



**NEW YORK STATE
ENVIRONMENTAL FACILITIES CORPORATION**
(A Component Unit of the State of New York)

Financial Statements

March 31, 2011

(With Independent Auditors' Report Thereon)

NEW YORK STATE
ENVIRONMENTAL FACILITIES CORPORATION
(A Component Unit of the State of New York)

Financial Statements

March 31, 2011

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
New York State Environmental Facilities Corporation:

We have audited the accompanying basic financial statements of the New York State Environmental Facilities Corporation (the Corporation), a component unit of the State of New York, as of and for the year ended March 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of March 31, 2011, and the changes in its financial position, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2011, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress for the Retiree Health Plan included on page 31 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the Corporation's basic financial statements. The other supplementary information, listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

July 5, 2011

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Management's Discussion and Analysis (Unaudited)

March 31, 2011

Introduction

The New York State Environmental Facilities Corporation (EFC or the Corporation) is a Public Benefit Corporation whose mission is to provide low-cost capital and expert technical assistance for environmental projects in New York State. Its purpose is to help public and private entities comply with Federal and State environmental protection and quality requirements in a cost effective manner that advances sustainable growth. EFC promotes innovative environmental technologies and practices. EFC's primary activities are within its State Revolving Fund programs (SRFs).

EFC's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Corporate Activities

EFC's corporate activities include the Industrial Finance Program (IFP), the Technical Advisory Services Program (TAS), the Pipeline for Jobs Program (PFJ), the Financial Assistance to Business Program (FAB), the Small Business Environmental Assistance Program (SBEAP) and the Clean Vessel Assistance Program (CVAP).

The IFP provides tax-exempt and taxable conduit financings to private entities for a variety of environmental purposes. The TAS provides administrative and technical assistance to private and public sector clients to help them comply with environmental laws and regulations. The PFJ provides financial assistance to municipalities or businesses for water supply facilities that aid economic development and improve job opportunities. The FAB provides financial assistance to businesses for the acquisition of pollution reducing and abatement equipment. The SBEAP assists business owners in reducing discharges of pollutants into the environment by providing technical guidance. The CVAP provides grants to assist recipients install pump out and dump station facilities to receive sewage from recreational marine vessels.

State Revolving Fund Programs

EFC's two major programs are the Clean Water and Drinking Water State Revolving Funds (CWSRF/DWSRF). These two programs account for approximately 99% of the total assets and substantially all of the total income of EFC. These programs help make it financially advantageous for communities throughout the State to undertake projects that prevent water pollution and provide safe drinking water.

Clean Water State Revolving Fund Program

The CWSRF program provides low-interest rate financing terms to eligible recipient entities for projects that reduce, eliminate or prevent water pollution. The program is administered by EFC and the New York State Department of Environmental Conservation (DEC). As the financings are repaid, the money becomes available for new projects and the funds continue to revolve. The CWSRF provides up to a 50% interest rate subsidy, which saves communities money on interest costs.

Examples of eligible CWSRF projects include construction of new wastewater treatment plants, upgrades to existing plants, sewer line extensions, landfill closures, stormwater management projects, and habitat and natural living resources restoration.

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Drinking Water State Revolving Fund Program

The DWSRF program provides low-interest rate financing terms, as well as hardship grants for publicly and privately owned community water system projects that provide safe, affordable drinking water. The program is administered by EFC and the New York State Department of Health (DOH). Like the CWSRF, as the financings are repaid, the money becomes available for new projects. The DWSRF provides a 33⅓% interest rate subsidy, which saves communities money on interest costs.

Examples of eligible DWSRF projects include upgrades to treatment facilities to ensure compliance with Federal and State drinking water standards, installation or replacement of storage facilities to prevent contamination or provide adequate delivery pressure, and installation or replacement of transmission and distribution mains to prevent contamination.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The primary purpose of the statute was to stimulate the economy and retain or create jobs through tax relief and infrastructure investment. Nationally, the CWSRF and DWSRF received an additional Federal Fiscal Year 2010 appropriation of \$4 billion and \$2 billion, respectively. For New York State the CWSRF and DWSRF received additional capitalization grants of approximately \$433 million and \$87 million, respectively.

ARRA requires that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans. EFC intends to originate the majority of ARRA funds as either principal forgiveness or grants.

ARRA imposes certain new requirements for projects that receive ARRA funds. Similar to the CWSRF and DWSRF, assistance will be provided to recipients pursuant to the terms of a Project Finance Agreement.

Financial Highlights

- Total assets decreased by \$322.1 million or 2.4% from \$13.52 billion to \$13.20 billion.
- Net assets increased by \$231.2 million or 5.0% from \$4.66 billion to \$4.89 billion.
- Interest subsidy provided decreased by \$7.1 million or 4.5% from \$158.1 million to \$151.0 million.
- Project grant revenues increased by \$222.6 million or 119.7% from \$186.0 million to \$408.6 million.
- The Corporation issued 2 series of SRF bonds in an aggregate principal amount of \$273.6 million.

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SRF Program Activity

A summary of the SRFs' bonds issued during the year is as follows:

<u>Series</u>	<u>Closed</u>	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
2010C	6/24/2010	\$ 78,610,000	62,240,000	140,850,000
2011A	3/17/2011	58,605,000	74,140,000	132,745,000
		<u>\$ 137,215,000</u>	<u>136,380,000</u>	<u>273,595,000</u>

The preceding chart reflects the amount of SRF bonds at their original par value. SRF bonds are typically sold at a premium or discount and the proceeds of those bonds are provided to recipients. SRF bonds are rated AA or better by Standard and Poor's, Moody's Investors Service and Fitch, Inc.

A summary of the SRFs' financings that occurred during the year is as follows:

	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Leveraged financings	\$ 148,006,696	147,287,298	295,293,994
Long term direct financings	163,143,381	119,584,852	282,728,233
Short term direct financings	318,994,754	66,850,725	385,845,479
Grants	—	4,364,690	4,364,690
	<u>\$ 630,144,831</u>	<u>338,087,565</u>	<u>968,232,396</u>

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Summary Balance Sheet Information

A summary of the Corporation's Balance Sheet information is as follows (certain 2010 amounts were reclassified to conform with current year presentation):

	March 31	
	2011	2010
Assets		
Current assets	\$ 1,471,126,732	1,145,841,934
Noncurrent assets	11,729,744,314	12,377,090,583
Total assets	<u>\$ 13,200,871,046</u>	<u>13,522,932,517</u>
Liabilities and Net Assets		
Current liabilities	\$ 703,695,708	653,404,466
Noncurrent liabilities	7,605,548,524	8,209,127,215
Total liabilities	<u>8,309,244,232</u>	<u>8,862,531,681</u>
Restricted net assets	4,888,066,080	4,653,857,906
Unrestricted net assets	3,560,734	6,542,930
Total net assets	<u>4,891,626,814</u>	<u>4,660,400,836</u>
Total liabilities and net assets	<u>\$ 13,200,871,046</u>	<u>13,522,932,517</u>

Summary Schedules of Revenues, Expenses and Changes in Net Assets

A summary of the Corporation's Schedules of Revenues, Expenses and Changes in Net Assets is as follows (certain 2010 amounts were reclassified to conform with current year presentation):

	March 31	
	2011	2010
Total operating revenues	\$ 388,856,712	383,462,717
Total operating expenses	675,869,858	598,688,306
Operating loss	(287,013,146)	(215,225,589)
Nonoperating revenues	560,920,987	342,585,241
Nonoperating expenses	42,681,863	16,941,601
Increase in net assets	231,225,978	110,418,051
Beginning net assets	4,660,400,836	4,549,982,785
Ending net assets	<u>\$ 4,891,626,814</u>	<u>4,660,400,836</u>

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Balance Sheet Analysis

The Corporation's total assets decreased \$322.1 million from \$13.5 billion as of March 31, 2010 to \$13.2 billion as of March 31, 2011. The decrease in total assets was due to the decrease in new leveraged financings (bonds receivable) added during 2011. During the year ended March 31, 2010, there were \$707.7 million in new leveraged financings added as compared to \$295.3 million in new leveraged financings added during the year ended March 31, 2011. The decrease in new financings added during 2011 was reflective of EFC's largest borrower, the New York City Municipal Water Finance Authority, not receiving new financing during fiscal year 2011.

