



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Financial Statements and Supplemental Schedules  
and Required Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

# MASSACHUSETTS WATER RESOURCES AUTHORITY

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## **Independent Auditors' Report**

The Board of Directors  
Massachusetts Water Resources Authority:

We have audited the accompanying balance sheets of the Massachusetts Water Resources Authority (the Authority) as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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 audits provide 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 Authority at June 30, 2007 and 2006, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, on our consideration of the Authority'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 10 and the historical pension required supplementary information on page 43 are not required parts of the 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

October 19, 2007

## MASSACHUSETTS WATER RESOURCES AUTHORITY

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

#### **Financial Highlights – Fiscal 2007**

The fiscal 2007 customer service revenues were approximately \$506 million. Of this amount, rate revenues represent approximately 98%, or \$495 million, and were \$23 million higher than fiscal 2006. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$227 million in fiscal 2007. The 1.3% increase in total operating expenses over fiscal 2006 is the result of increased maintenance expenses and increased personnel costs.

Net nonoperating expenses decreased \$8.5 million, or 4%, primarily due to an increase in interest income and debt service grants.

Total assets at June 30, 2007 were approximately \$7.9 billion, a \$48 million, or 0.6%, increase over total assets at June 30, 2006. This increase was primarily reflected as an increase in other assets and deferred charges.

During fiscal 2007, the Authority issued 2007 Series A and B bonds in the aggregate amount of \$848 million to defease \$675 million of bonds and refinance \$179 million of commercial paper notes outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2007, a \$38 million, or 0.6%, decrease over June 30, 2006. The decrease was due to the rate of depreciation exceeding capital asset additions.

#### **Financial Highlights – Fiscal 2006**

The fiscal 2006 customer service revenues were approximately \$485 million. Rate revenues represent approximately 97%, or \$472 million, and were \$28 million higher than fiscal 2005. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$224 million in fiscal 2006. The 7.1% increase in total operating expenses over fiscal 2005 is the result of increased utility expenses due to higher prices and usage of electricity and diesel fuel, and increased personnel costs.

Net nonoperating expenses increased \$9.9 million, or 4.9%, primarily due to an increase in interest expense.

Total assets at June 30, 2006 were approximately \$7.9 billion, a \$40 million, or 0.5%, increase over total assets at June 30, 2005. This increase was primarily reflected as an increase in other assets and deferred charges.

During fiscal 2006, the Authority issued 2006 Series A and B bonds in the aggregate amount of \$486.3 million to defease \$286.4 million of bonds and refinance \$186 million of commercial paper notes outstanding.

## **MASSACHUSETTS WATER RESOURCES AUTHORITY**

### **Required Supplementary Information Management's Discussion and Analysis**

June 30, 2007 and 2006

(Unaudited)

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2006, a \$54 million, or 0.8%, decrease over June 30, 2005. The decrease was due to the rate of depreciation exceeding capital asset additions.

#### **Overview of the Financial Statements**

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the financial statements and related notes to the financial statements, required supplementary information, and other supplementary information.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

## MASSACHUSETTS WATER RESOURCES AUTHORITY

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

### Financial Analysis of the Authority

#### *Net Assets*

The Authority's total net assets at June 30, 2007 were approximately \$2.1 billion, a \$44 million decrease from June 30, 2006. Total assets increased \$48 million, or 0.6%, to \$7.9 billion, and total liabilities increased 1.6% to \$5.8 billion.

The Authority's total net assets at June 30, 2006 were approximately \$2.2 billion, a \$45 million decrease from June 30, 2005. Total assets increased \$40 million, or 0.5%, to \$7.9 billion, and total liabilities increased 1.5% to \$5.7 billion.

#### Net Assets (Dollars in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Percentage change 2007-2006</u>	<u>Percentage change 2006-2005</u>
Current assets	\$ 107,291	93,866	90,854	14.3%	3.3%
Restricted assets	669,278	681,400	659,975	(1.8)	3.2
Capital assets	6,406,195	6,444,534	6,498,899	(0.6)	(0.8)
Other assets	765,231	679,748	609,690	12.6	11.5
Total assets	<u>7,947,995</u>	<u>7,899,548</u>	<u>7,859,418</u>	<u>0.6%</u>	<u>0.5%</u>
Current liabilities	146,318	303,148	409,123	(51.7)%	(25.9)%
Payable from restricted assets	99,154	90,235	91,349	9.9	(1.2)
Long-term debt	5,370,663	5,144,294	4,916,755	4.4	4.6
Long-term lease	35,210	35,651	36,058	(1.2)	(1.1)
Other liabilities	186,533	171,795	206,358	8.6	(16.7)
Total liabilities	<u>5,837,878</u>	<u>5,745,123</u>	<u>5,659,643</u>	<u>1.6</u>	<u>1.5</u>
Net assets:					
Invested in capital assets – net of related debt	1,441,950	1,554,532	1,672,624	(7.2)	(7.1)
Restricted	189,396	180,695	161,775	4.8	11.7
Unrestricted	478,771	419,198	365,376	14.2	14.7
Total net assets	<u>\$ 2,110,117</u>	<u>2,154,425</u>	<u>2,199,775</u>	<u>(2.1)%</u>	<u>(2.1)%</u>

### Changes in Net Assets

The decrease in net assets at June 30, 2007 was \$44 million, or 2.1%, as compared with June 30, 2006. The Authority's total operating revenues increased by 4% to \$510 million and total operating expenses increased 1.3% to \$227 million.

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### Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The decrease in net assets at June 30, 2006 was \$45 million, or 2.1%, as compared with June 30, 2005. The Authority's total operating revenues increased by 7.5% to \$491 million and total operating expenses increased 7.1% to \$224 million.

<b>Changes in Net Assets</b> (Dollars in thousands)					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Percentage change 2007-2006</u>	<u>Percentage change 2006-2005</u>
<b>Operating revenues:</b>					
Customer service revenues	\$ 506,354	484,529	452,802	4.5%	7.0%
Other revenues	4,122	6,455	3,793	(36.1)	70.2
Total operating revenues	<u>510,476</u>	<u>490,984</u>	<u>456,595</u>	<u>4.0</u>	<u>7.5</u>
<b>Operating expenses:</b>					
Operations	87,590	93,517	83,682	(6.3)%	11.8%
Maintenance	25,915	19,485	20,169	33.0	(3.4)
Payments in lieu of taxes	5,969	5,920	5,077	0.8	16.6
Engineering, general, and administrative	107,493	105,034	100,110	2.3	4.9
Total operating expenses	<u>226,967</u>	<u>223,956</u>	<u>209,038</u>	<u>1.3</u>	<u>7.1</u>
Depreciation and amortization	<u>180,179</u>	<u>180,217</u>	<u>175,128</u>	<u>—</u>	<u>2.9</u>
Operating income	<u>103,330</u>	<u>86,811</u>	<u>72,429</u>	<u>19.0</u>	<u>19.9</u>
<b>Nonoperating items:</b>					
Regulatory accounting provisions	47,699	72,254	73,234	(34.0)	(1.3)
Net nonoperating expenses	(201,792)	(210,301)	(200,416)	(4.0)	4.9
Capital grants and contributions	6,455	5,886	6,103	9.7	(3.6)
Total nonoperating items	<u>(147,638)</u>	<u>(132,161)</u>	<u>(121,079)</u>	<u>11.7</u>	<u>9.2</u>
Change in net assets	<u>(44,308)</u>	<u>(45,350)</u>	<u>(48,650)</u>	<u>(2.3)</u>	<u>(6.8)</u>
Total net assets – beginning of year	<u>2,154,425</u>	<u>2,199,775</u>	<u>2,248,425</u>	<u>(2.1)</u>	<u>(2.2)</u>
Total net assets – end of year	<u>\$ 2,110,117</u>	<u>2,154,425</u>	<u>2,199,775</u>	<u>(2.1)%</u>	<u>(2.1)%</u>

During fiscal 2007, the increases in customer service revenues were primarily due to the 4.9% increase in the rate revenue requirement (\$23 million).

During fiscal 2006, the increases in customer service revenues were primarily due to the 4.2% increase in the rate revenue requirement (\$19.2 million).

Total operating costs, before depreciation and amortization, in fiscal 2007 were \$227 million; a \$3 million or 1.3% increase over fiscal 2006. This increase is primarily due to increases in maintenance expenses (\$6.4 million) and total personnel costs (\$1.4 million). Maintenance expenses increased primarily at Deer Island where, as the facility ages, increased maintenance is required to run the plant optimally. Total personnel costs



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Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

increased due to union contract increases for salaries and wages and increased health insurance costs. These increases were offset by a decrease in utility expenses of \$4.4 million, primarily due to decreased usage and prices of electricity and diesel fuel.

Total operating costs, before depreciation and amortization, in fiscal 2006 were \$224 million; a \$15 million or 7.1% increase over fiscal 2005. This increase is primarily due to increases in utilities expenses (\$7.3 million) and total personnel costs (\$5.3 million). Utility expenses increased as both prices and usage of electricity and diesel fuel increased, primarily at Deer Island. In addition, the John Carroll Water Treatment Plant (JCWTP) became fully operational in August 2005. The operating cost associated with this facility also contributed to the increased expenses. Total personnel costs increased due to union contract increases for salaries and wages and increased health insurance costs.

In fiscal 2007, net nonoperating expenses decreased \$8.5 million, or 4%, primarily due to an increase in interest income and debt service grants.

In fiscal 2006, net nonoperating expenses increased \$9.9 million, or 4.9%, primarily due to an increase in interest expense.

**Operating Costs by Functionality**  
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<b>Percentage change 2007-2006</b>	<b>Percentage change 2006-2005</b>
Wastewater treatment and transport	\$ 94,921	91,188	85,018	4.1%	7.3%
Water treatment and transport	27,607	24,950	21,127	10.6	18.1
Water and wastewater quality	8,361	8,917	8,144	(6.2)	9.5
Metering and monitoring	4,372	4,405	3,951	(0.7)	11.5
Facilities planning, design, and construction	10,027	9,733	9,910	3.0	(1.8)
Management Information Systems	8,727	7,970	8,329	9.5	(4.3)
Administration and support	<u>39,897</u>	<u>42,504</u>	<u>40,342</u>	<u>(6.1)</u>	<u>5.4</u>
Total direct operating costs	193,912	189,667	176,821	2.2	7.3
Indirect operating costs	<u>33,055</u>	<u>34,289</u>	<u>32,217</u>	<u>(3.6)</u>	<u>6.4</u>
Total operating costs	\$ <u><u>226,967</u></u>	<u><u>223,956</u></u>	<u><u>209,038</u></u>	<u><u>1.3%</u></u>	<u><u>7.1%</u></u>

The increase in water treatment and transport reflects a full year of operations for the JCWTP which began operations in early 2006. In addition, increases in wastewater and water treatment and transport (and off-setting decrease in Administration and Support) were caused by the reorganization of Chelsea facility administrative costs from Administration and Support to Operations. MIS increases were the result of increased spending for computer hardware and software licensing and upgrades of the Lawson financial software.

