetic fixed rate interest rate exchange agreement may be lower than the average monthly variable interest paid on the bonds associated with the agreement, which would require the Authority to make up the shortfall.

Interest Rate Risk — The Authority is exposed to the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. The fixed rate paid by the Authority on its synthetic fixed rate agreements may exceed the rate received (67% of LIBOR).

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

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

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

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

Financial Statements Effect — The market value of derivatives at June 30, 2013 and June 30, 2012, were negative $74.6 million and negative $122.1 million, respectively. The market value of hedge derivatives at June 30, 2013 and June 30, 2012, were negative $81.1 million and negative $134.8 million, respectively. These amounts are shown as deferred outflows in the combining statements of net position. The decrease in market value of the non-hedge derivative at June 30, 2013 and June 30, 2012 was $6.1 million and $3.1 million, respectively.

6. LEASE AGREEMENT

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

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

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

In addition to the payments described above, the Board pays rent to The City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by The City for water and sewer purposes certified by The City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. A summary of operation and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	2013	2012
Water supply, treatment, transmission and distribution	$ 423,467	$ 441,726
Sewer collection and treatment systems	483,382	477,381
City agency support cost	68,217	63,440
Fringe benefits	174,261	185,388
Judgments and claims	3,939	8,693
Operation and maintenance	1,153,266	1,176,628
Rental payments to The City	207,789	196,410
Total operations maintenance and rental payments	$ 1,361,055	$ 1,373,038

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2013 and 2012, all utility construction and other projects financed by Authority debt and recorded by the System, which have not been reimbursed to The City have been recorded as a payable to The City, net of the amount of any State or Federal capital grants received by The City.

As of June 30, 2013 and 2012, the System had a net payable of $419.8 million and $615.5 million, respectively, to The City for payments of utility construction and for overpayment of operations and maintenance expense.

8. OTHER OPERATING EXPENSES

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

	2013	2012
Pollution remediation	$ 18,679	$ 29,722
Payments for watershed improvements	40,014	44,092
Legal Reserve	(44,008)	
Total other operating expenses	$ 14,685	$ 73,814

The City's Department of Environmental Protection manages both the System's operations and its capital program, and it also manages other projects with long-term benefits to the System which do not result in capital assets of the System and which are paid for using Authority debt proceeds, similar to capital projects. Such long-term benefit projects include payment for environmental protection, related improvement in the watershed areas, and pollution remediation projects throughout the System. A legal reserve of $44 million, established for pending litigation was no longer required since all legal proceedings concerning the cases were concluded.

9. SHORT-TERM DEBT

In fiscal year 2013 and 2012, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Commercial paper [1]	$ 400,000	$ 1,778,300	$ 1,778,300	$ 400,000	$ 1,400,000	$ 1,300,000	$ 500,000
Bond Anticipation Notes[1]	-	-	-	-	217,000	-	217,000
Total short-term payable	$ 400,000	$ 1,778,300	$ 1,778,300	$ 400,000	$ 1,617,000	$ 1,300,000	$ 717,000

[1]Commercial paper and Bond Acticipation Notes are used to pay construction costs in advance of long-term bond financing.

9. SHORT-TERM DEBT (CONTINUED)

Commercial paper activity is comprised of the following for the year ended June 30, 2013 (in thousands):

	Balance at June 30, 2012	Issued	Retired	Balance at June 30, 2013
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	$ -	$ 400,000	$ 200,000	$ 200,000
Commercial Paper Series 6 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	400,000	400,000	200,000
Commercial Paper Series 7 - Variable Rate, Short-term Rolling Maturity	200,000	200,000	400,000	-
Commercial Paper Series 8 - Variable Rate, Short-term Rolling Maturity	-	400,000	300,000	100,000
Total commercial paper payable	$ 400,000	$ 1,400,000	$ 1,300,000	$ 500,000

10. LONG-TERM DEBT

In fiscal year 2013, the changes in long-term debt were as follows (in thousands):