Changes in Net Assets Analysis

During the year ended March 31, 2011, the Corporation recorded an operating loss of \$287.0 million as compared to an operating loss of \$215.2 million during the year ended March 31, 2010. The primary reason for the increase in operating loss in the amount of \$71.8 million was the increase expense in the amount of \$94.3 million for anticipated future principal forgiveness associated with the disbursement of ARRA funds.

The Corporation recorded project grant revenues in its statement of revenues, expenses and changes in net assets of \$408.6 million during the year ended March 31, 2011 as compared to \$186.0 million for the year ended March 31, 2010. The increase in project grant revenues of \$222.6 million is primarily related to the increased activity under the ARRA capitalization grants.

The Corporation recorded an increase in net assets of \$231.2 million as compared to an increase in net assets of \$110.4 million from the year ended March 31, 2010 to March 31, 2011. The increase in net assets of \$120.8 million year over year is directly related to the increase in project grant revenues received under the ARRA capitalization grant as noted above.

Liquidity

For fiscal year 2011/2012, the Corporation expects to recover its operating costs through fees charged to clients for various services as well as through the use of the administrative portion of the CWSRF and DWSRF capitalization grants.

SRF fees are assessed and collected to cover SRF program administration costs. Fees collected and not expended against current administration costs are held in permitted investments for future use. Fees collected in excess of current administrative costs are expected to be sufficient to cover administration costs subsequent to the termination of federal grant funding.

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The Corporation issues special obligation bonds under the State Clean Water and Drinking Water Revolving Funds to provide financial assistance to eligible recipients for water pollution and drinking water projects (as outlined in each programs' respective Intended Use Plan). The financial assistance is provided pursuant to a financing agreement between EFC and each recipient in which the Corporation agrees to purchase and the recipient agrees to sell its bonds in the principal amount of its financing to EFC. These bonds will serve as the primary security for EFC's bonds.

Contacting the New York State Environmental Facilities Corporation

This financial report is designed to provide interested parties with a general overview of the Corporation's finances and to demonstrate its accountability for funds received and expended. If you have questions about this report or would like additional information regarding EFC's programs, please visit the Corporation's website at www.nysefc.org.

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Balance Sheet

March 31, 2011

Assets

Current assets:	
Cash and cash equivalents	\$ 13,759,574
Contractual services and fees receivable	910,125
Restricted assets:	
Cash and cash equivalents	674,705,470
Contractual services and fees receivable	16,891,254
Interest receivable on bonds and direct financings	105,556,691
Interest receivable on cash and cash equivalents and investments	40,289,604
Annual fees receivable	12,293,224
Short term financings receivable	62,873,159
Direct financings receivable	63,108,162
Bonds receivable	354,342,697
Due from New York State, appropriation bonds receivable	72,465,000
Other restricted funds	53,931,772
Total current assets	1,471,126,732
Noncurrent assets:	
Restricted assets:	
Investments	2,891,148,122
Short term financings receivable	207,316,707
Direct financings receivable	1,036,796,443
Bonds receivable	6,723,288,692
Due from New York State, appropriation bonds receivable	871,175,000
Furniture, fixtures and equipment	19,350
Total noncurrent assets	11,729,744,314
Total assets	\$ 13,200,871,046
Liabilities and Net Assets	
Current liabilities:	
Accrued interest payable on bonds	\$ 100,348,722
Accrued interest subsidy	47,906,528
Bonds payable	354,342,697
Appropriation bonds payable	72,465,000
Other restricted funds	53,931,772
Accounts payable and accrued expenses	5,774,431
Debt service funds payable	1,520,760
Deferred revenue	506,574
Other liabilities	66,626,880
Other post employment benefits	272,344
Total current liabilities	703,695,708
Noncurrent liabilities:	
Bonds payable	6,723,288,692
Appropriation bonds payable	871,175,000
Deferred revenue	4,261,508
Other post employment benefits	6,823,324
Total noncurrent liabilities	7,605,548,524
Total liabilities	8,309,244,232
Net assets:	
Restricted for revolving loan fund programs	4,888,066,080
Unrestricted	3,560,734
Total net assets	4,891,626,814
Total liabilities and net assets	\$ 13,200,871,046

See accompanying notes to financial statements.

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Statement of Revenues, Expenses, and Changes in Net Assets
Year ended March 31, 2011

Operating revenues:	
Interest income on bonds and direct financings receivable	\$ 362,426,505
Bond financing and administrative fees	15,121,187
Advisory service fees	1,633,691
Administrative grant revenues	9,629,316
Other revenues	46,013
Total operating revenues	<u>388,856,712</u>
Operating expenses:	
Interest expense on bonds payable	348,962,505
Principal forgiveness	156,048,727
Interest subsidy provided	150,994,705
Administrative costs	19,863,921
Total operating expenses	<u>675,869,858</u>
Operating loss	<u>(287,013,146)</u>
Nonoperating revenues:	
Project grant revenues	408,579,936
Investment income	146,715,390
State assistance payments revenue	5,316,961
Appropriations received from New York State	308,700
Total nonoperating revenues	<u>560,920,987</u>
Nonoperating expenses:	
Grants disbursed	37,364,902
State assistance payments expense	5,316,961
Total nonoperating expenses	<u>42,681,863</u>
Increase in net assets	231,225,978
Beginning net assets	<u>4,660,400,836</u>
Ending net assets	<u>\$ 4,891,626,814</u>

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended March 31, 2011

Cash flows from operating activities:	
Bond financing and administrative fees	\$ 13,558,838
Interest income on bonds and direct financings receivable	365,607,188
Interest subsidy provided	(151,670,107)
Bonds purchased	(295,293,994)
Bonds repayments received	733,907,727
New York State appropriation bond payments received	72,410,000
Debt service funds received	1,362,429
Debt service funds paid	(2,989,557)
Personal services expense	(8,339,610)
Fringe benefits expense	(3,044,466)
Other administrative expenses	(2,270,517)
Short term financing disbursements	(393,259,447)
Short term financing repayments received	181,346,734
Direct financings issued	(282,728,233)
Direct financing repayments received	51,596,111
State assistance payments received	5,593,350
State assistance payments paid	(5,317,088)
Yield reduction received	4,119,810
Yield reduction paid	(298,339)
Other funds received	402,011
Other funds paid	(719,189)
Net cash provided by operating activities	<u>283,973,651</u>
Cash flows from noncapital financing activities:	
Proceeds from bonds issued	295,293,994
Payments on bonds payable	(734,027,727)
Interest expense on bonds payable	(353,971,564)
Payments on New York State appropriation bonds	(72,410,000)
Grants disbursed	(37,364,902)
Appropriations received from New York State	308,700
Contributions received from the Environmental Protection Agency	379,290,943
Contributions received from New York State	29,288,993
Net cash used in noncapital financing activities	<u>(493,591,563)</u>
Cash flows from investing activities:	
Net proceeds from maturities of investments	324,252,937
Interest income on investments	149,621,077
Net cash provided by investing activities	<u>473,874,014</u>
Net increase in cash and cash equivalents	264,256,102
Cash and cash equivalents, beginning of year	<u>424,208,942</u>
Cash and cash equivalents, end of year	<u>\$ 688,465,044</u>

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended March 31, 2011 and 2010

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (287,013,146)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	77,400
Interest expense	348,962,505
Principal forgiveness	156,048,727
Changes in assets and liabilities:	
Contractual services and fees receivable	(12,709,580)
Interest receivable on bonds and direct financings	3,180,683
Decrease in New York State appropriation bonds receivable	72,410,000
Short term financings receivable	(211,912,713)
Direct financings receivable	(231,132,122)
Annual fees receivable	(216,778)
Bonds receivable	438,613,732
Accrued interest subsidy	(675,402)
Accounts payable and accrued expenses	4,052,696
Debt service funds payable	(1,627,128)
Deferred revenue	54,989
Other liabilities	3,780,556
Other post employment benefits	2,079,232
Net cash provided by operating activities	\$ 283,973,651

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) General

(a) Organization

The New York State Environmental Facilities Corporation (EFC or the Corporation) is a public benefit corporation formed pursuant to the New York State Environmental Facilities Corporation Act (Chapter 744 of the Laws of New York State of 1970, as amended). EFC is a component unit of New York State (State) and is included in the State's basic financial statements. The Corporation is governed by a board of directors consisting of seven members, three of whom are required to be certain State officials – the Commissioner of Environmental Conservation (who is also designated as the chair), the Commissioner of Health and the Secretary of State. The four remaining directors are appointed by the Governor and confirmed by the State Senate.