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**Capital Assets and Debt Administration**

***Capital Assets***

As of June 30, 2007 and 2006, the Authority had \$6.4 billion of capital assets (net of depreciation). This includes land, construction in progress, plant and equipment for the water and sewer systems, furniture and fixtures, leasehold improvements, and motor vehicles and equipment. The Authority's net capital assets decreased approximately \$38 million, or 0.6%, during fiscal 2007, primarily due to the rate of depreciation exceeding capital asset additions.

**Capital Assets**  
(Net of depreciation, dollars in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<b>Percentage change 2007-2006</b>	<b>Percentage change 2006-2005</b>
Land	\$ 6,692	11,036	11,036	(39.4)%	—%
Construction in progress	273,516	245,542	518,237	11.4	(52.6)
Plant and equipment, water, and sewer systems	6,122,818	6,182,573	5,961,597	(1.0)	3.7
Furniture and fixtures	2,210	4,395	6,580	(49.7)	(33.2)
Leasehold improvements	406	418	864	(2.9)	(51.6)
Motor vehicles and equipment	553	570	585	(3.0)	(2.6)
	<u>\$ 6,406,195</u>	<u>6,444,534</u>	<u>6,498,899</u>	<u>(0.6)%</u>	<u>(0.8)%</u>

Increases in construction in progress are primarily due to increased spending for the North Dorchester Bay tunnel project, upper Neponset Valley service system, Heath Hill Road pipe replacement, Braintree-Weymouth relief facilities and the Spot Pond supply mains rehabilitation.

***Debt Administration***

The Authority's bond sales must be approved by its board of directors (the Board) and must comply with rules and regulations of the United States Treasury Department. Neither the Commonwealth of Massachusetts (the Commonwealth) nor any political subdivision thereof shall be obligated to pay the principal of, or premium or interest on, any debt outstanding and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

***Bond Resolutions***

Pursuant to its general bond resolution, the Authority must comply with a rate covenant that requires it to set rates to maintain revenues sufficient to pay: current expenses; debt service on indebtedness; required deposits to reserves; costs of maintenance, replacement, and/or improvements to the wastewater and water systems that are considered current expenses and any additional amounts the Authority may be required to pay by any law or contract.

## MASSACHUSETTS WATER RESOURCES AUTHORITY

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

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In addition to the rate covenant, the Authority is required to meet two covenants with respect to debt service coverage. The primary debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.2 times that is required for debt service on all outstanding bonds, not including subordinated bonds. The subordinated debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.1 times that is required for debt service on all outstanding bonds, including subordinated bonds.

#### ***Credit Rating***

Of the \$5.5 billion of revenue bonds the Authority currently has outstanding, \$4.4 billion is credit enhanced by a combination of bond insurance, liquidity, or letters of credit. The Authority's enhanced revenue bonds are rated "AAA" by FITCHRATINGS, "Aaa" by Moody's Investors Service, and "AAA" by Standard and Poor's. The Authority's unenhanced \$0.2 billion long-term, senior debt is rated "AA" by FITCHRATINGS, "Aa2" by Moody's Investors Service, and "AA" by Standard and Poor's. The subordinated debt of \$0.9 billion is not rated as the Authority's debt.

#### ***Economic Factors and Next Year's Budget***

In June 2007, the Board approved the fiscal 2008 Current Expense Budget (CEB), which totals \$582.1 million in expenses before debt service offsets of \$17.6 million, for a net expense total of \$564.5 million. The \$17.6 million in debt service offsets is for debt service assistance.

The \$582.1 million expense total (before debt service offsets) is comprised of \$331 million (57%) in capital financing costs and \$251.1 million (43%) in operating expenses, of which \$206.6 million (82%) is for direct expenses and \$44.5 million (18%) is for indirect expenses. The total represents an increase of \$16.9 million from fiscal 2007 spending, which is comprised of \$22 million in higher operating costs and \$5 million in lower debt service costs.

The fiscal 2008 rate revenue requirement approved by the Board is \$517.8 million; an increase of 4.5% compared with the fiscal 2007 budget.

Fiscal 2008 budgeted nonrate revenue totals \$46.7 million, a decrease of \$8.7 million from actual fiscal 2007 nonrate revenue. This decrease is reflected primarily in interest income and other user charges where greater than budgeted revenues were received in fiscal 2007. The nonrate revenue budget is comprised of \$33.9 million in investment income, \$12 million in other user charges and other revenue and \$0.8 million in entrance fees.

#### ***CIP 10 Year Plan***

The Authority's planned spending for capital improvements in future years reflects the continuation and completion of projects now underway. These include:

- Completion of covered storage facilities, including Blue Hills Covered Storage, to provide safe, reliable storage for water treated at JCWTP and transported through the MetroWest Tunnel and Hultman Aqueduct.

## **MASSACHUSETTS WATER RESOURCES AUTHORITY**

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

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- Rehabilitation of the Wachusett and Hultman Aqueducts as well as rehabilitation of top shaft structures on the Quabbin Tunnel, Dorchester Tunnel, City Tunnel, Southborough Tunnel, and City Tunnel Extension.
- Completion of the long-term CSO control plan, resulting in closing of 34 of 84 CSO outfalls and the reduction of CSO discharges to Boston Harbor and the Mystic, Charles, and Neponset River systems by 85% from 1987, when MWRA accepted responsibility for CSO control, with 94% of remaining discharges receiving treatment.
- Construction of new interceptor facilities to serve Braintree, Hingham, Holbrook, Randolph, Weymouth, and sections of Quincy, and to reduce sewage overflows into the Weymouth Fore River.
- Installation of new sewers to reduce overflows to adjacent residential areas and water bodies in West Roxbury and Newton.
- Continued rehabilitation of the water distribution system at a rate of six to seven miles per year (2% to 2.5% of the total 275 miles of Authority pipeline).
- Improvement and replacement of equipment on Deer Island to ensure that the plant continues to operate efficiently and effectively.
- Security improvements to protect the Authority's facilities.

#### **Contacting the Authority's Financial Management**

This report is designed to provide our bondholders, member communities and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenue it receives. If you have questions about this report or need additional information, contact the Massachusetts Water Resources Authority, Finance Division, 100 First Avenue, Boston, MA 02129.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Balance Sheets

June 30, 2007 and 2006

(Dollars in thousands)

Assets	2007	2006
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 40,828	31,774
Investments (note 4)	42,444	42,242
Intergovernmental loans (note 7)	22,097	18,499
Accounts receivable	1,922	1,351
Total unrestricted current assets	107,291	93,866
Restricted assets:		
Investments (note 4)	664,196	674,133
Interest receivable	5,082	5,914
Grants receivable:		
Billed	—	1,315
Unbilled	—	38
Total restricted assets	669,278	681,400
Capital assets – not being depreciated (note 8)	280,208	256,578
Capital assets – being depreciated – net (note 8)	6,125,987	6,187,956
Deferred charges (notes 3 and 9)	475,057	415,131
Other assets, net (notes 7 and 9)	290,174	264,617
Total	\$ 7,947,995	7,899,548
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses (note 13)	\$ 56,466	53,095
Commercial paper notes (note 6)	39,000	164,000
Current portion of long-term debt (note 6)	50,852	86,053
Total current liabilities	146,318	303,148
Payable from restricted assets:		
Accounts payable for construction	21,813	17,010
Accrued interest on bonds payable	77,341	73,225
Total payable from restricted assets	99,154	90,235
Retainage on construction in progress	11,852	9,341
Long-term debt – less current portion (note 6)	5,370,663	5,144,294
Long-term capital lease (note 10)	35,210	35,651
Reserves (note 5)	104,169	101,050
Deferred credits (note 3)	70,512	61,404
Total liabilities	5,837,878	5,745,123
Net assets:		
Invested in capital assets, net of related debt	1,441,950	1,554,532
Restricted	189,396	180,695
Unrestricted	478,771	419,198
Total net assets	2,110,117	2,154,425
Commitments and contingencies (notes 10, 12, and 13)		
Total	\$ 7,947,995	7,899,548

See accompanying notes to financial statements.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Operating revenues (note 2):		
Customer services	\$ 506,354	484,529
Other	4,122	6,455
Total operating revenues	<u>510,476</u>	<u>490,984</u>
Operating expenses:		
Operations	87,590	93,517
Maintenance	25,915	19,485
Payments in lieu of taxes	5,969	5,920
Engineering, general, and administrative	107,493	105,034
Total operating expenses	<u>226,967</u>	<u>223,956</u>
Income from operations before depreciation	283,509	267,028
Depreciation and amortization	<u>180,179</u>	<u>180,217</u>
Operating income	<u>103,330</u>	<u>86,811</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	(3,119)	(866)
Change in deferrals, net (note 3)	50,818	73,120
Total regulatory accounting provisions	<u>47,699</u>	<u>72,254</u>
Nonoperating revenues (expenses):		
Debt service grants	18,937	9,631
Investment income	42,966	30,301
Interest expense	(263,695)	(250,233)
Total nonoperating expenses	<u>(201,792)</u>	<u>(210,301)</u>
Net loss before capital contributions	(50,763)	(51,236)
Capital grants and contributions	<u>6,455</u>	<u>5,886</u>
Decrease in net assets	(44,308)	(45,350)
Total net assets, beginning of year	<u>2,154,425</u>	<u>2,199,775</u>
Total net assets, end of year	<u>\$ 2,110,117</u>	<u>2,154,425</u>

See accompanying notes to financial statements.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 508,450	482,804
Cash paid to suppliers for goods and services	(111,377)	(108,970)
Cash paid to employees for services	(107,458)	(104,266)
Cash paid in lieu of taxes	(5,975)	(5,914)
Other operating receipts	4,122	6,437
Net cash provided by operating activities	<u>287,762</u>	<u>270,091</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	341,909	371,289
Capital grants for construction	7,808	5,886
Debt service grant	18,937	9,631
Capital lease principal payments	(441)	(408)
Capital lease interest payments	(2,776)	(2,809)
Repayment of debt	(295,177)	(266,277)
Interest paid on debt	(237,364)	(229,885)
Plant expenditures	(165,139)	(167,040)
Net cash used for capital and related financing activities	<u>(332,243)</u>	<u>(279,613)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(3,000)	(100)
Sales and maturities of short-term investments	48,976	37,719
Decrease in restricted cash and investments – net	(33,381)	(74,724)
Interest received	40,940	45,664
Net cash provided by investing activities	<u>53,535</u>	<u>8,559</u>
Net increase (decrease) in cash and cash equivalents	9,054	(963)
Cash and cash equivalents, beginning of year	<u>31,774</u>	<u>32,737</u>
Cash and cash equivalents, end of year	\$ <u>40,828</u>	\$ <u>31,774</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 103,330	86,811
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	180,179	180,217
Increase (decrease) in other accounts	1,042	(305)
Increase in accounts payable	3,211	3,368
Net cash provided by operating activities	\$ <u>287,762</u>	\$ <u>270,091</u>

Noncash financing activities:

In February 2007, general revenue refunding bonds in the aggregate principal amount of \$647,950 were issued to defease \$674,570 of bonds outstanding.

