



MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements and Supplemental Schedules
and Required Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis – Required Supplementary Information	3 – 10
Financial Statements:	
Balance Sheets as of June 30, 2011 and 2010	11
Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2011 and 2010	12
Statements of Cash Flows for the years ended June 30, 2011 and 2010	13
Notes to Financial Statements	14 – 43
Required Supplementary Information	
Schedules of Funding Progress	44
Supplemental Schedules	
Accounts Established by the General Revenue Bond Resolution for the year ended June 30, 2011 and Comparative Totals for the year ended June 30, 2010	45
Combining Balance Sheet as of June 30, 2011	46
Combining Balance Sheet as of June 30, 2010	47
Combining Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2011	48
Combining Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2010	49



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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, 2011 and 2010, 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, 2011 and 2010, 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 August 31, 2011, 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 schedules of funding progress on page 44 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

August 31, 2011

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(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, 2011 and 2010. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights – Fiscal 2011

The fiscal 2011 customer service revenues were approximately \$579.2 million. Of this amount, rate revenues represent approximately 98.4%, or \$569.8 million, and were \$8.4 million higher than fiscal 2010. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$254.8 million in fiscal 2011. The 2.3% decrease in total operating expenses over fiscal 2010 is the result of decreased utility expenses. The severe wet weather conditions of fiscal 2010 were not experienced in the current fiscal year. These decreases were offset by an increase in on-going maintenance costs.

Net nonoperating expenses increased \$29.2 million, or 12.4%, primarily due to a \$17.1 million decrease in investment income and a \$12.1 million increase in interest expense. The decrease in investment income was due to increases in unrealized losses on investments. The increase in interest expense was due to new debt issuances.

Total assets at June 30, 2011 were approximately \$8.4 billion, a \$55.3 million, or 0.7%, increase over total assets at June 30, 2010.

During fiscal 2011, the Authority issued General Revenue Bonds, 2011 Series B for \$150 million. The proceeds from these bonds were used to fund on-going capital projects and permanently finance tax-exempt commercial paper. The interest rate on these bonds is 2% to 5%.

Total capital assets (net of depreciation) were approximately \$6.3 billion at June 30, 2011, a \$65.9 million, or 1.0%, decrease over June 30, 2010. The decrease was primarily due to the capitalization of community-owned CSO projects to other assets.

Derivative Instruments

In April 2011, the Authority amended two existing interest rate swap agreements with a counterparty to change the reference rate from Securities Industry and Financial Markets Association (SIFMA) to the London Inter-Bank Offered Rate (LIBOR) based index. This amendment provides a lower fixed rate payment, resulting in debt service savings of approximately \$7.4 million over the remaining duration of the two swaps.

Financial Highlights – Fiscal 2010

The fiscal 2010 customer service revenues were approximately \$571.4 million. Of this amount, rate revenues represent approximately 98.3%, or \$561.4 million, and were \$20.6 million higher than fiscal 2009. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$260.8 million in fiscal 2010. The 0.2% increase in total operating expenses over fiscal 2009 is the result of increased personnel costs. Utility expenses (primarily diesel fuel) increased \$1.5 million due to severe wet weather conditions in March 2010. These increases were offset by cost savings in on-going maintenance and other costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Net nonoperating expenses decreased \$11.6 million, or 4.7%, primarily due to a \$5.2 million increase in investment income and a \$6.4 million decrease in interest expense. The increase in investment income was due to increases in unrealized gains on investments. Decreases in interest expense were due to lower interest rates during fiscal 2010 as compared to fiscal 2009.

Total assets at June 30, 2010 were approximately \$8.3 billion, a \$26.7 million, or 0.3%, increase over total assets at June 30, 2009.

During fiscal 2010, the Authority issued 2010 Series A and B bonds in the aggregate amount of \$283.6 million. The Authority used \$100 million to finance on-going capital projects, while it used \$183.6 million to refund \$201.9 million of bonds outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2010, an \$11 million, or 0.2%, decrease over June 30, 2009. The decrease was due to disposal of assets no longer in use.

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.

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at June 30, 2011 were approximately \$1.9 billion, a \$42.5 million decrease from June 30, 2010. Total assets increased \$55.3 million, or 0.7%, to \$8.4 billion, and total liabilities increased \$97.8 million, or 1.5%, to \$6.5 billion.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

The Authority's total net assets at June 30, 2010 were approximately \$1.9 billion, a \$56.1 million decrease from June 30, 2009. Total assets increased \$26.7 million, or 0.3%, to \$8.3 billion, and total liabilities increased \$82.8 million, or 1.3%, to \$6.4 billion.