(b) Description of Business

EFC provides low-cost capital and expert technical assistance to municipalities, businesses and State agencies for environmental projects in New York State. These activities include assisting businesses finance environmental projects through the Industrial Finance Program (IFP); helping municipalities, State agencies and businesses comply with environmental laws and regulations through various programs administered under the Technical Advisory Services Program (TAS); and the administration of the Clean Water State Revolving Fund program (CWSRF) and the Drinking Water State Revolving Fund program (DWSRF).

The IFP provides tax-exempt and taxable conduit financings to private entities for a variety of environmental purposes.

The TAS provides administrative and technical assistance to private and public sector clients to help them comply with environmental laws and regulations through the following programs:

The Pipeline for Jobs Program (PFJ) provides financial assistance to municipalities or businesses for new drinking or cold water supply facilities that aid economic development and improve job opportunities; the Financial Assistance to Business Program (FAB) provides financial assistance to businesses for the acquisition of pollution reducing and abatement equipment.

Additional TAS programs administered through client contracts include:

A multi-year contract with the New York City Department of Environmental Protection (DEP) to administer three Watershed Programs. Technical, financial and legal assistance is provided to DEP's Regulatory Upgrade Program, the New Sewage Treatment Infrastructure Program and to the Catskill Watershed Corporation; the Kensico Septic Rehabilitation Reimbursement Program contract with New York City DEP providing grants to reduce adverse water quality impacts from failing residential septic systems in the Kensico Watershed Basin; the Small Business Environmental Assistance Program (SBEAP) assists business owners in reducing discharges of pollutants into the environment by providing technical guidance; the Clean Vessel Assistance Program (CVAP) provides grants to assist recipients install pump out and dump station facilities to receive sewage from recreational marine vessels.

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The CWSRF and the DWSRF are the Corporation's largest programs. The CWSRF provides low-interest rate financing terms to eligible recipient entities for projects that reduce, eliminate or prevent water pollution. The DWSRF offers low-interest rate financing terms, as well as hardship grants for publicly and privately owned community water system projects that provide safe, affordable drinking water.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, the Corporation applies all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 unless these standards and interpretations conflict with or contradict the GASB pronouncements. The operations of the Corporation are accounted for using the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The more significant accounting policies are described below.

(b) *Revenue Recognition and Accounts Receivable*

The Corporation recognizes revenue when earned. Project grant revenues under capitalization grants for the operation of the State Revolving Fund (SRF) programs are recognized when reimbursable expenses are incurred or loans are originated. Fees for services are recognized, and deferred fees for services are amortized, as the related expense of the Corporation is incurred over the life of the related financing.

(c) *Cash and Cash Equivalents*

EFC considers certificates of deposit, repurchase agreements, money market funds and U.S. Treasury Bills, with remaining maturities of three months or less at the time of purchase, to be cash equivalents. At March 31, 2011, the cash and cash equivalents, excluding U.S. Treasury Bills, are fully insured or collateralized with securities in the Corporation's name. U.S. Treasury Bills are uninsured and not collateralized, but are held in trust accounts in EFC's name and are backed by the full faith and credit of the Federal government.

(d) *Investments*

EFC's investment guidelines permit investment of funds in obligations of, or guaranteed by, the United States of America or New York State, as well as in time deposits, guaranteed investment contracts, repurchase agreements and other permitted investments such as qualified municipal obligations. All cash, time deposits, guaranteed investment contracts and repurchase agreements are collateralized by securities (obligations of, or guaranteed by, the United States of America or New York State and any FDIC coverage) having a market value of not less than 102% of the amount

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currently on deposit or in accordance with their respective agreement. At March 31, 2011, EFC's guaranteed investment contracts require collateral ranging from 110% to 193% of the investment value. From time to time, the actual collateral pledged may fall below the contractual requirement of the guaranteed investment contracts. Upon notice to the investment providers, additional collateral is pledged to satisfy the contractual requirements.

Investments are recorded at fair value or amortized cost. Guaranteed investment contracts and structured debt obligations (Tennessee Valley Authority, (TVA), Inter-American Development Bank, (IADB), and The Nature Conservancy, (TNC)) are considered nonparticipating contracts and therefore recorded at cost. Municipal obligations are recorded at fair market value. All other investments with original maturities at the time of purchase of one year or less are recorded at cost. EFC requires delivery to its custodian (agent) or other acceptable financial institutions of all securities purchased and collateral for guaranteed investment contracts, certificates of deposit and repurchase agreements, regardless of the seller institution.

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported 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.

(f) Arbitrage and Yield Reduction Liability

The Corporation estimates its arbitrage and yield reduction liabilities. At March 31, 2011 such amounts were approximately \$52,667,000 and are included on the Balance Sheet in the caption "other liabilities". While management believes that these amounts are adequate, the actual liabilities could be in excess of, or less than, the amount indicated in the financial statements. Generally, a calculation is performed by an outside consultant for each new bond issue during the third bond year and then every fifth bond year through final maturity, at which time management refines its estimate. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the statement of revenues, expenses and changes in net assets in the year of the change.

(g) Restricted Net Assets

The amounts reported in this net asset category are restricted for the operation of the clean and drinking water State Revolving Fund programs. If both restricted and unrestricted resources are available for use, restricted resources are used first.

(h) Operating and Nonoperating Revenue

The Corporation distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues are generated from the interest earned from borrowings under the short term and direct loan programs and fees related to

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these programs. The Corporation's operating expenses include interest subsidy expense, principal forgiveness and other expenses related to the administration of the long-term loan programs. The principal nonoperating revenues are generated from project grant revenues and other nonexchange revenues and investment income. Nonoperating expenses include program grants and other assistance.

(3) State Revolving Fund

The Federal Water Quality Act of 1987 established a revolving fund program. In this regard, the New York State Water Pollution Control Revolving Fund or CWSRF program was established by New York State in 1989 to provide financial assistance to eligible recipient entities in connection with the construction of water pollution control facilities. EFC has been designated to be the custodian of the CWSRF in New York State. The program is administered by EFC on behalf of the New York State Department of Environmental Conservation (DEC).

A DWSRF was created as a result of New York State's enactment of Chapter 413 of the Laws of 1996 (Clean Water/Clean Air Bond Act) and passage of the 1996 Amendments to the Safe Drinking Water Act by the U.S. Congress. The DWSRF provides a financial incentive for public and private water systems to undertake needed drinking water infrastructure improvements. The program is administered jointly by the New York State Department of Health (DOH) and EFC.

The American Recovery and Reinvestment Act of 2009 (ARRA) provided additional funds to the CWSRF and DWSRF to help stimulate the economy through infrastructure investment. ARRA requires that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans.

EFC's primary activities with regard to the CWSRF and DWSRF include providing financial assistance for eligible projects, the issuance of debt in the capital markets for the purpose of providing financial assistance, the investment of program moneys, and the management and coordination of the programs.

SRF program capitalization grants are issued from the U.S. Environmental Protection Agency (USEPA) to New York State, for which the State is required to provide 20% in matching funds. New York State distributes these Federal and State moneys to DEC and DOH to administer the programs. DEC and DOH in turn distribute these moneys to EFC to provide financial assistance to eligible recipients. EFC invests the Federal and State capitalization grant moneys and uses interest earnings on these and other funds to subsidize by one-third or one-half the interest on the financings it provides. Financial assistance under the SRF program may be provided directly from the grant funds, from the proceeds from the issuance of bonds, repayments, and/or interest earnings.

Funds and accounts pertaining to the SRF programs are limited to specific uses by laws and regulations as well as Grant and Operating Agreements entered into between USEPA and the State. As a result of these limitations on uses these funds are classified as restricted on the Balance Sheet.