In March 2006, general revenue refunding bonds in the aggregate principal amount of \$286,320 were issued to defease \$286,000 of bonds outstanding.

See accompanying notes to financial statements.

# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

### (1) Organization

The Massachusetts Water Resources Authority (the Authority) was established in January 1985 pursuant to Chapter 372 (the Enabling Act) of the Act of 1984 of the Commonwealth of Massachusetts (the Commonwealth). The Authority, a successor agency to certain functions of the Metropolitan District Commission (the MDC) (which became part of the Department of Conservation and Recreation (the DCR) in July 2003), is a public instrumentality and, effective July 1, 1985, provides water supply services and sewage collection, treatment, and disposal services to areas of the Commonwealth.

The Authority is governed by an 11-member board of directors (the Board) chaired by the Secretary of Environmental Affairs for the Commonwealth. The Secretary and four other members are appointed by the Governor, one upon recommendation of the Mayor of Quincy and one upon recommendation of the Selectmen of Winthrop. Three members of the Board are appointed by the Mayor of Boston and three are appointed by the Authority's Advisory Board.

### (2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the Authority's significant accounting policies:

#### (a) Basis of Presentation

The Authority is required by the Enabling Act to establish user rates for its water and sewer services which provide sufficient funds to recover the costs of operations (excluding depreciation), debt service, maintenance, replacements, improvements to its facilities, and appropriate reserves. The Authority's financial statements are reported on the accrual basis of accounting and the economic measurement focus as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing water and sewer services to its member communities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. All operating revenues are pledged for repayment of outstanding debt service.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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In addition, the Authority has adopted the provisions of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, to provide a better matching of revenues and expenses. The effect of this policy has been to defer certain costs, which will be recovered through future revenues in accordance with the Authority's rate model, and to record deferred credits for revenue collected through current rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under Statement No. 71 are discussed further in notes 3 and 9.

**(b) Capital Assets**

On July 1, 1985, ownership of the MDC's sewer and waterworks personal property was transferred to the Authority. Pursuant to the Enabling Act, ownership of the real property of the MDC sewer and waterworks systems was not transferred from the Commonwealth to the Authority; however, the Authority has the right to use, improve, maintain, and manage that property. In addition, ownership of the real and personal property of the watershed system remains with the Commonwealth; however, the Authority has the right to utilize the water therefrom for water supply purposes.

The personal property, together with the rights to the real property and watershed system, was recorded at its estimated fair market value of \$2,331,465 (including certain construction projects which were in progress as of July 1, 1985), based upon an appraisal performed by valuation specialists. Property, plant, and equipment acquired or constructed since July 1, 1985, is stated at historical cost, and includes the expenditure of capital grants in aid of construction.

Betterments and major renewals are capitalized and included in capital asset accounts, while expenditures for maintenance and repairs are charged to expense when incurred. The cost of depreciable assets and related accumulated depreciation is eliminated from the accounts when such items are disposed of or otherwise retired.

**(c) Interest Cost and Principal Payments on Construction**

During fiscal 2007 and 2006, none of the Authority's interest expense was capitalized to construction in progress in accordance with its current policy of recovering such costs through rates as incurred. Rates collected for principal payments on debt related to assets under construction are deferred until the related asset is completed and depreciation commences.

**(d) Depreciation**

The Authority provides for depreciation by use of the straight-line method. Depreciation is intended to distribute the cost of depreciable properties, including those financed by capital grants in aid of construction, over the following estimated average useful lives:

	<u>Years</u>
Plant and equipment, water and sewerage systems	5-100
Motor vehicles and equipment	5
Furniture and fixtures	7
Leasehold improvements	3-5

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

**(e) Revenue Recognition**

The Authority recognizes revenue as amounts become collectible from its customers for water and sewer services provided. The majority of the Authority's billings to cities and towns are subject to, in the event of nonpayment, the local aid intercept allowed by the Enabling Act.

**(f) Cash and Cash Equivalents**

The Authority's policy is to treat unrestricted investments with a maturity date of three months or less when purchased as cash equivalents for purposes of the statements of cash flows. Restricted cash and cash equivalents are combined with investments on the balance sheets, and shown separately on the statements of cash flows as an investing activity.

**(g) Payments in Lieu of Taxes**

The Enabling Act authorizes and directs the Authority to pay to the DCR (formerly the MDC) Division of Watershed Management an amount for payment to each city or town in which land of the Quabbin watershed and Ware River watershed is located. Each such payment is equal to the amount which the respective city or town would receive in property taxes, based upon the fair value of such land if such land were not tax exempt.

**(h) Investments**

Investments are recorded at fair value. Fair value is determined based on quoted market price. The Authority recorded unrealized gains of \$382 in fiscal 2007 and unrealized losses of \$15,332 in fiscal 2006 as part of investment income.

**(i) 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 expenditures during the reporting period. Actual results could differ from those estimates.

**(j) Compensated Absences**

Employees of the Authority may accumulate unused sick time of which 30% will be paid in cash upon retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on a percentage of the amount accumulated at the statement of net assets dates. The liability for both amounts is calculated based on the pay or salary rates in effect at the statements of net assets dates.

**(k) Implementation of New Accounting Standards**

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was effective for the year ended June 30, 2007. Statement No. 43 does not currently apply to the Authority.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is scheduled to be implemented by the Authority for the year ending June 30, 2008. As of the date of this report, the Authority has performed an actuarial valuation of the future post-employment health care costs. The unaudited actuarially accrued liability as of January 1, 2006 is \$76,382 and \$154,449 for a funded plan and unfunded plan, respectively. The unaudited actuarially required contribution as of June 30, 2007 is \$8,849 and \$15,120 for a funded and unfunded plan, respectively.

**(3) Deferred Charges and Credits**

In accordance with FASB No. 71, deferred charges and credits result primarily from differences between depreciation on property, plant, and equipment not financed by grants or capital contributions, which is recovered through rates as principal payments on debt service, and from amounts determined by the Board to be utilized in a subsequent year to reduce customer billings (rate stabilization).

A summary of the activity of FASB No. 71 charges (credits) for fiscal 2007 and 2006 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2005 – net	\$ 214,081	66,526	280,607
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	55,608	11,829	67,437
Bond redemption – net	8,148	(4,564)	3,584
Rate stabilization – current year recovery	(3,023)	(5,816)	(8,839)
Rate stabilization – current year usage	7,926	2,813	10,739
Other – net	6,116	(5,917)	199
Balance – June 30, 2006 – net	288,856	64,871	353,727
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	50,321	9,605	59,926
Rate stabilization – current year recovery	6,203	(8,395)	(2,192)
Other – net	(5,633)	(1,283)	(6,916)
Balance – June 30, 2007 – net	\$ 339,747	64,798	404,545

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

The net balance at June 30, 2007 and 2006, is presented on the balance sheets as follows:

	<u>2007</u>	<u>2006</u>	<u>Current year change</u>
Deferred charges	\$ 475,057	415,131	59,926
Deferred credits	(70,512)	(61,404)	(9,108)
Net change in deferrals	<u>\$ 404,545</u>	<u>353,727</u>	<u>50,818</u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$43,737 and \$41,545 at June 30, 2007 and 2006, respectively.

**(4) Deposits and Investments**

The following represents essential risk information about the Authority's deposits and investments.

**(a) Custodial Credit Risk – Deposits**

The custodial credit risk for deposits and certificates of deposit is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The bank deposits at June 30, 2007 and 2006 were \$43,041 and \$33,578, respectively. Of these amounts, \$42,941 and \$33,478 were exposed to custodial credit risks as uninsured and uncollateralized.

**(b) Investments**

The Authority is authorized by its general bond resolution to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds, or notes of public agencies or municipalities, bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements, and repurchase agreements. All investments are held by a third-party in the Authority's name. These investments are recorded at fair value.

The following guaranteed investment contracts were in force as of June 30, 2007 and 2006, respectively, all of which are fully collateralized and appear as follows:

<u>Investment agreement provider</u>	<u>Rate</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
AIG financial products	5.75%	November 1, 2006	\$ —	10,418
AIG financial products	6.05	August 1, 2014	18,342	18,342
Wachovia Bank	5.17	August 1, 2016	14,456	14,456
Total			<u>\$ 32,798</u>	<u>43,216</u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

**(c) Credit Ratings**

All securities purchased, such as FNMA, FHLMC, and FHLB issues have an implied credit rating of AAA or they have been collateralized to AAA. This includes the guaranteed investment contracts.

The general bond resolution limits the Authority to investing in securities that are rated in the three highest rating categories as defined by Standards & Poor and Moody's.

**(d) Concentration Risk**

The Authority has no investments, at fair value, which exceeds 5% of the Authority's total investments as of June 30, 2007 and 2006.