Net Assets

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	Percentage change 2011 – 2010	Percentage change 2010 – 2009
Current assets	\$ 117,010	118,708	118,948	(1.4)%	(0.2)%
Restricted assets	785,751	730,353	784,119	7.6	(6.9)
Capital assets	6,304,377	6,370,258	6,381,230	(1.0)	(0.2)
Other assets	1,127,303	1,044,006	967,129	8.0	7.9
Deferred outflows from derivative instruments	48,623	64,441	49,625	(24.5)	29.9
Total assets and deferred outflows	\$ 8,383,064	8,327,766	8,301,051	0.7%	0.3%
Current liabilities	\$ 291,357	315,104	320,609	(7.5)%	(1.7)%
Payable from restricted assets	208,930	210,182	210,801	(0.6)	(0.3)
Long-term debt	5,800,267	5,658,514	5,593,717	2.5	1.2
Long-term lease	33,056	33,659	34,217	(1.8)	(1.6)
Other liabilities	174,521	192,833	168,131	(9.5)	14.7
Total liabilities	\$ 6,508,131	6,410,292	6,327,475	1.5%	1.3%
Net assets:					
Invested in capital assets – net of related debt	\$ 972,480	1,076,654	1,120,891	(9.7)%	(3.9)%
Restricted	227,411	205,928	268,642	10.4	(23.3)
Unrestricted	675,042	634,892	584,043	6.3	8.7
Total net assets	\$ 1,874,933	1,917,474	1,973,576	(2.2)%	(2.8)%

Changes in Net Assets

The decrease in net assets at June 30, 2011 was \$42.5 million, or 2.2%, as compared with June 30, 2010. The Authority's total operating revenues increased by 1.8% to \$584.4 million and total operating expenses decreased 2.3% to \$254.8 million.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

The decrease in net assets at June 30, 2010 was \$56.1 million, or 2.8%, as compared with June 30, 2009. The Authority's total operating revenues increased by 3.4% to \$574.3 million and total operating expenses increased 0.2% to \$260.8 million.

Changes in Net Assets

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Operating revenues:					
Customer service revenues	\$ 579,240	571,360	550,720	1.4%	3.7%
Other revenues	5,114	2,938	4,473	74.1	(34.3)
Total operating revenues	<u>584,354</u>	<u>574,298</u>	<u>555,193</u>	<u>1.8</u>	<u>3.4</u>
Operating expenses:					
Operations	93,756	96,923	93,795	(3.3)	3.3
Maintenance	27,964	25,561	27,444	9.4	(6.9)
Payments in lieu of taxes	7,000	6,732	6,104	4.0	10.3
Engineering, general, and administrative	126,127	131,551	132,828	(4.1)	(1.0)
Total operating expenses	<u>254,847</u>	<u>260,767</u>	<u>260,171</u>	<u>(2.3)</u>	<u>0.2</u>
Depreciation and amortization	<u>180,734</u>	<u>189,798</u>	<u>181,314</u>	<u>(4.8)</u>	<u>4.7</u>
Operating income	<u>148,773</u>	<u>123,733</u>	<u>113,708</u>	<u>20.2</u>	<u>8.8</u>
Nonoperating items:					
Regulatory accounting provisions	74,139	67,995	48,974	9.0	38.8
Net nonoperating expenses	(263,761)	(234,588)	(246,164)	12.4	(4.7)
Capital grants and contributions	7,036	8,211	7,120	(14.3)	15.3
Changes in derivative related accounts	(8,728)	—	—	100.0	—
Loss on disposal of capital assets	—	(21,453)	(9,451)	(100.0)	127.0
Total nonoperating items	<u>(191,314)</u>	<u>(179,835)</u>	<u>(199,521)</u>	<u>6.4</u>	<u>(9.9)</u>
Change in net assets	<u>(42,541)</u>	<u>(56,102)</u>	<u>(85,813)</u>	<u>(24.2)</u>	<u>(34.6)</u>
Total net assets – beginning of year	1,917,474	1,973,576	2,065,956	(2.8)	(4.5)
Restatement to comply with GASB Statement No. 49	—	—	(6,567)	—	(100.0)
Total net assets – end of year	<u>\$ 1,874,933</u>	<u>1,917,474</u>	<u>1,973,576</u>	<u>(2.2)%</u>	<u>(2.8)%</u>

During fiscal 2011, the increases in customer service revenues were primarily due to the 1.49% increase in the rate revenue requirement (\$8.4 million).

During fiscal 2010, the increases in customer service revenues were primarily due to the 3.8% increase in the rate revenue requirement (\$20.6 million).