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Reserve Allocation and Subsidy: In connection with certain financings, amounts received from the Federal government through the Environmental Protection Agency and New York State are drawn and deposited in an unallocated corpus account as an eligible recipient expends funds for costs of issuance, repayment of debt, refinancing of debt, defeasance of debt, and for acquisition and/or construction. As these funds are received by the recipient an amount equal to one-third or one-half of the expenditure is transferred from the unallocated corpus account to the debt service reserve fund for the recipient. As a recipient repays its financing, a proportionate amount in the applicable debt service reserve fund will be redeposited in the unallocated corpus account of the appropriate SRF. The earnings on the debt service reserve funds are utilized as subsidy to reduce the interest costs that recipients pay on their financing.

Committed Subsidies: In certain financings, the SRF provides contractual commitments to recipients of leveraged financings to provide specified amounts of interest subsidies from earnings on reserve allocations or other SRF program resources or a combination of both. In general, it is expected that certain leveraged financings will not have any associated reserve allocations. Nevertheless, we utilize other available SRF monies to provide recipients with an interest subsidy generally comparable to the subsidy that we provide from earnings on reserve allocations.

(4) Cash and Cash Equivalents, Investments and Other Restricted Funds

EFC's cash and cash equivalents, investments and other restricted funds include cash and cash equivalents and investments that are insured or collateralized and cash equivalents and investments that are backed by the full faith and credit of the Federal government.

As of March 31, 2011, the Corporation had the following investments, credit risks and maturities:

Investment type	Credit risk range	Cost/ fair value	Investment maturities in years			
			Less than 1 year	1 – 5 years	6 – 10 years	More than 10 years
Non-U.S. government backed:						
Guaranteed investment contracts	A – AAA	\$ 1,675,372,066	120,557,510	499,989,976	374,298,557	680,526,023
Municipal obligations	BBB – AAA	547,431,956	2,221,235	87,586,119	53,172,340	404,452,262
Municipal obligations	Unrated	26,868,611	427,455	2,471,097	3,134,670	20,835,389
Structured debt obligations	Aa2	50,000,000	—	14,955,524	27,870,831	7,173,645
U.S. government backed:						
U.S. Treasury bills		667,886,484	667,886,484	—	—	—
State and local government series		24,786,622	3,544,700	9,989,540	3,184,049	8,068,333
Structured debt obligations		555,904,892	12,175,828	128,921,533	167,395,926	247,411,605
Total		<u>\$ 3,548,250,631</u>	<u>806,813,212</u>	<u>743,913,789</u>	<u>629,056,373</u>	<u>1,368,467,257</u>

With regard to the investments above, the Corporation has an investment policy that limits its exposure to losses arising from credit risk, interest rate risk, custodial credit risk, and concentration of credit risk.

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Credit risk is the risk that an issuer will not fulfill its obligations. The Corporation's policy is to follow State law which limits the investments that the Corporation can make and generally limit the Corporation's exposure to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation's policy for managing this risk is to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

Custodial credit risk for deposits and investments is the risk that in the event of the failure of the counterparty to perform on a transaction, the Corporation will not be able to recover the value of deposits or investment securities that are in the possession of an outside party. In order to manage this risk the Corporation's deposits or investments are collateralized and held by a third party.

Other than U.S. government and U.S. Government Guaranteed securities, New York State General Obligation securities and New York State Personal Income Tax securities, EFC's investment policies limit any single obligor's uncollateralized investments to no more than 15% of the combined SRF program's long term nonpurpose, unpledged investment buy program. Concentration of credit risk in EFC's Guaranteed Investment Contracts portfolio is minimized by obligors providing collateralization of at least 110% of invested funds to a third party custodian. As of March 31, 2011, the Corporation had six providers of guaranteed investment contracts, three of which were obligated for more than 5% of the total investment portfolio. The three providers were Societe General with \$906.4 million or 25.5% of the portfolio, Bank of America with \$364.7 million or 10.3% of the portfolio, and JP Morgan Chase with \$275.1 million or 7.8% of the portfolio.

(5) Short Term Financings Receivable

Short term financings receivable are provided with SRF capitalization grant monies, repayments, interest earnings and/or administrative fees. This program assists eligible recipients with cash flow needs through project design and construction. The program provides short term (up to three years) interest free and/or market rate financings to eligible recipients which have completed the facility planning process but in most instances are not ready to apply for long term (up to thirty years) financing.

Under the American Recovery and Reinvestment Act of 2009 (ARRA) the CWSRF and DWSRF are required to offer additional subsidization of no less than 50% in the form of principal forgiveness, grants, or negative interest loans. EFC has established a reserve against receivables based on amounts disbursed and categorized as subject to principal forgiveness.

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Short term financings receivable is comprised of the following at March 31, 2011:

	CWSRF	DWSRF	Total
Receivable subject to principal forgiveness	\$ 158,745,584	59,052,038	217,797,622
Other short term financing receivable	201,230,021	68,959,845	270,189,866
	359,975,605	128,011,883	487,987,488
Less reserve for principal forgiveness	(158,745,584)	(59,052,038)	(217,797,622)
Short term financing receivable, net of reserve for principal forgiveness	\$ 201,230,021	68,959,845	270,189,866

Other short term financings receivable mature as follows:

	CWSRF	DWSRF	Total
Year ending March 31:			
2012	\$ 34,973,721	27,899,438	62,873,159
2013	78,461,851	25,673,781	104,135,632
2014	87,794,449	15,386,626	103,181,075
	\$ 201,230,021	68,959,845	270,189,866

(6) Direct Financings Receivable

Direct financings receivable are provided with SRF capitalization grant monies, repayments, interest earnings and/or administrative fees. Direct financings receivable have been issued with interest rates that range from 0% to 4.9% and mature through the year 2041.

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Direct financings receivable mature as follows:

	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Year ending March 31:			
2012	\$ 39,217,343	23,890,819	63,108,162
2013	42,621,142	26,122,883	68,744,025
2014	38,831,472	26,464,391	65,295,863
2015	38,420,322	26,741,138	65,161,460
2016	36,762,385	26,931,148	63,693,533
2017 – 2021	137,315,029	124,260,883	261,575,912
2022 – 2026	95,548,740	83,618,776	179,167,516
2027 – 2031	86,133,229	74,522,521	160,655,750
2032 – 2036	66,035,246	54,596,562	120,631,808
2037 – 2041	29,931,864	21,938,712	51,870,576
	<u>\$ 610,816,772</u>	<u>489,087,833</u>	<u>1,099,904,605</u>

(7) SRF Bonds Receivable and Bonds Payable

EFC issues special obligation bonds under the SRF programs to provide financial assistance to eligible recipients. The financial assistance is provided pursuant to a financing agreement between EFC and each recipient in which EFC agrees to purchase and the recipient agrees to sell its bonds in the principal amount of its financing to EFC. These financing agreements will serve as the primary security for EFC's bonds. Additionally, SRF program debt service reserve funds are available to collateralize the outstanding bonds. The principal and interest payments of the project financing agreements are structured to be sufficient to pay the full principal and interest payments on EFC's bonds. EFC's bonds are issued subject to the terms of a Master Trust Agreement, various Financing Indentures of Trusts, and a Supplemental Financing Indenture of Trust that is issued for each bond issue.

Bond proceeds, net of issuance costs, are deposited in construction funds simultaneously with the issuance and sale of the SRF revenue bonds and are generally held for the recipients by the SRF trustee under a third party agreement. The construction fund proceeds are recorded on the recipients financial statements and are not included in EFC's financial statements. Moneys available and on deposit in the construction funds were approximately \$45,110,000 at March 31, 2011.

The bonds of each series are not general obligations of EFC. Bonds are payable solely from payments made by each recipient to the trustee and any other pledged funds held by the trustee.

Certain bond series provide for optional redemption provisions from 100% to 102% of the principal amount to be redeemed.