**(e) Interest Rate Risk**

The following is a listing of the Authority's fixed income investments and related maturity schedule as of June 30, 2007 and 2006:

<b>June 30, 2007</b>					
<b>Investment maturities (in years)</b>					
<b>Investment type</b>	<b>Fair value</b>	<b>&lt;1</b>	<b>1-3</b>	<b>4-8</b>	<b>&gt;9</b>
Certificate of deposit	\$ 3,100	100	3,000	—	—
Money market mutual funds	422,528	422,528	—	—	—
U.S. Treasury notes and bonds	21,540	17,753	—	3,787	—
U.S. agency obligations	226,674	—	7,024	124,617	95,033
Guaranteed investment contracts	32,798	—	—	18,342	14,456
Total	<u>\$ 706,640</u>	<u>440,381</u>	<u>10,024</u>	<u>146,746</u>	<u>109,489</u>
<b>June 30, 2006</b>					
<b>Investment maturities (in years)</b>					
<b>Investment type</b>	<b>Fair value</b>	<b>&lt;1</b>	<b>1-3</b>	<b>4-8</b>	<b>&gt;9</b>
Certificate of deposit	\$ 3,100	3,000	100	—	—
Money market mutual funds	389,146	389,146	—	—	—
U.S. Treasury notes and bonds	31,101	9,588	17,797	3,716	—
U.S. agency obligations	249,812	26,199	6,900	97,348	119,365
Guaranteed investment contracts	43,216	10,418	—	—	32,798
Total	<u>\$ 716,375</u>	<u>438,351</u>	<u>24,797</u>	<u>101,064</u>	<u>152,163</u>

The Authority's bond resolution limits maturities to less than 15 years. The majority of the Authority's investments are long-term investments held in the debt service reserve funds where the intent is to hold until maturity. This reduces the exposure to fair value losses arising from increasing interest rates.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

**(f) Restricted Investments by Fund**

The following summarizes restricted investments as of June 30, 2007 and 2006 by various funds and accounts established by the Authority for debt covenants and other purposes:

	<u>2007</u>	<u>2006</u>
Restricted investments:		
Construction	\$ 83,892	81,926
Debt service reserves	253,083	252,361
Debt service	148,296	161,424
Revenue redemption	35,191	33,343
Revenue	66,328	69,568
Renewal and replacement reserve	31,429	29,891
Insurance	18,997	18,997
Community obligation and revenue enhancement	20,105	19,962
Insurance related escrow deposits	6,875	6,661
Total restricted investments	\$ <u>664,196</u>	<u>674,133</u>

**(5) Bond Resolution Reserves**

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2007 and 2006 are as follows:

<u>Reserves</u>	<u>Sewer</u>	<u>Water</u>	<u>Total 2007</u>	<u>Total 2006</u>
Renewal and replacement	\$ 17,300	11,701	29,001	29,001
Insurance	9,500	9,500	19,000	19,000
Operating	26,552	9,500	36,052	32,933
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	\$ <u>71,751</u>	<u>32,418</u>	<u>104,169</u>	<u>101,050</u>

A renewal and replacement reserve of \$6,000 was established through grant receipts transferred from the Commonwealth in 1985 and is included in restricted net assets at June 30, 2007 and 2006.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

**(6) Notes Payable and Long-Term Debt**

Long-term debt at June 30, 2007 and 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
<b>General Revenue Bonds:</b>		
1992 Series A, 6 1/2%, issued April 8, 1992	\$ —	387,845
1993 Series C, 5 1/4% to 6%, issued December 2, 1993, due 2008 to 2015	51,285	144,815
1995 Series B, 4% to 6 1/4%, issued January 4, 1996	—	52,155
1996 Series A, 6%, issued November 5, 1996	—	3,415
1998 Series A, 4 3/4%, issued January 27, 1998, due 2021 to 2032	100,355	153,490
2000 Series A, 5% to 6 1/8%, issued March 1, 2000	—	26,675
2002 Series B, 5% to 5 1/8%, issued March 15, 2002, due 2021 to 2027	74,415	87,080
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2008 to 2042	553,080	591,395
2003 Series D, 4 5/8% to 5%, issued January 7, 2004, due 2022 to 2028	113,340	141,705
2004 Series A, 4 3/4% to 5 1/8%, issued June 10, 2004, due 2021 to 2029	104,870	118,170
2006 Series A, 4% to 5%, issued March 16, 2006, due 2023 to 2046	200,000	200,000
2007 Series A, 4 3/8% to 5%, issued February 1, 2007 due 2022 to 2046	200,000	—
	<b>1,397,345</b>	<b>1,906,745</b>
<b>General Revenue Refunding Bonds:</b>		
1997 Series D, 4 3/4% to 6%, issued December 15, 1997, due 2008 to 2020	128,815	129,920
1998 Series B, 4 1/2% to 5 1/2%, issued January 27, 1998, due 2008 to 2022	103,550	103,880
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	49,390	65,255
2005 Series A, 3% to 5 1/4%, issued April 14, 2005, due 2008 to 2034	410,675	413,755
2005 Series B, 5%, issued April 14, 2005, due 2031 to 2035	80,290	80,290
2006 Series B, 4% to 5%, issued March 16, 2006, due 2015 to 2040	264,945	286,320
2007 Series B, 5 1/4%, issued February 1, 2007 due 2023 to 2038	647,950	—
	<b>1,685,615</b>	<b>1,079,420</b>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Subordinated debt:		
General Revenue Bonds with the Massachusetts		
Water Pollution Abatement Trust:		
1993 Series A, 5 3/10% to 5 1/2%, issued		
March 18, 1993, due 2007 to 2013	\$ 4,285	5,375
1993 Series D, 5% to 5 1/4%, issued		
January 6, 1994, due 2007 to 2014	3,925	4,660
1995 Series A, 5% to 5 1/2%, issued		
November 21, 1995, due 2007 to 2015	4,885	5,720
1998 Series C, 4 1/2% to 5 3/8%, issued		
July 9, 1998, due 2007 to 2018	10,385	11,665
1999 Series E Sewer, 4 1/2% to 5 3/8%, issued		
October 6, 1999, due 2007 to 2029	9,023	9,281
1999 Series E Water, 4 1/2% to 5 3/8%, issued		
October 6, 1999, due 2007 to 2019	8,615	9,142
1999 Series F, 5% to 6%, issued		
November 3, 1999, due 2007 to 2029	340,710	350,555
2000 Series E Sewer, 4 5/8% to 5 5/8%, issued		
November 1, 2000, due 2007 to 2030	65,715	67,337
2000 Series E Water, 4 5/8% to 5 5/8%, issued		
November 1, 2000, due 2007 to 2020	9,665	10,198
2001 Series C Water, 5% to 5 1/4%, issued		
July 26, 2001, due 2008 to 2021	4,162	4,393
2001 Series D Sewer, 5% to 5 3/4%, issued		
July 26, 2001, due 2007 to 2029	6,279	6,643
2001 Series D Water, 4 7/10% to 5 3/4%, issued		
July 26, 2001, due 2007 to 2019	1,218	1,291
2002 Series H Sewer, 3 1/2% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2032	83,875	85,905
2002 Series H Water, 3 1/2% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2022	28,020	29,355
2002 Series I Sewer, 4 1/4% to 5 5/8%, issued		
October 31, 2002, due 2007 to 2030	2,400	2,464
2002 Series I Water, 4 1/4% to 5 5/8%, issued		
October 31, 2002, due 2007 to 2020	26	27
2003 Series A Water, 3% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2022	1,293	1,355
2003 Series B Water, 5% to 5 1/4%, issued		
July 24, 2003, due 2008 to 2021	3,757	3,966
2003 Series C Sewer, 2 3/10% to 5 1/2%, issued		
November 6, 2003, due 2007 to 2033	30,049	30,766
2003 Series C Water, 2% to 5 1/2%, issued		
November 6, 2003, due 2007 to 2023	18,969	19,869



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
2004 Series C Sewer, 2 3/10% to 5 1/2%, issued October 26, 2004, due 2007 to 2033	\$ 10,203	10,446
2004 Series C water, 3% to 5 1/4%, issued October 26, 2004, due 2007 to 2022	1,528	1,611
2004 Series D Sewer, 3% to 5 1/4%, issued November 29, 2004, due 2007 to 2034	61,027	62,994
2004 Series D Water, 3% to 5 1/4%, issued November 29, 2004, due 2007 to 2024	12,400	12,891
2005 Series C Sewer, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2007 to 2034	7,211	7,482
2005 Series C Water, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2007 to 2024	990	1,002
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2007 to 2035	65,214	62,170
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2007 to 2025	14,231	12,321
2005 Series E Sewer, 2% , issued November 16, 2005, due 2007 to 2025	387	407
2005 Series E Water, 2%, issued November 16, 2005, due 2007 to 2025	86	91
Interim Loans Sewer, 1.29%, issued November 16, 2005, due 2006	—	10,893
2006 Series C Sewer, 3% to 5 1/4%, issued October 26, 2006, due 2007 to 2034	8,646	—
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2007 to 2036	58,715	—
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2007 to 2026	26,922	—
2006 Series E Sewer, 2% , issued December 14, 2006, due 2007 to 2026	374	—
2006 Series E water, 2% , issued December 14, 2006, due 2007 to 2026	168	—
	<u>905,358</u>	<u>842,275</u>
<b>General Revenue Bonds (variable rates):</b>		
1997 Series A, 3.3% to 3.91%, issued June 18, 1997, due 2008 to 2028	76,600	77,900
1997 Series B, 3.37% to 3.95%, issued June 18, 1997, due 2008 to 2028	76,600	77,900
1999 Series A, 3.3% to 3.9%, issued January 14, 1999, due 2007 to 2028	87,600	89,000
1999 Series B, 3.3% to 3.91%, issued January 29, 1999, due 2007 to 2028	87,600	89,000
1999 Series C, 3.15% to 3.75%, issued June 8, 1999, due 2008 to 2029	67,900	68,900

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
1999 Series D, 3.31% to 3.75%, issued June 8, 1999, due 2008 to 2029	\$ 67,900	68,900
2001 Series A, 3.35% to 3.96%, issued September 26, 2001, due 2007 to 2023	84,900	87,100
2001 Series B, 3.28% to 3.96%, issued September 26, 2001, due 2023 to 2031	85,000	85,000
	<u>634,100</u>	<u>643,700</u>
General Revenue Refunding Bonds (variable rates):		
1998 Series D, 3.37% to 3.98%, issued December 22, 1998, due 2008 to 2026	198,895	198,895
2000 Series B, 3.37% to 3.98%, issued March 22, 2000, due 2020 to 2037	133,300	133,300
2000 Series C, 3.37% to 3.98%, issued March 22, 2000, due 2020 to 2037	133,300	133,300
2002 Series C, 3.02% to 4.01%, issued August 15, 2002, due 2020	76,300	78,300
2002 Series D, 3.11% to 4%, issued August 15, 2002, due 2008 to 2017	76,450	76,450
2002 Series E, 3.05% to 3.7%, issued August 15, 2002, due 2010 to 2011	83,400	83,400
2002 Series F, 3.2% to 3.7%, issued August 15, 2002 due 2012 to 2013	90,900	90,900
2002 Series G, 2.92% to 3.7%, issued August 15, 2002, due 2014 to 2015	99,250	99,250
	<u>891,795</u>	<u>893,795</u>
	<u>5,514,213</u>	<u>5,365,935</u>
Less:		
Unamortized issuance and discount costs	144,053	39,305
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(236,751)	(174,893)
Current portion of long-term debt	(50,852)	(86,053)
	<u>(143,550)</u>	<u>(221,641)</u>
Long-term debt, net	\$ <u>5,370,663</u>	<u>5,144,294</u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Long-term debt at June 30, 2007 and 2006 consisted of the following:

		<b>2006 beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2007 ending balance</b>	<b>Due within one year</b>
General Revenue Bonds	\$	2,550,445	200,000	719,000	2,031,445	12,299
General Revenue Refunding Bonds		1,973,215	647,950	43,755	2,577,410	5,725
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust		842,275	111,596	48,513	905,358	32,828
	\$	<u>5,365,935</u>	<u>959,546</u>	<u>811,268</u>	<u>5,514,213</u>	<u>50,852</u>

  

		<b>2005 beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2006 ending balance</b>	<b>Due within one year</b>
General Revenue Bonds	\$	2,674,965	201,820	326,340	2,550,445	41,500
General Revenue Refunding Bonds		1,695,075	286,320	8,180	1,973,215	5,680
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust		760,717	106,247	24,689	842,275	38,873
	\$	<u>5,130,757</u>	<u>594,387</u>	<u>359,209</u>	<u>5,365,935</u>	<u>86,053</u>

The Authority is required to establish water and sewer rates and charges at a level sufficient to provide, among other things, primary and subordinated debt service coverage ratios of 120% and 110%, respectively. For the year ended June 30, 2007, the Authority had primary and subordinated debt service coverage ratios of 210% and 121%, respectively.

The Act of 1984 imposes a limitation of \$600,000 on the total amount of bonds and notes which may be outstanding at any one time. The Authority has requested increases in its debt limit as necessary to allow for issuances of bonds in amounts required to finance the capital program. The state legislature increased the debt limit to \$6,100,000.

On February 1, 2007, the Authority issued General Revenue Bonds, 2007 Series A and General Revenue Refunding Bonds, 2007 Series B in the principal amounts of \$200,000 and \$647,950, respectively. The proceeds from the Series A bonds were used to retire \$179,000 of Commercial Paper Notes. The interest rate on these bonds is 4-3/8% to 5%.

The proceeds from the Series B bonds were used to defease \$674,570 of the 1992 Series A, 1993 Series C, 1995 Series B, 1998 Series A, 2000 Series A, 2002 Series B, 2003 Series D, 2004 Series A, 2004 Series B, and 2006 Series B bonds outstanding. The interest rate on these bonds is 5.25%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$451,925 more than the debt service requirements for the defeased bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding was \$4,940.

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On March 16, 2006, the Authority issued General Revenue Bonds, 2006 Series A and General Revenue Refunding Bonds, 2006 Series B in the principal amounts of \$200,000 and \$286,320, respectively. The proceeds from the Series A bonds were used to retire \$186,000 of Commercial Paper Notes. The interest rate on these bonds is 4% to 5%.

The proceeds from the Series B bonds were used to defease \$286,400 of the 1990 Series A, 1995 Series B, and 2000 Series D bonds outstanding. The interest rate on these bonds is 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$173,568 more than the debt service requirements for the defeased bonds. The economic loss (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding was \$2,289.

In connection with several of its bond issues, the Authority has entered into various interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. Under these agreements, the Authority pays a fixed interest rate (ranging from 3.9% to 6.9%) and receives interest from the swap counterparties at a variable rate (either Bond Market Association (BMA) rate or 67% LIBOR). The BMA rate is based on the seven-day high-grade market index of tax-exempt variable rate demand obligations.

**Summary of Swap Transactions**

*Synthetic Fixed Rate Swap Transactions*

Date of execution	Notional amount	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Lump-Sum payment from counterparty	Counterparty credit rating at June 30, 2007	Fair value at June 30, 2007
March 22, 2000	\$ 266,600	August 1, 2030	2000 Series B & C	4.470%	BMA	N/A	Aaa	\$ (33,090)
August 1, 2030	70,400	August 1, 2037	2000 Series B & C	6.935	BMA	N/A	Aaa	(1,778)
December 22, 1998	198,895	November 1, 2026	1998 Series D	3.994	BMA	N/A	Aaa	1,058
August 15, 2002	350,000	August 1, 2015	2002 Series D, E, F, G	4.127	67% LIBOR	N/A	Aa3	(7,898)

The Authority also had one swap where it received a fixed rate of 4.9% and paid the BMA rate. This swap agreement, for the 2000 Series D bonds, was terminated on February 28, 2006 when these bonds were defeased. The proceeds from this transaction, totaling \$7,467, were used, along with the proceeds of 2006 Series B bonds, to defease debt.

Under these interest rate swap agreements, the Authority incurred net interest expense of \$4,975 and \$1,189 in fiscal 2007 and fiscal 2006, respectively.

For the swap execution on March 22, 2000, with a notional amount of \$266,600, the fixed rate paid by the Authority is as follows: 5.13% from execution through August 2005, 4.47% from August 2005 through August 2013, 5.49% from August 2013 through August 2019, and 6.94% from August 2019 through August 2030.

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***Risk Disclosure***

*Credit Risk* – Because all of the Authority’s swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled fair value in the tables above. All fair values have been calculated using the mark to market or par value method. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for longer term swaps are rated in the A+ category or higher by at least two of the three rating agencies (FITCHRATINGS, Moody’s Investors Service, and Standard and Poor’s).

*Basis Risk* – The Authority is exposed to basis risk if the relationship between the floating index the Authority receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

***Swap Payments and Associated Bonds Outstanding***

Bonds outstanding include certain variable rate bonds where the Authority pays a fixed interest rate and receives interest at a variable rate from a counterparty. The table below presents the debt service requirements and related net swap payments for these bonds. As rates vary, variable rate interest payments will vary.

Using rates as of June 30, 2007, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remains constant, were as follows:

<b>Fiscal year ending June 30</b>	<b>Variable-rate</b>		<b>Interest rate swaps, net</b>	<b>Total</b>
	<b>Principal</b>	<b>Interest</b>		
2008	\$ —	36,321	4,553	40,874
2009	14,500	35,667	5,062	55,229
2010	15,700	35,011	4,258	54,969
2011	42,300	33,199	3,151	78,650
2012	48,600	31,170	2,370	82,140
2013-2017	248,650	131,581	11,353	391,584
2018-2022	212,050	97,280	17,758	327,088
2023-2027	155,495	48,439	12,838	216,772
2028-2032	7,800	25,426	7,669	40,895
2033-2037	55,600	16,491	5,511	77,602
2038	14,800	523	194	15,517
<b>Total</b>	<b>\$ 815,495</b>	<b>491,108</b>	<b>74,717</b>	<b>1,381,320</b>

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At June 30, 2007, the following bonds outstanding are considered defeased in-substance:

<b>Description</b>	<b>Redemption date</b>	<b>Redemption price</b>	<b>Outstanding principal amount</b>
1990 Series A	2009–2020	102	\$ 602,975
1991 Series A	2011–2021	100 to 102	224,630
1992 Series A	2007–2022	100 to 102	671,345
1992 Series B	2007–2020	100	377,955
1993 Series A	2007–2013	100 to 102	52,380
1993 Series B	2008–2022	100 to 102	376,080
1993 Series C	2007–2023	100 to 102	273,035
1993 Series D	2007–2014	100 to 102	39,445
1994 Series A	2007–2024	102	116,960
1995 Series A	2007–2015	100 to 102	43,730
1995 Series B	2007–2024	100	205,810
1996 Series A	2007–2026	100 to 102	124,710
1997 Series D	2007	100 to 101	1,165
1998 Series A	2007–2020	100	79,335
1998 Series B	2007	100	350
1998 Series C	2007–2018	100 to 102	79,760
2000 Series A	2007–2039	100	273,430
2000 Series D	2009–2011	100	150,000
2002 Series B	2007–2024	100	97,860
2002 Series J	2012	100	38,315
2003 Series D	2007–2021	100	46,405
2004 Series A	2007–2020	100	22,855
2004 Series B	2016	100	15,865
2005 Series A	2007 - 2010	100	5,390
2006 Series B	2015-2020	100	21,375

The proceeds and available funds were deposited in irrevocable trusts with escrow agents in an amount which will provide for payment of interest due to the redemption date and redemption of the defeased bonds outstanding on such date. The defeased portion of such debt, accrued interest thereon, and related unamortized issuance and discount costs were removed from the balance sheet in an in substance defeasance transaction.

In May 2007, the Authority deposited \$42,781 on into an escrow account with the trustee to defease \$38,315 of the 2002 Series J and \$2,690 of the 2005 Series A General Revenue bonds outstanding.

In June 2006, the Authority deposited \$25,100 into an escrow account with the trustee to defease \$26,200 of the 1993C, 1995B, 1997D, 1998A, 1998B, 2000A, 2002B, 2003D, 2004A, and 2005A General Revenue bonds outstanding.

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At June 30, 2007, outstanding bonds that are redeemable before their scheduled due dates are as follows:

<b>Description</b>	<b>Redemption date</b>	<b>Redemption price</b>	<b>Outstanding principal amount</b>
1997 Series D	August 2008	100-101	\$ 113,375
1998 Series A	August 2008	100	100,355
1998 Series B	August 2008	100	72,945
2002 Series B	August 2011	100-101	74,415
2002 Series J	August 2012	100	200,000
2003 Series D	August 2013	100	113,340
2004 Series A	August 2014	100	104,870
2004 Series B	August 2014	100	49,390
2005 Series A	August 2017	100	285,000
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	200,000
2006 Series B	August 2018	100	261,775
2007 Series A	February 2017	100	200,000

The variable rate General Revenue Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part, on any interest payment date.

During fiscal 2007, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) providing for 2006 Series C, 2006 Series D and 2006 Series E Sewer and Water loans in the principal amounts of \$8,646, \$96,708, and \$542, respectively. All proceeds for these loans were received by June 30, 2007, except \$11,071, principal for 2006 Series D Sewer and Water. The remaining funds are expected to be drawn down in fiscal 2008.

During fiscal 2006, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) in connection with MWPAT's 2005 Series C, 2005 Series D and 2005 Series E Sewer and Water bonds to provide funds to the Authority in the amounts of \$8,519, \$81,597, and \$498, respectively. All available funds were drawn down by the Authority as of June 30, 2006, except \$35 and \$7,106, principal and premium, respectively, for 2005 Series C Water and 2005 Series D Sewer and Water. The remaining funds are expected to be drawn down in fiscal 2007.