Bonds Payable	Restated Balance At June 30, 2012	Additions	Deletions	Balance At June 30, 2013
First resolution	$ 8,239,944	$ -	$ 918,889	$ 7,321,055
Second resolution	19,738,335	2,398,708	681,713	21,455,330
Total bonds payable	27,978,279	2,398,708	1,600,602	28,776,385
Due within one year	(451,409)	-	-	(570,654)
Less discounts — net	(465,991)	(244,042)	(51,150)	(658,883)
Less deferred refunding costs	18,071	2,888	(11,031)	9,928
Total long-term debt	$ 27,974,790	$ 2,157,554	$ 1,560,483	$ 28,854,686

The debt program of the Authority includes commercial paper, long-term debt of the Authority and BANs and subsidized bonds issued through EFC. The commercial paper program is the main source of financing to reimburse The City for payments made for water and sewer projects. The Authority then issues long-term debt of its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher-coupon debt.

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

10. LONG-TERM DEBT (CONTINUED)

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

As part of the American Recovery and Reimbursement Act of 2009, the System has and will receive funding through EFC of $217.5 million for certain projects. Each project included is tracked for spending, and funding is received from EFC after submission of required documentation. The funding is in the form of a BAN payable by the Authority. The total $217.5 million note is expected to be forgiven by EFC after the note is fully drawn. The total spent as of June 30, 2013 is $205.9 million. Based on the expected length of projects, the note is a long-term liability.

The System also will receive funding through EFC of $30 million for certain other projects. Each project is tracked for spending and funding is received from EFC after submission of required documentation. The funding is in the form of a BAN payable by the Authority. The total $30 million note is expected to be forgiven by EFC after the note is fully drawn. As of June 30, 2013 there had been no drawdown. Based on the expected length of projects the note is a long-term liability.

10. LONG-TERM DEBT (CONTINUED)

During fiscal year 2013, the Authority issued $911.5 million of bonds to refund $1.0 billion of outstanding bonds. These refundings resulted in an accounting loss of $11.6 million. The Authority in effect reduced its aggregate debt service for principal and interest by $213.4 million and obtained an economic benefit (present value savings) of $148.9 million.

During fiscal year 2013, the Authority defeased $249 million of outstanding bonds using current revenue. This resulted in an accounting loss of $4.6 million.

During fiscal year 2013, the Authority economically defeased $33.2 million of bonds with current revenue. Bonds economically defeased remain a liability, and the escrow deposited with the Authority's Trustee is an asset on the Authority's records.

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

During fiscal year 2012, the Authority defeased $228.4 million of outstanding bonds using current revenue. This resulted in an accounting loss of $4.5 million.

The Authority has defeased cumulatively $16.1 billion and $14.8 billion of outstanding bonds as of June 30, 2013 and 2012, respectively through the EFC and by placing proceeds of refunding bonds issued in an irrevocable escrow account to provide for all future debt service payments on defeased bonds or with EFC. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's combining financial statements. As of June 30, 2013 and 2012, $13.9 billion and $13.2 billion of the Authority's defeased bonds, respectively, have been retired using the assets of the escrow accounts.

In accordance with GASB Statement No. 65, the deferred bond refunding costs previously reported as an asset were reclassified to deferred outflows of resources. As a result, $282 million (pre fiscal year 2012) was removed and the fiscal year 2012 deferred bond refunding costs was recalculated.

10. LONG-TERM DEBT (CONTINUED)

Debt service requirements to maturity, including amounts relating to commercial paper and the BAN, at June 30, 2013 are as follows (in thousands):

June 30	Principal (1)	Interest (2)	Total
2014	1,070,654	1,327,507	2,398,161
2015	506,158	1,363,014	1,869,172
2016	430,882	1,350,995	1,781,877
2017	469,888	1,335,071	1,804,959
2018	486,198	1,313,915	1,800,113
2019-2023	2,886,689	6,246,541	9,133,230
2024-2028	3,437,949	5,540,466	8,978,415
2029-2033	4,180,753	4,652,639	8,833,392
2034-2038	5,271,925	3,569,070	8,840,995
2039-2043	6,825,780	2,102,696	8,928,476
2044-2048	3,926,510	424,694	4,351,204
	$ 29,493,386	$ 29,226,608	$ 58,719,994

(1) Includes $500 million of commercial paper and $217 million BAN due in fiscal year 2014.