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The following is a schedule of CWSRF bonds receivable/payable outstanding:

Bond issue	Range of interest percentage	Year of Maturity	Outstanding amount
Series 1990A, 5/15/90	7.50%	2012	\$ 1,025,000
Series 1991A, 1/1/91	7.00	2012	1,760,000
Series 1991B, 5/15/91	7.10	2011	55,000
Series 1991C, 8/15/91	6.25	2011	250,000
Series 1991D, 10/15/91	6.60	2012	30,000
Series 1991E, 12/1/91	6.50	2014	2,358,158
Series 1992A, 5/1/92	6.60	2012	960,000
Series 1992B, 10/15/92	6.65	2013	3,205,000
Series 1993A, 6/1/93	5.60	2013	2,620,000
Series 1993B, 9/15/93	5.20	2014	5,925,000
Series 1994A, 3/15/94	5.75 – 5.875	2013	26,585,000
Series 1994E, 12/1/94	6.88	2016	15,110,000
Series 1997E, 9/15/97	6.00	2012	87,765,000
Series 1998G, 12/16/98	4.60 – 4.90	2017	4,355,000

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Bond issue	Range of interest percentage	Year of Maturity	Outstanding amount
Series 2001B, 7/26/01	4.20 – 5.375	2031	\$ 48,675,000
Series 2001C, 7/12/01	4.30 – 5.25	2031	157,275,678
Series 2001D, 10/18/01	4.25 – 5.00	2031	32,794,133
Series 2002A, 3/14/02	4.00 – 5.00	2031	33,920,000
Series 2002B, 1/31/02	4.00 – 5.247	2031	397,103,116
Series 2002C, 2/13/02	4.10 – 5.00	2020	7,647,000
Series 2002D, 5/14/02	5.00 – 5.50	2031	284,570,341
Series 2002E, 5/14/02	4.00 – 5.375	2019	60,443,000
Series 2002F, 6/20/02	4.05 – 5.25	2024	78,930,000
Series 2002G, 7/25/02	4.00 – 5.25	2031	33,985,000
Series 2002H, 7/25/02	3.80 – 4.875	2021	12,230,000
Series 2002I, 8/7/02	3.90 – 5.25	2022	38,051,000
Series 2002J, 10/10/02	3.30 – 5.00	2032	97,527,637
Series 2002K, 11/14/02	2.00 – 5.00	2028	511,759,853
Series 2002L, 11/26/02	3.70 – 5.00	2015	29,776,000
Series 2003A, 3/13/03	3.375 – 5.00	2032	51,080,000
Series 2003B, 3/20/03	4.00 – 5.25	2029	76,410,000
Series 2003C, 3/20/03	3.25– 5.25	2030	41,145,000
Series 2003D, 3/20/03	3.25 – 4.75	2027	5,725,000
Series 2003E, 4/23/03	4.0 – 5.00	2032	225,631,029
Series 2003F, 7/24/03	3.75 – 5.00	2033	56,685,000
Series 2003G, 9/25/03	4.0 – 5.00	2033	15,530,000
Series 2003I, 10/9/03	3.50 – 5.00	2033	234,550,132
Series 2004B, 3/4/04	3.00 – 5.00	2033	46,575,000
Series 2004C, 4/7/04	4.438 – 5.125	2033	202,728,890
Series 2004D, 7/22/04	3.5 – 5.00	2034	124,010,000
Series 2004E, 8/11/04	3.30 – 5.00	2034	182,776,668
Series 2004F, 11/30/04	3.636 – 5.00	2034	320,534,188
Series 2005A, 3/3/05	3.00 – 5.00	2034	100,090,000
Series 2005B, 7/28/05	3.00 – 5.50	2035	87,710,000
Series 2005C, 10/12/05	4.213 – 5.00	2035	156,471,740
Series 2005D, 11/15/05	3.50 – 5.00	2024	28,770,000
Series 2006A, 6/22/06	4.00 – 5.43	2036	166,479,587
Series 2006B, 6/22/06	4.120 – 5.50	2036	212,569,302
Series 2006C, 7/27/06	4.00 – 5.00	2036	123,970,000
Series 2007A, 3/27/07	3.60 – 5.00	2036	190,131,390

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<u>Bond issue</u>	<u>Range of interest percentage</u>	<u>Year of Maturity</u>	<u>Outstanding amount</u>
Series 2007B, 3/27/07	4.00 – 5.00	2036	\$ 242,295,978
Series 2007C, 5/15/07	4.00 – 5.00	2024	149,330,000
Series 2007D, 7/26/07	4.00 – 5.00	2037	99,685,000
Series 2008A, 5/22/08	3.25 – 5.00	2037	126,679,232
Series 2008B, 5/22/08	4.00 – 5.00	2037	162,264,296
Series 2009A, 4/2/09	3.00 – 5.25	2038	296,739,525
Series 2010A, 2/11/10	2.00 – 5.00	2029	114,460,828
Series 2010B, 2/11/10	5.707 – 5.807	2039	111,440,000
Series 2010C, 6/24/10	3.00 – 5.00	2039	82,376,541
Series 2011A, 3/17/11	2.00 – 5.00	2021	62,398,655
			<u>\$ 6,073,933,897</u>
Beginning balance April 1, 2010			\$ 6,412,302,483
Bonds issued			148,006,696
Bonds retired			<u>(486,375,282)</u>
Ending balance March 31, 2011			<u>\$ 6,073,933,897</u>

Included in CWSRF bonds receivable/payable are unamortized bond premiums/discounts of \$57,138,897 at March 31, 2011.

The New York City Municipal Water Finance Authority makes up 80% of the CWSRF bonds receivable.

The following is a schedule of DWSRF bonds receivable/payable outstanding:

<u>Bond issue</u>	<u>Range of interest percentage</u>	<u>Year of Maturity</u>	<u>Outstanding amount</u>
Series 2001B, 7/26/01	4.20 – 5.375	2022	\$ 17,355,000
Series 2001D, 10/18/01	4.25 – 5.00	2021	18,666,872
Series 2002A, 3/14/02	4.00 – 5.00	2023	13,670,000
Series 2002B, 1/31/02	4.00 – 5.25	2021	5,603,310
Series 2002D, 5/14/02	5.00 – 5.50	2025	22,406,579
Series 2002G, 7/25/02	4.50 – 5.25	2022	17,945,000
Series 2002J, 10/10/02	3.30 – 5.00	2025	20,299,888

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<u>Bond issue</u>	<u>Range of interest percentage</u>	<u>Year of Maturity</u>	<u>Outstanding amount</u>
Series 2003A, 3/13/03	3.375 – 5.00	2022	\$ 4,290,000
Series 2003E, 4/23/03	4.00 – 5.00	2026	15,537,506
Series 2003F, 7/24/03	3.75 – 5.00	2024	40,065,000
Series 2003G, 9/25/03	4.50 – 5.00	2023	5,580,000
Series 2003H, 9/25/03	4.66 – 5.59	2019	9,820,000
Series 2003I, 10/9/03	3.50 – 5.00	2026	16,769,974
Series 2004B, 3/4/04	3.00 – 5.00	2023	2,545,000
Series 2004C, 4/7/04	4.50 – 5.25	2026	14,655,235
Series 2004D, 7/22/04	3.50 – 5.00	2026	30,780,000
Series 2004A, 8/3/04	5.40	2021	4,095,000
Series 2004E, 8/11/04	3.30 – 5.00	2026	13,916,304
Series 2004F, 11/30/04	5.00 – 5.25	2026	13,095,320
Series 2005A, 3/3/05	3.50 – 5.00	2025	4,495,000
Series 2005B, 7/28/05	3.00 – 5.50	2025	6,170,000
Series 2005C, 10/12/05	3.50 – 5.00	2027	42,981,295
Series 2006A, 6/22/06	4.00 – 5.50	2028	17,329,088
Series 2006B, 6/22/06	4.625 – 5.50	2028	22,094,360
Series 2006C, 7/27/06	4.00 – 5.00	2028	43,275,000
Series 2007A, 3/27/07	3.60 – 5.00	2029	20,019,858
Series 2007B, 3/27/07	4.00 – 5.00	2029	25,534,906
Series 2007D, 7/26/07	4.00 – 5.00	2036	31,665,000
Series 2008A, 5/22/08	3.00 – 5.00	2030	123,964,080
Series 2008B, 5/22/08	4.00 – 5.00	2030	54,113,216
Series 2009A, 4/2/09	2.25 – 5.25	2031	69,281,627
Series 2010A, 2/11/10	3.00 – 5.00	2016	26,222,446
Series 2010B, 2/11/10	4.005 – 5.707	2029	85,020,000
Series 2010C, 6/24/10	2.00 – 5.00	2039	64,997,508
Series 2011A, 3/17/11	2.00 – 5.00	2022	79,438,120
			<u>\$ 1,003,697,492</u>
Beginning balance April 1, 2010			\$ 1,104,062,638
Bonds issued			147,287,299
Bonds retired			<u>(247,652,445)</u>
Ending balance March 31, 2011			<u>\$ 1,003,697,492</u>

Included in DWSRF bonds receivable/payable are unamortized bond premiums/discounts of \$34,922,492 at March 31, 2011.