Additionally, the Authority executed an interim loan agreement with MWPAT providing sewer loans in the principal amount of \$20,558. All proceeds of these loans were received by June 30, 2006, except \$9,665.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$117,718 will be recognized as capital grants in aid of construction over the term of the loans.

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Interest is payable semiannually on all debt, except on the commercial paper and capital appreciation bonds, on which interest is payable upon maturity and the General Revenue Bonds with variable interest rates on which interest is payable monthly. The Senior General Revenue Bonds and the General Revenue Refunding Bonds are collateralized equally and ratably by a lien and pledge on substantially all of the Authority's cash and revenues, except the operating fund. The subordinated debt series, including the commercial paper are collateralized equally and ratably by a subordinated pledge on substantially all of the Authority's revenues and cash and investments, except the operating, debt service, and debt service reserve funds. Premiums, discounts, issuance costs, and the excess of reacquisition price over the carrying amount of the defeased debt are being amortized over the lives of the respective issues.

The amounts of long-term debt, principal, and interest payable in future fiscal years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 50,852	241,785	292,637
2009	78,139	234,915	313,054
2010	83,277	232,471	315,748
2011	115,074	228,394	343,468
2012	142,614	223,467	366,081
2013–2017	801,200	1,042,545	1,843,745
2018–2022	1,188,084	855,337	2,043,421
2023–2027	1,285,521	568,664	1,854,185
2028–2032	877,433	307,318	1,184,751
2033–2037	485,752	153,847	639,599
2038–2042	262,205	58,332	320,537
2043–2047	144,062	14,654	158,716
Total	\$ <u>5,514,213</u>	<u>4,161,729</u>	<u>9,675,942</u>

The Authority issued commercial paper notes of \$39,000 to finance capital expenditures, which are secured by \$100,000 and \$250,000 irrevocable direct-pay letters of credit which expire on September 8, 2009, and May 20, 2010, respectively. These letters of credit carry a fee of 0.27% and 0.30% per annum, respectively, on the amount available. The maximum aggregate principal amount of commercial paper which may be outstanding at any one time is \$350,000.



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Commercial paper at June 30, 2007 and 2006 consisted of the following:

	<b>2007 Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2007 Ending balance</b>
3.00% commercial paper	\$ 164,000	—	164,000	—
3.62% commercial paper	—	39,000	—	39,000
	<u>\$ 164,000</u>	<u>39,000</u>	<u>164,000</u>	<u>39,000</u>
	<b>2006 Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2006 Ending balance</b>
1.77% commercial paper	\$ 289,000	—	289,000	—
3.00% commercial paper	—	164,000	—	164,000
	<u>\$ 289,000</u>	<u>164,000</u>	<u>289,000</u>	<u>164,000</u>

**(7) Accounts Receivable/Intergovernmental Loans**

The Authority has entered into various interest-free loan agreements with certain member communities. Under these agreements, the Authority loaned these communities \$35,232 and \$26,957 in fiscal 2007 and 2006, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2007 and 2006, is \$101,715 and \$85,815, respectively, and is included in other assets. The loans due within one year total \$22,097 and \$18,499 at June 30, 2007 and 2006, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

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**(8) Capital Assets**

Capital assets at June 30, 2007 and 2006, consisted of the following:

	<u>2006</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2007</u>
Capital assets – not being depreciated:				
Land	\$ 11,036	—	(4,344)	6,692
Construction in progress	<u>245,542</u>	<u>132,992</u>	<u>(105,018)</u>	<u>273,516</u>
Total capital assets – not being depreciated	<u>256,578</u>	<u>132,992</u>	<u>(109,362)</u>	<u>280,208</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,162,594	105,018	—	8,267,612
Furniture and fixtures	33,061	—	—	33,061
Leasehold improvements	5,081	—	—	5,081
Motor vehicles and equipment	<u>1,595</u>	<u>—</u>	<u>—</u>	<u>1,595</u>
Total capital assets – being depreciated	<u>8,202,331</u>	<u>105,018</u>	<u>—</u>	<u>8,307,349</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	1,980,021	164,773	—	2,144,794
Furniture and fixtures	28,666	2,185	—	30,851
Leasehold improvements	4,663	12	—	4,675
Motor vehicles and equipment	<u>1,025</u>	<u>17</u>	<u>—</u>	<u>1,042</u>
Total accumulated depreciation	<u>2,014,375</u>	<u>166,987</u>	<u>—</u>	<u>2,181,362</u>
Total capital assets – being depreciated – net	<u>6,187,956</u>	<u>(61,969)</u>	<u>—</u>	<u>6,125,987</u>
Capital assets – net	\$ <u><u>6,444,534</u></u>	<u><u>71,023</u></u>	<u><u>(109,362)</u></u>	<u><u>6,406,195</u></u>

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Capital assets at June 30, 2006 and 2005, consisted of the following:

	<u>2005</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2006</u>
Capital assets – not being depreciated:				
Land	\$ 11,036	—	—	11,036
Construction in progress	518,237	111,960	(384,655)	245,542
Total capital assets – not being depreciated	<u>529,273</u>	<u>111,960</u>	<u>(384,655)</u>	<u>256,578</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	7,777,939	384,655	—	8,162,594
Furniture and fixtures	33,061	—	—	33,061
Leasehold improvements	5,081	—	—	5,081
Motor vehicles and equipment	1,595	—	—	1,595
Total capital assets – being depreciated	<u>7,817,676</u>	<u>384,655</u>	<u>—</u>	<u>8,202,331</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	1,816,342	163,679	—	1,980,021
Furniture and fixtures	26,481	2,185	—	28,666
Leasehold improvements	4,217	446	—	4,663
Motor vehicles and equipment	1,010	15	—	1,025
Total accumulated depreciation	<u>1,848,050</u>	<u>166,325</u>	<u>—</u>	<u>2,014,375</u>
Total capital assets – being depreciated – net	<u>5,969,626</u>	<u>218,330</u>	<u>—</u>	<u>6,187,956</u>
Capital assets – net	\$ <u><u>6,498,899</u></u>	<u><u>330,290</u></u>	<u><u>(384,655)</u></u>	<u><u>6,444,534</u></u>

Depreciation and amortization for fiscal 2007 and 2006, was \$180,179 and \$180,217, respectively.

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**(9) Other Assets**

On December 17, 1997, the Authority sold to Massachusetts Heavy Industries, Inc. (MHI) certain land, buildings, machinery, equipment, and other items located within a former shipbuilding facility, known as the Fore River Shipyard, for a total purchase price of \$10,000. The Authority received \$3,000 in December 1997. The remaining balance of \$7,000 was due to be received beginning in December 1999. In accordance with FASB No. 71, the original loss of \$28,303 was accounted for as a deferred charge and is expected to be recovered through future rates. During fiscal 2000, the \$7,000 receivable was determined to be uncollectible increasing the deferred loss on the original sale to \$35,303.

**(10) Leases**

**(a) Operating**

The Authority leases electrical power assets, office space in Boston, and other property under long-term operating leases. Future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year at June 30, 2007, are as follows:

Year ending June 30:	
2008	\$ 5,758
2009	5,818
2010	5,239
2011	5,091
2012	5,682
2013–2016	<u>14,568</u>
Total	<u>\$ 42,156</u>

The Authority renegotiated the lease agreement on its Boston office space and effective October 1, 2005, the lease on 57 thousand square feet of the office space was extended until September 30, 2015. The lease on the remaining 27 thousand square feet of the office space expired on September 30, 2006, and the space was vacated.

In addition, the Authority executed its option to terminate the lease on its backup landfill in Utah. The lease was terminated on March 31, 2006, and the remaining 14 years of the lease will be eliminated at a projected savings of \$10,887.

Rental expense was \$7,362 and \$8,998 in fiscal years 2007 and 2006, respectively.

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**(b) Capital**

In fiscal 2003, the Authority entered into a 30-year capital lease agreement for the new maintenance facility. The interest rate for the capital lease is 7.83%. Future minimum lease payments for the capital lease at June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 477	2,740	3,217
2009	516	2,701	3,217
2010	558	2,659	3,217
2011	603	2,614	3,217
2012	652	2,565	3,217
2013–2017	4,144	11,941	16,085
2018–2022	6,122	9,963	16,085
2023–2027	9,044	7,041	16,085
2028–2032	13,094	2,724	15,818
Total	\$ <u>35,210</u>	<u>44,948</u>	<u>80,158</u>

Under this lease, the Authority is also responsible for “Additional Rent,” as defined in the lease. The Additional Rent includes real estate taxes, assessments, and other government charges.

The associated capital asset is reported in plant and equipment – water and sewage system at a cost of \$37,134 with \$6,286 of depreciation accumulated as of June 30, 2007.

**(11) Retirement Benefits**

**(a) Plan Description**

The Enabling Act provided for the establishment of the Massachusetts Water Resources Authority Employees’ Retirement System (the Plan), a contributory single-employer retirement system that is separate from the State Employees Retirement System. The Plan is a defined benefit pension plan covering those employees not employed by the MDC prior to July 1, 1985. Total payroll and covered payroll for all Authority employees in the Plan were \$76,249 and \$72,476, respectively, for the year ended June 30, 2007.

Under the provisions of the Plan, pension benefits vest after 10 years of full-time employment. An employee may retire after 20 years of service or at age 55 and completion of 10 years of service. At age 65, annual pension benefits equal 2.5% of the employee’s average regular compensation earned during the last three years of employment or any three consecutive years when compensation was higher, multiplied by each year of creditable service. The benefit is reduced if retirement occurs before age 65 or if survivor’s benefits are elected. The Plan also provides death and disability benefits. Ordinary disability benefits are available only to employees under age 55 with at least 10 years of service. Complete financial statements for the Plan can be obtained from the Authority’s administrative offices at Charlestown Navy Yard, 100 First Avenue, Boston, MA 02129.

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**(b) Funding Policy**

Contributions made by employees are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983, 8% for employees hired between December 31, 1983, and June 30, 1996, and 9% for employees hired after July 1, 1996). Additionally, certain employees earning in excess of \$30 contribute an extra 2% of their salary effective January 1, 1979. Employees receive full payment of contributions upon withdrawal from the Plan and 50% of interest earned for employees with five to nine years of service or 100% of interest earned for employees with 10 or more years of service.

The 2007 and 2006 contributions to the plan were based on an amount approved by the Retirement Board and the Authority's board of directors. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation. In 2004, the Authority contributed \$1,194 more than the APC or \$3,882.