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Total operating costs, before depreciation and amortization, were approximately \$254.8 million in fiscal 2011. The 2.3% decrease in total operating expenses over fiscal 2010 is the result of decreased utility expenses as the severe wet weather events of fiscal 2010 were not experienced in fiscal 2011.

Total operating costs, before depreciation and amortization, were approximately \$260.8 million in fiscal 2010. The 0.2% increase in total operating expenses over fiscal 2009 is the result of increased personnel costs, including recognition of additional post-employment benefits expense of \$16.8 million. Utility expenses (primarily diesel fuel) increased \$1.5 million due to severe wet weather conditions in March 2010. These increases were offset by cost savings in on-going maintenance and other costs.

In fiscal 2011, net nonoperating expenses increased \$29.2 million, or 12.4%, primarily due to a \$12.1 million increase in investment expense and a \$17.1 million decrease in interest income.

In fiscal 2010, net nonoperating expenses decreased \$11.6 million, or 4.7%, primarily due to a \$5.2 million increase in investment income and a \$6.4 million decrease in interest expense.

Operating Costs by Functionality

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	Percentage change 2011 – 2010	Percentage change 2010 – 2009
Wastewater treatment and transport	\$ 91,223	100,157	98,211	(8.9)%	2.0%
Water treatment and transport	34,113	29,843	29,915	14.3	(0.2)
Water and wastewater quality	8,508	8,668	8,398	(1.8)	3.2
Metering and monitoring	6,054	5,174	4,732	17.0	9.3
Facilities planning, design, and construction	9,914	10,527	10,472	(5.8)	0.5
Management information systems	8,533	8,810	9,059	(3.1)	(2.7)
Administration and support	45,928	42,981	44,954	6.9	(4.4)
Total direct operating costs	<u>204,273</u>	<u>206,160</u>	<u>205,741</u>	(0.9)	0.2
Indirect operating costs	<u>50,574</u>	<u>54,607</u>	<u>54,430</u>	(7.4)	0.3
Total operating costs	\$ <u>254,847</u>	<u>260,767</u>	<u>260,171</u>	(2.3)%	0.2%

Wastewater treatment and transport expenses decreased due to the severe wet weather events in March 2010, which resulted in higher overtime wages and higher diesel fuel costs in that fiscal year. Increases in water treatment and transport were the result of the reorganization of certain field operation departments, which were previously allocated to the wastewater and water divisions, to water division. Metering and monitoring expenses increased due to purchases of additional metering equipment. Increases in administration and support are due to increases in health insurance costs and estimated pollution remediation costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management’s Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011 and 2010, the Authority had \$6.3 billion and \$6.4 billion of capital assets (net of depreciation), respectively. 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 \$65.9 million, or 1%, during fiscal 2011, primarily due to the capitalization of community-owned CSO projects to other assets.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Land	\$ 23,497	13,413	6,618	75.2%	102.7%
Construction in progress	177,070	424,133	367,593	(58.3)	15.4
Plant and equipment, water, and sewer systems	6,100,592	5,930,317	6,006,101	2.9	(1.3)
Furniture and fixtures	1,324	1,529	21	(13.4)	7,181.0
Leasehold improvements	362	370	382	(2.2)	(3.1)
Motor vehicles and equipment	1,532	496	515	208.9	(3.7)
	<u>\$ 6,304,377</u>	<u>6,370,258</u>	<u>6,381,230</u>	<u>(1.0)%</u>	<u>(0.2)%</u>

Decreases in construction in progress are primarily due the capitalization of the North Dorchester Bay and East Boston Branch Sewer Relief CSO projects.

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.

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

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

The Authority's \$3.4 billion Senior Lien General Revenue Bonds are rated Aa1 from Moody's Investors Service, AA+ by Standard and Poors Ratings Services and AA+ from FitchRatings. The \$1.2 billion Subordinate Lien General Revenue Bonds are rated Aa2 from Moody's Investors Service, AA by Standard and Poors Ratings Services and AA from FitchRatings. Some of the Authority's revenue bonds are enhanced by bond insurance. The credit ratings of these bond series will be the higher rating of either the Authority or the firm providing the enhancement. In the case of bonds enhanced by a letter of credit, the rating will be the highest of the Authority's, the provider or, if available, a joint rating. The subordinated debt of \$1.1 billion with the Massachusetts Water Pollution Abatement Trust is not rated as the Authority's debt.

Economic Factors and Next Year's Budget

In June 2011, the Board approved the fiscal 2012 Current Expense Budget (CEB), which totals \$618.2 million in expenses which includes \$350,000 in debt service offsets.

