

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

Audit Committee Charter

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

I. Purpose

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

II. Committee Membership

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

III. Committee Powers and Responsibility

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

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

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

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

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

IV. Committee Meetings

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

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