**(c) Annual Pension Cost**

The annual required contribution for the current year was determined as part of the January 1, 2001, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 5.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. Although, the Authority has a net pension asset, they have elected to reserve 100% against these balances. This balance is reserved because this net pension asset resulted from the timing of payments according to the funding schedule and cannot be accessed by the Authority unless the plans are terminated. The likelihood of such an event has been deemed to be remote. Assets are valued at market value.

**(d) Three-Year Trend Information**

	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension asset/ (obligation)</b>
Fiscal year ending:			
2007	\$ 4,094	100 %	\$ —
2006	3,577	100	—
2005	3,408	100	—

**(e) Other Benefits**

All MDC personnel who became employees of the Authority on July 1, 1985, and were members of the State Employees Retirement System, retained their membership in that system. The Authority is not liable for retirement allowances paid to or on account of these employees. Funding of the pension liability of the State Employees Retirement System is the obligation of the Commonwealth. Employees covered by this plan become 100% vested after 10 years of service. The Authority's covered payroll for members of this plan for the year ended June 30, 2007, was \$8,460.

# MASSACHUSETTS WATER RESOURCES AUTHORITY

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The Authority's policy is to provide certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. Premiums for retired employees were \$1,689 and \$1,556 in fiscal 2007 and 2006, respectively.

### **(12) Commitments and Contingencies**

#### **(a) General**

The Authority's capital improvement program continues to proceed. As part of this program, the Authority has entered into a number of contracts for the design and construction of infrastructure and improvements to its facilities. Commitments under these contracts aggregated approximately \$404,922 at June 30, 2007.

The Authority's operating and construction plans are designed to comply with the Federal District Court's schedule of actions. The Authority has incurred capital expenditures of approximately \$6,867,000 from fiscal 1986 through fiscal 2007, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$1,703,000 on these projects through fiscal 2017. These capital expenditures have been forecasted based upon certain preliminary assumptions and estimates, which may change significantly as design and construction of the necessary facilities proceed. Funding is expected to come from various federal and state grants, as available and approved, and from the Authority's debt proceeds. To date, federal appropriations for the Boston Harbor Project have aggregated \$810,000.

#### **(b) Boston Harbor Case**

The Authority continues to be a defendant, along with Boston Water and Sewer Commission (BWSC) and the Commonwealth, in the federal Boston Harbor Case. The federal action was originally brought in 1985 by the United States on behalf of the United States Environmental Protection Agency (EPA) and by certain citizens groups for Clean Water Act violations. As part of the Boston Harbor Case, the Authority was required to undertake certain corrective actions to meet wastewater treatment, discharge and combined sewer overflow (CSO) requirements. The only corrective action remaining is CSO related which is currently scheduled for completion in 2015.

In March 2006, the Authority reached agreement with the United States and the Massachusetts Department of Environmental Protection (DEP) on the scope and schedule for the remaining CSO projects which was filed with the Court as part of a joint motion to amend the Court Schedule. In April 2006, the Court allowed the joint motion and issued an Order with a schedule. Under the Order, the Authority has until 2020 to complete the remaining CSO work and subsequent monitoring which will be used to verify that the long term CSO control goals are achieved.

As part of the agreement, DEP agreed to reissue and EPA agreed to approve five (5) consecutive variances of no more than three years duration each, through the year 2020, for the Charles River and Alewife Brook/Upper Mystic River that are consistent with and limited to the requirements in the

# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Authority's revised Long Term CSO Control Plan. In addition, the United States and the Authority agreed to withdraw the February 27, 1987 *Stipulation of the United States and the Massachusetts Water Resources Authority on Responsibility and Legal Liability for Combined Sewer Overflows* and replace it with a Second Stipulation that requires the Authority to implement the CSO requirements set forth in the Court Schedule and to meet the levels of control described in the Authority's long term CSO control plan. Upon completion of the long term CSO control plan and with results that demonstrate performance parameters are as predicted, the stipulation makes the Authority responsible for only those CSO outfalls which it owns and operates. As a result of the agreement, the Authority now has 35 CSO projects, 20 of which are complete, and six of which are under construction. The estimated cost to complete the Authority's long term CSO control plan is now \$868 million, including contingency and escalation of unawarded contracts.

In addition, the Court always retains the right to order further remedial action and assess penalties. The Court has issued no penalties in the Boston Harbor Case to date.

(c) ***Deer Island Submarine Power Cable***

In 2004, the United States Army Corps of Engineers (Corps) notified Boston Edison Co. (BECo, now N-Star), its subsidiary Harbor Energy Electric Company (HEEC) and the Authority that they were in violation of a permit (MA BOSS 198900530, dated August 31, 1989) which authorized the installation of a submarine power cable running under Boston Harbor from South Boston to Deer Island, because the power cable, in places, had allegedly been installed at depths less than those required by permit. The Corps has demanded that the permittees develop plans and an implementation schedule for bringing the cable into compliance with the permit. The Authority responded stating that it had become a co permittee only to facilitate issuance of the permit, that it did not install or own the cable, and therefore, it had neither the right nor the ability to move or alter the position of the cable. In 2005, the Corps referred the matter to the United States Department of Justice. In May 2005, the Department of Justice confirmed to the permittees that the matter had been referred to it, inter alia, for the purpose of either commencing a lawsuit to compel the relocation of the cable or attempting to negotiate an amicable resolution that would bring the permittees into compliance with the permit's conditions. The Authority has informed the federal court of its position in its Compliance and Progress report filed on June 15, 2005. The Department of Justice and the permittees first met on October 11, 2005, to discuss this matter. At the meeting, BECo and HEEC outlined conceptual plans with respect to the cable while the Authority repeated its view that it had no responsibility for the cable or for any future efforts by BECo or HEEC to come into compliance with the terms of the permit. Further meetings have occurred in 2006 and 2007 which have resulted in BECo and HEEC agreeing to explore options to correct the depth of the cable while reserving the right to charge back its costs to the Authority as part of its costs of furnishing electricity to the Authority. At an April 26, 2007 meeting, BECo outlined five methods for accomplishing either the relocation of the cable or providing for in-place protection to allow for future dredging operations in the vicinity of the cable. BECo appears to favor the method of in-place protection which involves the placement of concrete mats over the submerged cable. The Corps did not appear to favor that option. The Authority has responded to the request of the Department of Justice for an analysis of the



# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Authority costs relative to all five options presented. To date, BECo has not furnished its projected costs or a schedule for these options.

**(d) *Blending***

In May 2005, EPA sent a letter to the Authority stating that, in its view, certain of the Authority's operational practices involving temporary diversions of portions of the flow around secondary treatment facilities (blending) at its Deer Island Wastewater Treatment Plant (DITP) constituted unwarranted bypasses, and constituted violations of the Authority's NPDES permit. The Authority has responded that the DITP has been operated in a manner that optimizes the end quality of treated effluent streams following primary and secondary treatment, that operational strategies are gauged to avoid adverse upsets in the biological treatment process, that blending practices have never resulted in the Authority exceeding permit limits or caused environmental harm, and that any permit violations are technical in nature. EPA has requested detailed information concerning the operations of DITP and the Authority has supplied the information. In the past year, the Authority has continued to voluntarily and gradually increase the volume of its flows directed through its secondary treatment facilities so as to test the operational limits of these facilities and to attempt to reduce the volume of diversions around secondary treatment. The Authority has kept EPA apprised of these activities. In 2007, in response to the entry of the Department of Justice on behalf of the EPA in this matter, settlement negotiations began in an attempt to resolve the alleged permit violations. These discussions have proceeded to the point where it appears that the Authority may soon agree to the entry of a federal court consent order which will conclude the enforcement matter, will establish the level of wastewater flows to receive secondary treatment at DITP during heavy wet weather events, will include the payment of a modest penalty to EPA and will provide for the Authority's funding and performance of a supplemental environmental project mutually agreeable to the Authority and EPA.

**(e) *Miscellaneous***

The Authority is also a defendant in several legal actions and administrative proceedings arising out of its operation, maintenance, and improvement of the water and sewer systems under its care. It is the opinion of management that any judgments or settlements that may result from these actions will not have a materially adverse effect upon the Authority.

**(13) Risk Management**

The Authority is exposed to various risks of loss. The risk management program involves insurance and self insurance related to property, general liability (including automobile, marine and employers' liability), excess liability, public officials' liability, workers' compensation, unemployment liability, and employee health care and life insurance.

Buildings, plants, and equipment are fully insured on an all risk replacement basis to the extent that losses exceed \$2,500 per occurrence. The Authority maintains insurance coverage for general liability, automobile liability, marine liability, and employers' liability to the extent that losses exceed \$2,500 per occurrence, up to a limit of \$35,000. In addition to the primary liability insurance, the Authority maintains an excess liability policy with an additional limit of \$65,000. The Authority also maintains public officials'

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

errors and omissions insurance with a limit of \$5,000 per occurrence with a \$1,000 deductible. All insurance policies are renewed on an annual basis.

The Authority reimburses the Commonwealth on a paid-claims basis for unemployment claims. Claims expensed during fiscal 2007 and 2006 were \$52 and \$137, respectively. The Authority is a licensed self-insurer for workers' compensation. Excess loss insurance is carried on workers' compensation as required by law in excess of \$500 per occurrence retention, with a limit of \$25,000 per occurrence.

The Authority participates in and pays premiums to the Commonwealth's Group Insurance Commission for employee health benefits. The Authority pays 85% of these health premiums, with employees paying the balance.

Insurance claims have not exceeded insurance coverage in any of the last three fiscal years.

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority records such liabilities in accrued expenses.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Changes in the claims liability insurance reserves in fiscal 2007 and 2006 were as follows:

	<b>General liability and property</b>	<b>Workers' compensation</b>
Liability balance – June 30, 2005	\$ 4,259	1,484
Provision to record estimated losses	1,844	1,823
Payments	(3,864)	(1,196)
Liability balance – June 30, 2006	2,239	2,111
Provision to record estimated losses	531	1,236
Payments	(894)	(1,620)
Liability balance – June 30, 2007	\$ <u>1,876</u>	<u>1,727</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Schedule of Funding Progress

Required Supplementary Information

June 30, 2007

(Unaudited)

(Dollars in thousands)

<b>Actuarial valuation</b>	<b>Assets (a)</b>	<b>Actuarial Liability (AAL) – Entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/(c))</b>
January 1, 2005	\$ 172,512	172,512	—	100%	\$ 65,790	—
January 1, 2003	146,188	146,188	—	100	66,711	—
January 1, 2002	141,069	141,069	—	100	66,322	—
January 1, 2001	128,385	128,385	—	100	65,955	—
January 1, 1999	96,318	96,318	—	100	66,782	—
January 1, 1998	77,712	77,712	—	100	63,579	—

See accompanying independent auditors' report.