(2) Includes interest for variable rate bonds at 3% for FY 2014 and 4.25% for fiscal year 2015 and thereafter. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

10. LONG-TERM DEBT (CONTINUED)

Bonds, notes payable, and commercial paper are comprised of the following for the year ended June 30, 2013 (in thousands):

	Balance at June 30, 2012	Issued	Retired/ Defeased	Balance at June 30, 2013
1991 Fiscal Series B - 7.00% Serial and Term Bonds maturing in maturing in varying installments through 2014	$ 289	$ -	$ 199	$ 90
1994 Fiscal Series 1 - 5.75% to 5.88% Serial Bonds maturing in varying installments through 2013	12,755	-	12,755	-
1995 Fiscal Series 1 - 6.88% Serial Bonds maturing in varying installments through 2016	8,215	-	3,805	4,410
1997 Fiscal Series A - 6.00% term Bonds maturing in 2021	25,000	-	-	25,000
1998 Fiscal Series D - Capital Appreciation Bonds maturing in varying installments through 2020	110,330	-	-	110,330
1998 Fiscal Series 1 - 5.25% to 5.35% Serial Bonds maturing in varying installments through 2017	16,110	-	2,875	13,235
1998 Fiscal Series 4 - 5.00% to 5.20% Serial Bonds maturing in varying installments through 2018	5,560	-	880	4,680
2000 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 - 5.60% to 5.96% Serial Bonds maturing in varying installments through 2019	5,970	-	720	5,250
2001 Fiscal Series D - Capital Appreciation Bonds maturing in varying installments through 2021	79,845	-	-	79,845
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series 6 - 3.71% to 5.40% Serial Bonds maturing in varying installments through 2019	48,565	-	48,565	-
2003 Fiscal Series A - 4.15% Muni-CP1 Bonds maturing in 2013	20,000	-	20,000	-
2003 Fiscal Series E - 5.00% Term Bonds maturing in 2034 and 2038	367,265	-	367,265	-
2003 Fiscal Series F - Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 2 - 4.97% to 5.24% Serial Bonds maturing in varying installments through 2028	483,785	-	352,950	130,835
2003 Fiscal Series 3 - 0.48% to 5.75% Serial Bonds maturing in varying installments through 2025	15,250	-	880	14,370
2003 Fiscal Series 4 - 0.35% to 5.80% Serial Bonds maturing in varying installments through 2025	24,220	-	1,410	22,810
2003 Fiscal Series 5 - 3.36% to 5.00% Serial Bonds maturing in varying installments through 2032	222,181	-	9,826	212,354
2004 Fiscal Series A - 5.00% Term Bonds maturing in 2027 and 2035	217,000	-	217,000	-
2004 Fiscal Series B - 3.40% to 5.00% Serial bonds maturing in varying installments through 2023	217,955	-	160,120	57,835
2004 Fiscal Series C - 3.10% to 5.00% Serial and Term Bonds maturing in varying installments through 2035	509,770	-	97,030	412,740
2004 Fiscal Series 1 - 3.58% to 5.00% Serial Bonds maturing in varying installments through 2033	232,442	-	9,642	222,800
2004 Fiscal Series 2 - 1.70% to 4.84% Serial Bonds maturing in varying installments through 2026	200,762	-	8,599	192,163
2005 Fiscal Series A - 5.00% Term Bonds maturing in 2039	150,000	-		150,000
2005 Fiscal Series B - 3.38% to 5.00% Serial and Term Bonds maturing in varying installments through 2036	766,400	-	46,075	720,325
2005 Fiscal Series C - 3.50% to 5.00% Serial Bonds maturing in varying installments through 2031	571,010	-	875	570,135