The New York City Municipal Water Finance Authority makes up 63% of the DWSRF bonds receivable.

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Defeased in-substance debt outstanding as of March 31, 2011 which is no longer recorded on EFC's balance sheet amounted to \$325 million.

In fiscal 2011, the Corporation issued \$332.6 million of State Revolving Funds Revenue Bonds. The proceeds, including a premium of \$34.8 million, were used to redeem fifteen series of previously issued SRF bonds which totaled \$227.9 million. As a result of refinancing, the underlying borrowers in these transactions will realize \$24.9 million in present value savings. The remaining bond proceeds were used to provide financial assistance to eligible recipients.

Principal payments on bonds receivable/payable mature as follows:

	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Year ending March 31:			
2012	\$ 295,881,300	58,461,397	354,342,697
2013	301,843,314	61,009,579	362,852,893
2014	288,477,873	62,162,947	350,640,820
2015	276,528,562	63,955,139	340,483,701
2016	271,816,756	65,365,914	337,182,670
2017 – 2021	1,359,829,092	324,527,522	1,684,356,614
2022 – 2026	1,245,764,500	222,106,668	1,467,871,168
2027 – 2031	1,068,137,500	120,113,326	1,188,250,826
2032 – 2036	769,477,500	18,210,000	787,687,500
2037 – 2041	196,177,500	7,785,000	203,962,500
	<u>\$ 6,073,933,897</u>	<u>1,003,697,492</u>	<u>7,077,631,389</u>

Interest payments on bonds receivable/payable are as follows:

	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Year ending March 31:			
2012	\$ 280,349,651	38,218,998	318,568,649
2013	267,571,879	37,182,798	304,754,677
2014	250,699,605	35,591,137	286,290,742
2015	239,470,822	33,558,153	273,028,975
2016	229,758,460	31,590,996	261,349,456
2017 – 2021	967,775,938	123,968,814	1,091,744,752
2022 – 2026	648,287,739	61,895,104	710,182,843
2027 – 2031	366,342,271	19,447,117	385,789,388
2032 – 2036	132,381,543	3,637,786	136,019,329
2037 – 2041	14,224,507	777,786	15,002,293
	<u>\$ 3,396,862,415</u>	<u>385,868,689</u>	<u>3,782,731,104</u>

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(8) Other Restricted Funds

EFC acts as a custodian for various funds/programs under other restricted funds. At March 31, 2011 EFC's other restricted funds were approximately \$53,932,000. A description of each of the funds is as follows:

DEC Escrow Fund (DEC): This fund is utilized to account for all transactions which occur relative to the agreements between DEC and EFC to administer certain escrow accounts.

Waste Water Treatment Plant Upgrade Program Fund (WWTP): This fund is utilized to account for all transactions which occur relative to the agreement between the New York City Department of Environmental Protection and EFC to administer the WWTP Program.

New Sewage Treatment Infrastructure Fund (NSTI): This fund was utilized to account for all transactions which occurred relative to the agreement among the New York City Department of Environmental Protection, EFC, and the Catskill Watershed Corporation to administer the NSTI Program.

Catskill Fund for the Future (CFF): This fund was utilized to account for all transactions which occurred relative to the agreement among the New York City Department of Environmental Protection, EFC, and the Catskill Watershed Corporation to administer the CFF.

Kensico Septic Rehabilitation Reimbursement Program: This fund is utilized to account for all transactions that occur relative to the agreement between the New York City Department of Environmental Protection and EFC to administer the program.

The following is a summary of activities that have occurred within other restricted funds during the year ended March 31, 2011:

	<u>DEC</u>	<u>WWTP</u>	<u>NSTI</u>	<u>CFF</u>	<u>KENSICO</u>	<u>Total</u>
Balance, March 31, 2010	\$ 36,588,349	16,346,797	710,800	42,354,602	2,730,825	98,731,373
Receipts:						
Program advances	—	32,513,151	1,333,112	—	—	33,846,263
Loan repayments	—	—	—	2,562,609	—	2,562,609
Other deposits	—	—	—	72,692	—	72,692
Interest earnings	71,454	16,244	2,994	1,129,201	5,431	1,225,324
Total receipts	<u>71,454</u>	<u>32,529,395</u>	<u>1,336,106</u>	<u>3,764,502</u>	<u>5,431</u>	<u>37,706,888</u>
Disbursements:						
Project expenses	2,205,356	32,213,672	745,152	—	38,210	35,202,390
Administrative expenses	30,000	1,123,485	11,013	755,793	20,497	1,940,788
Return Program Funds to CWC	—	—	—	38,649,870	—	38,649,870
Loans issued	—	—	—	6,713,441	—	6,713,441
Total disbursements	<u>2,235,356</u>	<u>33,337,157</u>	<u>756,165</u>	<u>46,119,104</u>	<u>58,707</u>	<u>82,506,489</u>
Balance, March 31, 2011	<u>\$ 34,424,447</u>	<u>15,539,035</u>	<u>1,290,741</u>	<u>—</u>	<u>2,677,549</u>	<u>53,931,772</u>

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(9) Industrial Financing Program

EFC has entered into agreements with private sector companies to provide funds for certain environmental projects and with New York State to provide funding to the State for certain programs. Industrial Financing Bonds for Private Activity Bonds are considered conduit debt and not included as obligations in the accompanying financial statements of EFC.

Private Activity Bonds: Under the terms of the agreements, EFC issues bonds on behalf of private sector companies for use in the construction or refinancing of certain environmental projects. The bonds issued are special obligation revenue bonds payable solely from funds provided by the companies and do not constitute a liability of EFC or New York State. Private Activity bonds outstanding totaled \$214,500,000 at March 31, 2011.

State Appropriation Bonds: Under these agreements, EFC issues bonds on behalf of the State to provide funding for certain programs. The bonds issued are special obligation bonds, payable solely from and collateralized by, payments from the State under various agreements. The obligations of the State to make payments under these agreements are subject to, and dependent upon, the making of annual appropriations by the State Legislature. The bonds are not general obligations of EFC and do not constitute an indebtedness against the general credit of the Corporation. State Appropriation bonds outstanding totaled \$943,640,000 at March 31, 2011. This amount is reported as bonds payable and receivable from the State of New York in the accompanying financial statements of EFC.

Principal and interest payments on state appropriation bonds receivable/payable mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending March 31:			
2012	\$ 72,465,000	44,774,000	117,239,000
2013	70,945,000	41,519,000	112,464,000
2014	65,045,000	38,429,000	103,474,000
2015	62,370,000	35,477,000	97,847,000
2016	61,981,000	32,624,000	94,605,000
2017 – 2021	274,904,000	122,547,000	397,451,000
2022 – 2026	257,530,000	55,347,000	312,877,000
2027 – 2031	78,400,000	117,883,000	196,283,000
	<u>\$ 943,640,000</u>	<u>488,600,000</u>	<u>1,432,240,000</u>

Defeased in-substance debt outstanding on state appropriation bonds as of March 31, 2011 which is no longer recorded on EFC's balance sheet amounted to \$82 million.

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(10) Retirement Plan

Retirement Plan: Employees of EFC are members of the New York State and Local Employees' Retirement System (System), a defined benefit cost-sharing, multiple-employer public employee retirement system. The State Comptroller is sole trustee and administrative head of the System. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to New York State and Local Employees' Retirement System, 110 State St, Albany, New York.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Retirement benefits are established by the New York State Retirement and Social Security Law. Retirement benefits and contributory requirements depend upon the point in time at which an employee last joined the System. Most members of the System who joined before July 27, 1976 or have been a member of the System for at least ten years are enrolled in a noncontributory plan; the Corporation contributes the entire amount determined to be payable to the System. Personnel who joined the System after July 27, 1976 and have not been a member of the System for at least ten years are required by law to contribute three percent of their gross salary; the Corporation contributes the balance payable to the System for these employees.