## **SUPPLEMENTAL SCHEDULES**

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Accounts Established by the General Revenue Bond Resolution

Year ended June 30, 2007  
(comparative totals for June 30, 2006)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2006	\$ 81,926	69,568	467,090	48,888	667,472
Proceeds from:					
Revenue bonds and loans	162,909	—	179,000	—	341,909
Cash received from customers	—	512,572	—	—	512,572
Debt service grant	—	—	18,937	—	18,937
Interest income	5,140	9,079	25,742	1,660	41,621
Grant receipts	1,247	—	6,560	—	7,807
Construction payments	(165,250)	111	—	—	(165,139)
Capital lease payments	(444)	—	(2,773)	—	(3,217)
Debt service payment	(1,041)	—	(531,500)	—	(532,541)
Other Commonwealth payments	—	—	—	—	—
Interfund transfers	(1,316)	(289,407)	290,845	(122)	—
Transfers from (to) operating account	721	(211,864)	2,774	—	(208,369)
Balance – June 30, 2007	\$ <u>83,892</u>	<u>66,328</u>	<u>456,675</u>	<u>50,426</u>	<u>657,321</u>

	<u>Sewer</u>	<u>Water</u>	<u>2007 total</u>	<u>2006 total</u>
Restricted cash and investments:				
Construction	\$ 44,063	39,829	83,892	81,926
Debt service reserves	171,302	81,781	253,083	252,361
Debt service	96,140	52,156	148,296	161,424
Revenue redemption	8,339	26,852	35,191	33,343
Revenue	31,633	34,695	66,328	69,568
Renewal and replacement reserve	20,345	11,084	31,429	29,891
Insurance	9,499	9,498	18,997	18,997
Community obligation and revenue enhancement	17,230	2,875	20,105	19,962
Total restricted cash and investments	\$ <u>398,551</u>	<u>258,770</u>	<u>657,321</u>	<u>667,472</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Combining Balance Sheet

June 30, 2007

(Dollars in thousands)

<b>Assets</b>	<b>Sewer</b>	<b>Water</b>	<b>Combined total</b>
Unrestricted current assets:			
Cash and cash equivalents	\$ 26,696	14,132	40,828
Investments	33,458	8,986	42,444
Intergovernmental loans	9,039	13,058	22,097
Accounts receivable	1,448	474	1,922
Total unrestricted current assets	<u>70,641</u>	<u>36,650</u>	<u>107,291</u>
Restricted assets:			
Cash and investments	401,088	263,108	664,196
Interest receivable	3,632	1,450	5,082
Grants receivable:			
Billed	—	—	—
Unbilled	—	—	—
Total restricted assets	<u>404,720</u>	<u>264,558</u>	<u>669,278</u>
Capital assets – not being depreciated	172,414	107,794	280,208
Capital assets – being depreciated – net	3,724,096	2,401,891	6,125,987
Deferred charges	363,919	111,138	475,057
Other assets – net	204,803	85,371	290,174
Total	<u>\$ 4,940,593</u>	<u>3,007,402</u>	<u>7,947,995</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 39,368	17,098	56,466
Commercial paper notes	15,000	24,000	39,000
Current portion of long-term debt	33,806	17,046	50,852
Total current liabilities	<u>88,174</u>	<u>58,144</u>	<u>146,318</u>
Payable from restricted assets:			
Accounts payable for construction	18,871	2,942	21,813
Accrued interest on bonds payable	49,242	28,099	77,341
Total payable from restricted assets	<u>68,113</u>	<u>31,041</u>	<u>99,154</u>
Retainage on construction in progress	9,674	2,178	11,852
Long-term debt – less current portion	3,551,571	1,819,092	5,370,663
Long-term capital leases	23,973	11,237	35,210
Reserves	71,751	32,418	104,169
Deferred credits	24,172	46,340	70,512
Total liabilities	<u>3,837,428</u>	<u>2,000,450</u>	<u>5,837,878</u>
Net assets:			
Invested in capital assets – net of related debt	628,616	813,334	1,441,950
Restricted	112,167	77,229	189,396
Unrestricted	362,382	116,389	478,771
Total net assets	<u>1,103,165</u>	<u>1,006,952</u>	<u>2,110,117</u>
Commitments and contingencies			
Total	<u>\$ 4,940,593</u>	<u>3,007,402</u>	<u>7,947,995</u>

See accompanying independent auditors' report.



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Combining Balance Sheet

June 30, 2006

(Dollars in thousands)

<b>Assets</b>	<b>Sewer</b>	<b>Water</b>	<b>Combined total</b>
Unrestricted current assets:			
Cash and cash equivalents	\$ 20,885	10,889	31,774
Investments	31,012	11,230	42,242
Intergovernmental loans	8,039	10,460	18,499
Accounts receivable	285	1,066	1,351
Total unrestricted current assets	<u>60,221</u>	<u>33,645</u>	<u>93,866</u>
Restricted assets:			
Cash and investments	420,593	253,540	674,133
Interest receivable	4,267	1,647	5,914
Grants receivable:			
Billed	1,315	—	1,315
Unbilled	38	—	38
Total restricted assets	<u>426,213</u>	<u>255,187</u>	<u>681,400</u>
Capital assets – not being depreciated	154,564	102,014	256,578
Capital assets – being depreciated – net	3,769,109	2,418,847	6,187,956
Deferred charges	313,598	101,533	415,131
Other assets – net	191,551	73,066	264,617
Total	<u>\$ 4,915,256</u>	<u>2,984,292</u>	<u>7,899,548</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 35,815	17,280	53,095
Commercial paper notes	—	164,000	164,000
Current portion of long-term debt	65,847	20,206	86,053
Total current liabilities	<u>101,662</u>	<u>201,486</u>	<u>303,148</u>
Payable from restricted assets:			
Accounts payable for construction	13,698	3,312	17,010
Accrued interest on bonds payable	49,028	24,197	73,225
Total payable from restricted assets	<u>62,726</u>	<u>27,509</u>	<u>90,235</u>
Retainage on construction in progress	7,168	2,173	9,341
Long-term debt – less current portion	3,499,846	1,644,448	5,144,294
Long-term capital leases	24,264	11,387	35,651
Reserves	69,420	31,630	101,050
Deferred credits	24,742	36,662	61,404
Total liabilities	<u>3,789,828</u>	<u>1,955,295</u>	<u>5,745,123</u>
Net assets:			
Invested in capital assets – net of related debt	684,621	869,911	1,554,532
Restricted	115,076	65,619	180,695
Unrestricted	325,731	93,467	419,198
Total net assets	<u>1,125,428</u>	<u>1,028,997</u>	<u>2,154,425</u>
Commitments and contingencies			
Total	<u>\$ 4,915,256</u>	<u>2,984,292</u>	<u>7,899,548</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 334,636	171,718	506,354
Other	3,720	402	4,122
Total operating revenues	<u>338,356</u>	<u>172,120</u>	<u>510,476</u>
Operating expenses:			
Operations	57,753	29,837	87,590
Maintenance	20,718	5,197	25,915
Payments in lieu of taxes	—	5,969	5,969
Engineering, general, and administrative	73,847	33,646	107,493
Total operating expenses	<u>152,318</u>	<u>74,649</u>	<u>226,967</u>
Income from operations before depreciation	186,038	97,471	283,509
Depreciation	<u>127,286</u>	<u>52,893</u>	<u>180,179</u>
Operating income	<u>58,752</u>	<u>44,578</u>	<u>103,330</u>
Regulatory accounting provisions:			
Increase in reserves	(2,331)	(788)	(3,119)
Increase (decrease) in deferred credits – net	50,891	(73)	50,818
Total regulatory accounting provisions	<u>48,560</u>	<u>(861)</u>	<u>47,699</u>
Nonoperating income (expense):			
Debt service grants	15,907	3,030	18,937
Investment income	26,701	16,265	42,966
Interest expense	(177,746)	(85,949)	(263,695)
Total nonoperating expense	<u>(135,138)</u>	<u>(66,654)</u>	<u>(201,792)</u>
Net loss before capital grants	(27,826)	(22,937)	(50,763)
Capital grants	<u>5,563</u>	<u>892</u>	<u>6,455</u>
Decrease in net assets	(22,263)	(22,045)	(44,308)
Total net assets – beginning of year	<u>1,125,428</u>	<u>1,028,997</u>	<u>2,154,425</u>
Total net assets – end of year	\$ <u>1,103,165</u>	<u>1,006,952</u>	<u>2,110,117</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**  
Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006  
(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 318,029	166,500	484,529
Other	4,741	1,714	6,455
Total operating revenues	<u>322,770</u>	<u>168,214</u>	<u>490,984</u>
Operating expenses:			
Operations	61,794	31,723	93,517
Maintenance	15,801	3,684	19,485
Payments in lieu of taxes	—	5,920	5,920
Engineering, general, and administrative	73,789	31,245	105,034
Total operating expenses	<u>151,384</u>	<u>72,572</u>	<u>223,956</u>
Income from operations before depreciation	171,386	95,642	267,028
Depreciation	<u>128,620</u>	<u>51,597</u>	<u>180,217</u>
Operating income	<u>42,766</u>	<u>44,045</u>	<u>86,811</u>
Regulatory accounting provisions:			
Increase in reserves	—	(866)	(866)
Increase (decrease) in deferred credits – net	74,776	(1,656)	73,120
Total regulatory accounting provisions	<u>74,776</u>	<u>(2,522)</u>	<u>72,254</u>
Nonoperating income (expense):			
Debt service grants	8,258	1,373	9,631
Investment income	16,973	13,328	30,301
Interest expense	(171,070)	(79,163)	(250,233)
Total nonoperating expense	<u>(145,839)</u>	<u>(64,462)</u>	<u>(210,301)</u>
Net loss before capital grants	(28,297)	(22,939)	(51,236)
Capital grants	<u>5,043</u>	<u>843</u>	<u>5,886</u>
Decrease in net assets	(23,254)	(22,096)	(45,350)
Total net assets – beginning of year	<u>1,148,682</u>	<u>1,051,093</u>	<u>2,199,775</u>
Total net assets – end of year	<u>\$ 1,125,428</u>	<u>1,028,997</u>	<u>2,154,425</u>

See accompanying independent auditors' report.