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2012	Issued	Retired/ Defeased	Balance at June 30, 2013
2005 Fiscal Series D - 5.00% Serial Bonds maturing in varying installments through 2039	$ 559,205	$ -	$ -	$ 559,205
2005 Fiscal Series 1 - 3.98% to 5.00% Serial Bonds maturing in varying installments through 2034	182,772	-	7,088	175,683
2005 Fiscal Series 2 - 2.58% to 5.00% Serial Bonds maturing in varying installments through 2034	309,032	-	12,566	296,466
2006 Fiscal Series A - 3.63% to 5.00% Serial Bonds maturing in varying installments through 2039	516,930	-	435	516,495
2006 Fiscal Series B - 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Fiscal Series C - 4.50% to 4.75% Serial Bonds maturing in varying installments through 2033	350,345	-	-	350,345
2006 Fiscal Series D - 4.50% to 5.00% Serial Bonds maturing in varying installments through 2038	406,205	-	-	406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB - 3.60% to 5.00% Serial Bonds maturing in varying installments through 2016	40,000	-	10,000	30,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2035	184,952	-	7,483	177,469
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	172,428	-	5,838	166,590
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	220,379	-	7,405	212,975
2007 Fiscal Series A - 4.25% to 4.75% Serial Bonds maturing in varying installments through 2039	587,975	-	-	587,975
2007 Fiscal Series AA - 4.50% to 5.00% Term Bonds maturing in 2037	199,910	-	-	199,910
2007 Fiscal Series BB - 3.75% to 5.00% Serial Bonds maturing in varying installments through 2021	131,745	-	1,700	130,045
2007 Fiscal Series CC - Adjustable rate bonds maturing in 2038	210,500	-	-	210,500
2007 Fiscal Series DD - 4.75% to 5.00% Serial Bonds maturing in varying installments through 2038	270,000	-	-	270,000
2007 Fiscal Series 1 - 2.55% to 5.00% Serial Bonds maturing in varying installments through 2036	196,436	-	7,093	189,343
2007 Fiscal Series 2 - 2.60% to 4.80% Serial Bonds maturing in varying installments through 2036	250,717	-	8,847	241,871
2007 Fiscal Series 3 - 4.17% to 6.42% Serial Bonds maturing in varying installments through 2024	149,330	-	13,650	135,680
2008 Fiscal Series A - 5.00% term Bonds maturing in 2037 and 2038	446,245	-	-	446,245
2008 Fiscal Series B - Adjustable rate bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C - 3.00% to 5.25% Serial Bonds maturing in varying installments through 2021	98,860	-	9,890	88,970
2008 Fiscal Series AA - 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB - Adjustable rate bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series DD - 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 - 3.00% to 5.00% Serial Bonds maturing in varying installments through 2037	224,891	-	13,326	211,565