The \$618.2 million expense total is comprised of \$368 million (59.5%) in capital financing costs and \$250.2 million (40.5%) in operating expenses, of which \$209.3 million (83.6%) is for direct expenses and \$40.9 million (16.4%) is for indirect expenses. The total represents an increase of \$17.7 million from fiscal 2011 spending, which is comprised of \$9.9 million in higher operating costs and \$7.8 million in higher debt service costs.

The fiscal 2012 rate revenue requirement approved by the Board is \$589.7 million; an increase of 3.49% compared with the fiscal 2011 budget.

Fiscal 2012 budgeted nonrate revenue totals \$28.5 million, a decrease of \$6.3 million from actual fiscal 2011 nonrate revenue. The nonrate revenue budget is comprised of \$15.4 million in investment income, \$11.3 million in other user charges and other revenue, \$1.1 million in rate stabilization usage and \$0.7 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:

- Improvement and replacement of equipment on Deer Island to ensure that the plant continues to operate efficiently and effectively.
- Completion of the long-term CSO control plan, resulting in closing CSO outfalls and the reducing of CSO discharges to Boston Harbor and the Mystic, Charles, and Neponset River systems.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

- Rehabilitation of the Hultman Aqueduct to provide transmission redundancy in order to ensure reliable water delivery and provide sufficient hydraulic capacity to support the John J. Carroll water treatment plant and covered storage facilities.
- Install ultraviolet light disinfection facilities at the John J. Carroll water treatment plan.
- Completion of covered storage facilities to provide safe, reliable storage for water treated at John J. Carroll water treatment plan and transported through the MetroWest Tunnel and Hultman Aqueduct.
- Demonstrate continued dedication to using resources efficiently, responding to climate change and reducing the environmental impacts of the Authority's daily operations by installing alternative energy sources.
- Continued commitment to the community assistance programs for both the sewer and water systems to improve local infrastructure.

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, Administration and Finance Division, 100 First Avenue, Boston, MA 02129.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Balance Sheets

June 30, 2011 and 2010

(Dollars in thousands)

Assets and Deferred Outflows	2011	2010
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 41,629	42,378
Investments (note 4)	47,962	48,554
Intergovernmental loans (note 7)	26,758	27,235
Accounts receivable	661	541
Total unrestricted current assets	117,010	118,708
Restricted assets:		
Investments (note 4)	781,940	726,946
Interest receivable	3,811	3,197
Grants receivable	—	210
Total restricted assets	785,751	730,353
Capital assets – not being depreciated (note 8)	200,567	437,546
Capital assets – being depreciated – net (note 8)	6,103,810	5,932,712
Deferred charges (note 3)	765,786	707,204
Other assets, net (note 7)	361,517	336,802
Deferred outflows from derivative instruments (note 6)	48,623	64,441
Total	\$ 8,383,064	8,327,766
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,634	53,802
Commercial paper notes (note 6)	144,000	194,000
Current portion of long-term debt (note 6)	94,723	67,302
Total current liabilities	291,357	315,104
Payable from restricted assets:		
Accounts payable for construction	24,301	23,328
Accrued interest on bonds payable	84,303	81,121
Reserves (note 5)	100,326	105,733
Total payable from restricted assets	208,930	210,182
Retainage on construction in progress	11,269	14,710
Long-term debt – less current portion (note 6)	5,800,267	5,658,514
Long-term capital lease (note 9)	33,056	33,659
Other postemployment benefits (note 11)	60,241	46,072
Liability for derivative instruments (note 6)	48,623	64,441
Deferred credits (note 3)	54,388	67,610
Total liabilities	6,508,131	6,410,292
Net assets:		
Invested in capital assets, net of related debt	972,480	1,076,654
Restricted	227,411	205,928
Unrestricted	675,042	634,892
Total net assets	1,874,933	1,917,474
Commitments and contingencies (notes 9, 10, 11, 12, and 13)		
Total	\$ 8,383,064	8,327,766