System funding requirements are determined by the actuary of the System using the aggregate funding method. The System calculates the employer contribution as a result of multiplying projected salaries by the actuarially determined contribution rates.

The employer contributions for the System covered employees of EFC for the fiscal years ended March 31, 2011, 2010 and 2009, were approximately \$1,047,000, \$591,000 and \$718,000, respectively which were 100% of the required contribution.

(11) Other Postemployment Benefits

Plan Description: Medical and Prescription Drug benefits are provided through the New York State Health Insurance Program (NYSHIP).

Funding Policy: Health insurance premiums for retired employees are equal to the premiums charged for active employees. EFC pays a portion of the premium for medical coverage for the employee and spouse for the lifetimes of the employee and spouse based on the plan chosen by the employee. EFC also reimburses retirees, spouses, and surviving spouses for their entire Medicare Part B premium payment. The dollar value of accumulated sick leave credits at the time of retirement is used to reduce the portion of the health insurance premiums paid directly by retirees for life.

Annual OPEB: EFC's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities

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over a period of thirty years. The following table shows the components of EFC's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in EFC's net OPEB obligation:

	2011
Annual OPEB cost:	
Annual required contribution (ARC):	
Normal cost	\$ 1,373,100
Past service cost	897,000
Interest to the end of the year	—
Total	2,270,100
ARC adjustment	(189,053)
Interest on net OPEB obligation	250,822
Annual OPEB cost	\$ 2,331,869
Net OPEB obligation:	
Net OPEB obligation at beginning of fiscal year	\$ 5,016,436
Annual OPEB cost	2,331,869
Employer contribution	(252,637)
Net OPEB obligation at end of fiscal year	\$ 7,095,668

EFC's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011, 2010 and 2009 were as follows:

Fiscal year ended	Annual OPEB cost	Actual contribution	Percentage of annual OPEB cost contributed	NETOPEB obligation
3/31/2011	\$ 2,331,869	252,637	10.8%	7,095,668
3/31/2010	2,232,472	210,306	9.4	5,016,436
3/31/2009	1,694,500	184,270	10.9	2,994,270

Funded Status and Funding Progress: As of January 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$21,591,800, all of which was unfunded.

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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. Examples include 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 employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The following schedule of funding progress presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued liability (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAL as a percentage of covered payroll ((b-a)/c)
1/01/2010	\$ —	21,591,800	21,591,800	—%	8,696,790	248.3%

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5% baseline discount rate. The 5% baseline discount rate assumes the benefits are not prefunded, so the discount rate is based on the expected earnings of EFC's general investments. The actuarial assumptions also included a baseline medical inflation rate of 8.3% initially, reduced to a rate of 5.1% by 2040, and an annual Medicare Part B premium inflation rate of 5% for post-65 medical benefits. The UAAL's amortization technique produces annual payments that are designed to increase over time as payroll grows. The Corporation has selected a 30 year open amortization period.

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(12) Commitments and Contingencies

The Corporation has entered into a ten year revocable permit with the New York State Office of General Services for office space at 625 Broadway, Albany, New York. The permit includes a fixed basic fee for debt service on the building, which is \$412,754 annually. EFC is also responsible for the pro rata share of operating costs, real estate taxes, and utilities. EFC can terminate its obligation under the permit with 360 days written notice. In May 2011, EFC was notified that its revocable permit with the New York State Office of General Services for office space has been converted to a holdover tenant on a month to month basis starting July 1, 2011. All costs, debt service and occupancy costs, under the permit recognized in the statement of revenues, expenses, and changes in net assets as part of administrative costs for the year ended March 31, 2011 are as follows:

	<u>2011</u>
Debt service	\$ 412,754
Occupancy costs	<u>426,412</u>
	<u><u>\$ 839,166</u></u>

At March 31, 2011, the undisbursed balance of active SRF short term direct loans and grants closed were approximately \$666,062,000 and \$39,477,000 respectively.

EFC is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of EFC's general counsel the resolution of these matters will not have a material adverse effect on the financial position, changes in financial position, or cash flows of EFC.

(13) Subsequent Events

Subsequent to year end, on June 17, 2011, EFC issued \$520,675,000 of State Clean Water and Drinking Water Revolving Funds Revenue Bonds, Series 2011B. The 2011B bonds have interest rates ranging from 2.00% to 5.00% and have a final maturity of June 2041.

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Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (Unaudited)

March 31, 2011

Actuarial valuation date	Actuarial value of assets (a)	Accrued liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAL as a percentage of covered payroll ((b-a)/c)
1/01/2010	\$ —	21,591,800	21,591,800	—%	8,696,790	248.3%
1/01/2008	—	17,271,000	17,271,000	—	7,896,000	218.7

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Other Supplementary Information – Combining Balance Sheet

March 31, 2011

Assets	Corporate Activities	CWSRF	DWSRF	Total
Current assets:				
Cash and cash equivalents:	\$ 13,759,574	—	—	13,759,574
Contractual services and fees receivable	910,125	—	—	910,125
Restricted assets:				
Cash and cash equivalents:	546,965	504,009,426	170,149,079	674,705,470
Contractual services and fees receivable	—	3,949,941	12,941,313	16,891,254
Interest receivable on bonds and direct financings	—	90,931,194	14,625,497	105,556,691
Interest receivable on cash and cash equivalents and investments	—	36,705,059	3,584,545	40,289,604
Annual fees receivable	—	11,276,484	1,016,740	12,293,224
Short term financings receivable	—	34,973,721	27,899,438	62,873,159
Direct financings receivable	—	39,217,343	23,890,819	63,108,162
Bonds receivable	—	295,881,300	58,461,397	354,342,697
Due from New York State, appropriation bonds receivable	72,465,000	—	—	72,465,000
Other restricted funds	53,931,772	—	—	53,931,772
Total current assets	141,613,436	1,016,944,468	312,568,828	1,471,126,732
Noncurrent assets:				
Restricted assets				
Investments	—	2,685,191,345	205,956,777	2,891,148,122
Noncurrent short term financings receivable	—	166,256,300	41,060,407	207,316,707
Direct financings receivable	—	571,599,429	465,197,014	1,036,796,443
Bonds receivable	—	5,778,052,597	945,236,095	6,723,288,692
Due from New York State, appropriation bonds receivable	871,175,000	—	—	871,175,000
Furniture, fixtures and equipment	19,350	—	—	19,350
Total assets	\$ 1,012,807,786	10,218,044,139	1,970,019,121	13,200,871,046
Liabilities and Net Assets				
Current liabilities:				
Accrued interest payable on bonds	\$ —	87,223,872	13,124,850	100,348,722
Accrued interest subsidy	—	43,665,567	4,240,961	47,906,528
Bonds payable	—	295,881,300	58,461,397	354,342,697
Appropriation bonds payable	72,465,000	—	—	72,465,000
Other restricted funds	53,931,772	—	—	53,931,772
Accounts payable and accrued expenses	4,442,905	823,057	508,469	5,774,431
Debt service funds payable	—	1,507,635	13,125	1,520,760
Deferred revenue	111,931	—	394,643	506,574
Other liabilities	2,599,173	56,295,365	7,732,342	66,626,880
Other post employment benefits	84,426	133,449	54,469	272,344
Total current liabilities	133,635,207	485,530,245	84,530,256	703,695,708
Noncurrent liabilities:				
Bonds payable, net of current	—	5,778,052,597	945,236,095	6,723,288,692
Appropriation bonds payable	871,175,000	—	—	871,175,000
Deferred revenue	593,730	—	3,667,778	4,261,508
Other post employment benefits	2,115,802	3,399,282	1,308,240	6,823,324
Total liabilities	1,007,519,739	6,266,982,124	1,034,742,369	8,309,244,232
Net assets:				
Restricted for revolving loan fund programs	1,727,313	3,951,062,015	935,276,752	4,888,066,080
Unrestricted	3,560,734	—	—	3,560,734
Total net assets	5,288,047	3,951,062,015	935,276,752	4,891,626,814
Total liabilities and net assets	\$ 1,012,807,786	10,218,044,139	1,970,019,121	13,200,871,046

See accompanying independent auditors' report.