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2012	Issued	Retired/ Defeased	Balance at June 30, 2013
2008 Fiscal Series 2 - 3.04% to 5.00% Serial Bonds maturing in varying installments through 2037	$ 202,439	$ -	$ 7,232	$ 195,206
2009 Fiscal Series AA - 3.25% to 5.00% Serial Bonds maturing in varying installments through 2022	334,075	-	2,050	332,025
2009 Fiscal Series BB - Adjustable rate bonds maturing in varying installments through 2039	200,870	-	-	200,870
2009 Fiscal Series CC - 4.75% to 5.25% Serial Bonds maturing in varying installments through 2034	150,100	-	-	150,100
2009 Fiscal Series A - 5.00% to 5.75% Serial Bonds maturing in varying installments through 2040	536,030	-	-	536,030
2009 Fiscal Series DD - 5.25% to 6.00% Serial Bonds maturing in varying installments through 2040	325,580	-	-	325,580
2009 Fiscal Series EE - 2.50% to 5.50% Serial Bonds maturing in varying installments through 2040	645,455	-	-	645,455
2009 Fiscal Series FF - 3.00% to 5.50% Serial Bonds maturing in varying installments through 2040	362,830	-	-	362,830
2009 Fiscal Series 1 - 3.86% to 5.16% Serial Bonds maturing in varying installments through 2038	354,746	-	9,105	345,641
2009 Fiscal Series 2 - 4.87% Serial Bonds maturing in varying installments through 2038	71,418	-	4,532	66,886
2009 Fiscal Series GG - 4.13% to 5.25% Serial Bonds maturing in varying installments through 2040	500,000	-	-	500,000
2010 Fiscal Series AA - 5.75% to 6.25% Term Bonds maturing in 2041	504,240	-	-	504,240
2010 Fiscal Series BB - 2.50% to 5.00% Serial Bonds maturing in varying installments through 2027	216,025	-	31,740	184,285
2010 Fiscal Series CC - Adjustable rate bonds maturing in 2041	200,000	-	-	200,000
2010 Fiscal Series DD - 5.95% to 6.45% Term Bonds maturing in 2041 and 2042	400,000	-	-	400,000
2010 Fiscal Series EE - 6.01% to 6.49% Term Bonds maturing in 2041 and 2042	500,000	-	-	500,000
2010 Fiscal Series FF - 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	359,110	-	-	359,110
2010 Fiscal Series 2 - 0.13% to 5.00% Serial Bonds maturing in varying installments through 2039	121,935	-	9,491	112,444
2010 Fiscal Series 3 - 3.61% Serial Bonds maturing in varying installments through 2039	62,810	-	3,885	58,925
2010 Fiscal Series 4 - 4.98% to 5.81% Serial Bonds maturing in varying installments through 2039	196,460	-	-	196,460
2010 Fiscal Series GG - 5.72% to 6.12% Term Bonds maturing in 2042	554,045	-	-	554,045
2010 Fiscal Series 1 Bond Anticipation Note	108,067	97,818	-	205,885
2011 Fiscal Series AA - 5.44% to 5.79% Term Bonds maturing in 2041 and 2043	750,000	-	-	750,000
2011 Fiscal Series BB - 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	209,510	-	-	209,510
2011 Fiscal Series CC - 5.88% to 6.28% Term Bonds maturing in 2042 through 2044	750,000	-	-	750,000
2011 Fiscal Series DD - Adjustable rate bonds maturing in 2043	275,000	-	-	275,000
2011 Fiscal Series EE - 5.38% to 5.50% Term Bonds maturing in 2040 through 2043	450,000	-	-	450,000

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2012	Issued	Retired/ Defeased	Balance at June 30, 2013
2011 Fiscal Series FF - Adjustable rate bonds maturing in 2044	$ 200,000	$ -	$ -	$ 200,000
2011 Fiscal Series GG - 3.13% to 5.00% Serial Bonds maturing in varying installments through 2043	539,655	-	1,990	537,665
2011 Fiscal Series HH - 4.00% to 5.00% Serial Bonds maturing in 2026 through 2032	662,245	-	-	662,245
2011 Fiscal Series 1 and 2 - 3.58% Serial Bonds maturing in varying installments through 2041	652,385	-	26,521	625,864
2012 Fiscal Series A - Adjustable rate bonds maturing in 2044	200,000	-	-	200,000
2012 Fiscal Series B - Adjustable rate bonds maturing in 2045	325,000	-	-	325,000
2012 Fiscal Series 2 and 3 - 2.00% to 5.00% Serial Bonds maturing in varying installments through 2029	669,375	-	31,425	637,950
2012 Fiscal Series AA - 5.00% Serial Bonds maturing in varying installments through 2034; 5.00% Term Bond maturing in 2044	450,900	-	-	450,900
2012 Fiscal Series BB - 4.13% to 5.25% Term Bonds maturing in 2039 and 2044	450,000	-	-	450,000
2012 Fiscal Series CC - 5.00% Term Bonds maturing in 2045	350,000	-	-	350,000
2012 Fiscal Series DD - 3.00% to 4.00% Refundable Principal Installment due in 2018; 5.00% Refundable Principal Installment due in 2027	50,000	-	-	50,000
2012 Fiscal Series EE - 3.00% to 5.25% Serial Bonds maturing in varying installments through 2039; 4.00% Term Bond maturing in 2045	522,505	-	-	522,505
2012 Fiscal Series FF - 3.25% to 5.00% Serial Bonds maturing in varying installments between 2020 and 2033; 3.75% to 5.00% Term Bond maturing in 2034 and 2045	611,745	-	-	611,745
2012 Fiscal Series GG - 5.00% Refundable Principal Installments maturing in 2017 and 2019	50,000	-	-	50,000
2013 Fiscal Series 1 - 2.00% to 5.00% Serial Bonds maturing in varying installments through 2028		316,790	5,840	310,950
2013 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2046	-	200,000	-	200,000
2013 Fiscal Series BB - 3.25% to 5.00% Term Bonds maturing in 2047	-	440,510	-	440,510
2013 Fiscal Series CC - 3.75% to 5.00% Term Bonds maturing in 2047	-	455,955	-	455,955
2013 Fiscal Series DD - 3.13% to 5.00% Serial Bonds maturing in varying installments through 2038	-	543,300	-	543,300
2013 Fiscal Series EE 4.13% to 5.00% Serial Bonds maturing in varying installments through 2047	-	344,335	-	344,335
	27,978,279	2,398,708	1,600,602	28,776,385
Current portion of bonds and notes payable	451,409	-	-	570,654
Bonds and notes payable, less current portion	$27,526,870	$ -	$ -	$28,205,731

(Concluded)

11. RESTRICTED ASSETS

As of June 30, 2013 and 2012, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2013	2012
The Board		
Operation and maintenance reserve account	$ 212,192	$ 212,836
Operation and maintenance reserve fund	41	49
Subtotal - Board	212,233	212,885
The Authority		
Revenue fund	740,991	492,391
Debt service reserve fund	907,917	887,261
Construction fund	228,154	170,534
Ecsrow account	37,866	-
Subtotal -Authority	1,914,928	1,550,186
Total restricted assets	$ 2,127,161	$ 1,763,071

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

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

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

12. COMMITMENTS AND CONTINGENCIES

a. **Construction** — The System has contractual commitments of approximately $4.1 billion and $4.7 billion at June 30, 2013 and 2012, respectively, for water and sewer projects.

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

c. **Claims and Litigation** — In accordance with the Lease, the Board is required to reimburse The City for any judgment or settlement paid by The City arising out of a tort claim to the extent that The City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to The City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. In addition, the System is required to reimburse The City, to the extent requested by The City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements of the System. In addition, The City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers, which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, The City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against The City arising out of alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of law. As of June 30, 2013, the potential future liability attributable to the System for claims outstanding against The City was estimated to be $199.8 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City's statement of net position. 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.

d. **Arbitrage Rebate** — To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all non-purpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During fiscal 2013 and 2012, the System paid $1.1 million and $3.5 million, respectively, in rebates. At June 30, 2013 and 2012, the Authority had a liability of $2.3 million and $2.1 million, respectively. These amounts are included in accrued payable expense in the combining statements of net position.

13. PENSION PLANS

During fiscal year 2013 and 2012, the Authority was billed and contributed $136.2 thousand and $157.3 thousand, respectively, for 13 employees who participate in the defined benefit pension plan. All other personnel are employees of The City and are covered under The City's pension plan. The System pays the costs of The City employees' pension through an allocation of fringe benefit costs, which is included principally within operations and maintenance expenses in the accompanying combining financial statements.