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Other Supplementary Information – Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended March 31, 2011

	Corporate Activities	CWSRF	DWSRF	Total
Operating revenues:				
Interest income on bonds and direct financings receivable	\$ —	310,476,296	51,950,209	362,426,505
Bond financing and administrative fees	1,008,351	12,294,807	1,818,029	15,121,187
Administrative grant revenues, net	189,248	7,376,856	2,063,212	9,629,316
Indirect cost and other recoveries	3,529,662	(2,899,229)	(630,433)	—
Advisory service fees	1,633,691	—	—	1,633,691
Other revenues	46,013	—	—	46,013
Total operating revenues	<u>6,406,965</u>	<u>327,248,730</u>	<u>55,201,017</u>	<u>388,856,712</u>
Operating expenses:				
Interest expense on bonds payable	—	300,582,403	48,380,102	348,962,505
Principal forgiveness	—	121,020,911	35,027,816	156,048,727
Interest subsidy provided	—	136,490,346	14,504,359	150,994,705
Administrative costs	9,718,044	7,567,861	2,578,016	19,863,921
Total operating expenses	<u>9,718,044</u>	<u>565,661,521</u>	<u>100,490,293</u>	<u>675,869,858</u>
Operating (loss)	<u>(3,311,079)</u>	<u>(238,412,791)</u>	<u>(45,289,276)</u>	<u>(287,013,146)</u>
Nonoperating revenues:				
Project grant revenues	—	322,163,854	86,416,082	408,579,936
Interest income on investments	21,597	135,581,972	11,111,821	146,715,390
State assistance payments revenue	5,236,243	—	80,718	5,316,961
Appropriations received from New York State	308,700	—	—	308,700
Total nonoperating revenues	<u>5,566,540</u>	<u>457,745,826</u>	<u>97,608,621</u>	<u>560,920,987</u>
Nonoperating expenses:				
State assistance payments expense	5,236,243	—	80,718	5,316,961
Grants disbursed	—	25,408,985	11,955,917	37,364,902
Total nonoperating expenses	<u>5,236,243</u>	<u>25,408,985</u>	<u>12,036,635</u>	<u>42,681,863</u>
Increase (decrease) in net assets	<u>(2,980,782)</u>	<u>193,924,050</u>	<u>40,282,710</u>	<u>231,225,978</u>
Beginning net assets	<u>8,268,829</u>	<u>3,757,137,965</u>	<u>894,994,042</u>	<u>4,660,400,836</u>
Ending net assets	<u>\$ 5,288,047</u>	<u>3,951,062,015</u>	<u>935,276,752</u>	<u>4,891,626,814</u>

See accompanying independent auditors' report.

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Other Supplementary Information – Combining Schedule of Cash Flows
Year ended March 31, 2011

	<u>Corporate activities</u>	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Cash flows from operating activities:				
Bond financing and administrative fees	\$ 6,079,403	15,527,256	(8,047,821)	13,558,838
Interest income on bonds and direct financings receivable	—	312,535,158	53,072,030	365,607,188
Interest subsidy provided	—	(136,880,150)	(14,789,957)	(151,670,107)
Bonds purchased	—	(148,006,695)	(147,287,299)	(295,293,994)
Bonds repayments received	—	486,255,282	247,652,445	733,907,727
New York State appropriation bond payments received	72,410,000	—	—	72,410,000
Debt service funds received	—	1,156,773	205,656	1,362,429
Debt service funds paid	—	(2,485,484)	(504,073)	(2,989,557)
Personal services expense	(3,319,182)	(3,775,385)	(1,245,043)	(8,339,610)
Fringe benefits expense	(1,151,970)	(1,435,366)	(457,130)	(3,044,466)
Other administrative expenses	(816,684)	(1,210,906)	(242,927)	(2,270,517)
Short term financing disbursements	—	(308,527,815)	(84,731,632)	(393,259,447)
Short term financing repayments received	—	102,411,151	78,935,583	181,346,734
Direct financings issued	—	(163,143,380)	(119,584,853)	(282,728,233)
Direct financing repayments received	—	32,797,815	18,798,296	51,596,111
State assistance payments received	5,593,350	—	—	5,593,350
State assistance payments paid	(5,236,370)	—	(80,718)	(5,317,088)
Yield reduction received	—	3,720,710	399,100	4,119,810
Yield reduction paid	—	(291,166)	(7,173)	(298,339)
Other funds received	—	402,011	—	402,011
Other funds paid	—	(85,217)	(633,972)	(719,189)
Net cash provided by operating activities	<u>73,558,547</u>	<u>188,964,592</u>	<u>21,450,512</u>	<u>283,973,651</u>
Cash flows from noncapital financing activities:				
Proceeds from bonds issued	—	148,006,695	147,287,299	295,293,994
Payments on bonds payable	—	(486,375,282)	(247,652,445)	(734,027,727)
Interest expense on bonds payable	—	(303,987,659)	(49,983,905)	(353,971,564)
Payments on New York State appropriation bonds	(72,410,000)	—	—	(72,410,000)
Grants disbursed	—	(25,408,985)	(11,955,917)	(37,364,902)
Appropriations received from New York State	308,700	—	—	308,700
Contributions received from the Environmental Protection Agency	—	292,874,861	86,416,082	379,290,943
Contributions received from New York State	—	29,288,993	—	29,288,993
Net cash used in noncapital financing activities	<u>(72,101,300)</u>	<u>(345,601,377)</u>	<u>(75,888,886)</u>	<u>(493,591,563)</u>
Cash flows from investing activities:				
Net (purchases) proceeds from maturities of investments	—	249,912,982	74,339,955	324,252,937
Interest income on investments	21,597	138,053,344	11,546,136	149,621,077
Net cash provided by investing activities	<u>21,597</u>	<u>387,966,326</u>	<u>85,886,091</u>	<u>473,874,014</u>
Net decrease in cash and cash equivalents	1,478,844	231,329,541	31,447,717	264,256,102
Cash and cash equivalents, beginning of year	12,827,695	272,679,886	138,701,361	424,208,942
Cash and cash equivalents, end of year	<u>\$ 14,306,539</u>	<u>504,009,427</u>	<u>170,149,078</u>	<u>688,465,044</u>

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Other Supplementary Information – Combining Schedule of Cash Flows
Year ended March 31, 2011

	<u>Corporate activities</u>	<u>CWSRF</u>	<u>DWSRF</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (3,311,079)	(238,412,791)	(45,289,276)	(287,013,146)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	77,400	—	—	77,400
Interest expense	—	300,582,403	48,380,102	348,962,505
Principal forgiveness	—	121,020,911	35,027,816	156,048,727
Changes in assets and liabilities:				
Contractual services and fees receivable	(363,131)	(1,129,729)	(11,216,720)	(12,709,580)
Interest receivable on bonds and direct financings	—	2,058,862	1,121,821	3,180,683
Decrease in due from New York State, appropriation bonds receivable	72,410,000	—	—	72,410,000
Short term financings receivable	—	(206,116,664)	(5,796,049)	(211,912,713)
Direct financings receivable	—	(130,345,565)	(100,786,557)	(231,132,122)
Annual fees receivable	—	(115,449)	(101,329)	(216,778)
Bonds receivable	—	338,248,587	100,365,145	438,613,732
Accrued interest subsidy	—	(389,804)	(285,598)	(675,402)
Accounts payable and accrued expenses	3,687,453	106,589	258,654	4,052,696
Debt service funds payable	—	(1,328,711)	(298,417)	(1,627,128)
Deferred revenue	35,569	—	19,420	54,989
Other liabilities	356,980	3,746,338	(322,762)	3,780,556
Other post employment benefits	665,355	1,039,615	374,262	2,079,232
Net cash provided by operating activities	<u>\$ 73,558,547</u>	<u>188,964,592</u>	<u>21,450,512</u>	<u>283,973,651</u>

See accompanying independent auditors' report.