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

Date	Required Contribution	Actual Contribution	%
June 30, 2013	$136	$136	100
June 30, 2012	157	157	100
June 30, 2011	113	113	100

14. OTHER POST-EMPLOYMENT BENEFITS

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

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

Funding Policy — The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2013 and 2012, the Authority had three retirees and made contributions of $13.7 thousand and $8.7 thousand respectively. Members are not required to contribute; although, retirees may elect basic health insurance programs and/or optional coverage that require contributions.

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB 45. The Entry Age Actuarial Cost Method was used in the actuarial valuation prepared as of June 30, 2012, which was the basis for the fiscal year 2013 ARC calculation.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal years ended June 30, 2013 and 2012 (in thousands):

	2013	2012
Annual required contribution	$ 934	$ 799
Interest on net OPEB obligations	32	28
Adjustment to annual required contribution	(821)	(727)
Annual OPEB cost	145	100
Payments	(14)	(9)
Net OPEB obligation - beginning of year	790	699
Net OPEB obligation - end of year	$ 921	$ 790

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2011 through 2013 were as follows (in thousands):

	Annual OPEB Cost	Annual OPEB Cost contributed	OPEB Obligation
June 30, 2013	$ 145	9.5%	$ 921
June 30, 2012	100	8.8	790
June 30, 2011	171	3.3	699

Funded Status and Funding Progress — As of June 30, 2012, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was $793.1 thousand, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $793.1 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was $1.1 million, and the ratio of the UAAL to the covered payroll was 74.6%

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

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The System's funding progress information as of June 30, 2013 is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
June 30, 2012	$ -	$793	$ 793.00	- %	$1,064	74.6 %

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

15. POLLUTION REMEDIATION OBLIGATIONS

The System reports pollution remediation obligations ("PROs") as required by 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) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2013 and 2012, the System reported $116.9 million and $108.3 million of liabilities for known PROs, respectively.

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

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

16. SUBSEQUENT EVENTS

On July 11, 2013 the Authority issued Fiscal 2013 Series 1 and Series 2 Bonds to EFC in the amount of $614.9 million to the Series 6 commercial paper notes, pay for construction costs of the System, refund principal of $435.2 million of Fiscal 2003 Series 5 and Fiscal 2004 Series 1 bonds, and pay bond issuance costs.

On July 18, 2013, the Authority drew down $1.9 million of Fiscal 2010 Series 1 BAN.

On August 7, 2013, the Authority issued $200 million of commercial paper notes, Series 7, to pay for construction costs of the System.

16. SUBSEQUENT EVENTS (CONTINUED)

On August 15, 2013, the Authority drew down $1.8 million of Fiscal 2010 Series 1 BAN.

On August 15, 2013, the Authority drew down $8.5 million of Fiscal 2012 Series 1 BAN.

On September 12, 2013, the Authority drew down $2.6 million of Fiscal 2010 Series 1 BAN.

On September 12, 2013, the Authority drew down $3.5 million of Fiscal 2012 Series 1 BAN.

On September 17, 2013, the Authority issued Fiscal 2014 Series AA bonds in the amount of $650.9 million to retire commercial paper notes Series 1 and Series 7, pay for construction costs of the System, retire principal and interest on the Fiscal 2013 Series 2 BAN, and pay the costs of issuance on the bonds.

On October 16, 2013, the Authority issued $200 million of commercial paper notes, Series 1, to pay for construction costs of the System.

On October 16, 2013, the Authority issued $200 million of commercial paper notes, Series 7, to pay for construction costs of the System.

On October 16, 2013, the Authority issued $100 million of commercial paper notes, Series 8, to pay for construction costs of the System.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY WATER AND SEWER SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)
JUNE 30, 2013 AND 2012
(In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded ALL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	June 30, 2012	$ -	$ 793	$ 793	$ -	$ 1,064	74.6%
June 30, 2012	June 30, 2011	-	662	662	-	919	72.0
June 30, 2011	June 30, 2010	-	563	563	-	1,026	54.8