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues (note 2):		
Customer services	\$ 579,240	571,360
Other	5,114	2,938
Total operating revenues	<u>584,354</u>	<u>574,298</u>
Operating expenses:		
Operations	93,756	96,923
Maintenance	27,964	25,561
Payments in lieu of taxes	7,000	6,732
Engineering, general, and administrative	126,127	131,551
Total operating expenses	<u>254,847</u>	<u>260,767</u>
Income from operations before depreciation	329,507	313,531
Depreciation and amortization	<u>180,734</u>	<u>189,798</u>
Operating income	<u>148,773</u>	<u>123,733</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	2,335	654
Change in deferrals, net (note 3)	71,804	67,341
Total regulatory accounting provisions	<u>74,139</u>	<u>67,995</u>
Nonoperating revenues (expenses):		
Investment income	9,263	26,403
Interest expense	(273,024)	(260,991)
Changes in derivative related accounts	(8,728)	—
Loss on disposal of capital assets	—	(21,453)
Total nonoperating expenses	<u>(272,489)</u>	<u>(256,041)</u>
Net loss before capital contributions	(49,577)	(64,313)
Capital grants and contributions	<u>7,036</u>	<u>8,211</u>
Decrease in net assets	(42,541)	(56,102)
Total net assets, beginning of year	<u>1,917,474</u>	<u>1,973,576</u>
Total net assets, end of year	<u>\$ 1,874,933</u>	<u>1,917,474</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 579,162	571,269
Cash paid to suppliers for goods and services	(116,553)	(117,694)
Cash paid to employees for services	(118,570)	(117,039)
Cash paid in lieu of taxes	(7,000)	(6,732)
Other operating receipts	5,114	2,938
Net cash provided by operating activities	<u>342,153</u>	<u>332,742</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	174,412	152,582
Capital grants for construction	7,036	7,651
Capital lease principal payments	(603)	(558)
Capital lease interest payments	(2,614)	(2,659)
Repayment of debt	(105,586)	(135,559)
Interest paid on debt	(225,300)	(225,765)
Plant expenditures	(144,495)	(211,059)
Net cash used for capital and related financing activities	<u>(297,150)</u>	<u>(415,367)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(152,508)	(114,918)
Sales and maturities of short-term investments	104,459	72,112
Increase (decrease) in restricted cash and investments – net	(12,060)	108,893
Interest received	14,357	14,618
Net cash (used for) provided by investing activities	<u>(45,752)</u>	<u>80,705</u>
Net decrease in cash and cash equivalents	(749)	(1,920)
Cash and cash equivalents, beginning of year	<u>42,378</u>	<u>44,298</u>
Cash and cash equivalents, end of year	\$ <u><u>41,629</u></u>	\$ <u><u>42,378</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 148,773	123,733
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	180,734	189,798
Change in other accounts	(113)	(107)
Change in accounts payable	12,759	19,318
Net cash provided by operating activities	\$ <u><u>342,153</u></u>	\$ <u><u>332,742</u></u>

Noncash capital and related financing activities:

In May 2010, general revenue refunding bonds in the aggregate principal amount of \$183,570 were issued to defease \$201,940 of bonds outstanding.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(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 Energy and Environmental Affairs for the Commonwealth. The Secretary and two other members are appointed by the Governor. Three members of the Board are appointed by the Mayor of Boston and three are appointed by the Authority's Advisory Board. One member is appointed by the Mayor of Quincy and one by the Winthrop Council President.

(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.

In addition, the Authority has adopted the provisions of FASB *Accounting Standards Codification for Regulated Operations*, 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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under FASB Accounting Standards Codification are discussed further in note 3.

(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 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 2011 and 2010, 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, 2011 and 2010

(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, who in turn remits 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, other than guaranteed investment contracts, are recorded at fair value. Fair value is determined based on quoted market price. Guaranteed investment contracts are recorded at cost. The Authority recorded unrealized losses of \$5,942 in fiscal 2011 and unrealized gains of \$11,180 in fiscal 2010 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) Reclassifications

Certain reclassifications were made to the fiscal year 2010 financial statements to conform to the fiscal year 2011 presentation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(3) Deferred Charges and Credits

In accordance with FASB *Accounting Standards Codification for Regulated Operations*, 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 charges (credits) for fiscal 2011 and 2010 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2009 – net	\$ 505,858	66,395	572,253
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	46,371	14,681	61,052
Rate stabilization, net	8,248	(8,462)	(214)
Other – net	<u>1,161</u>	<u>5,342</u>	<u>6,503</u>
Balance – June 30, 2010 – net	561,638	77,956	639,594
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	27,504	18,776	46,280
Rate stabilization, net	(5,239)	6,121	882
Other – net	<u>16,820</u>	<u>7,822</u>	<u>24,642</u>
Balance – June 30, 2011 – net	\$ <u><u>600,723</u></u>	<u><u>110,675</u></u>	<u><u>711,398</u></u>

The net balance at June 30, 2011 and 2010 is presented on the balance sheets as follows:

	<u>2011</u>	<u>2010</u>	<u>Current year change</u>
Deferred charges	\$ 765,786	707,204	58,582
Deferred credits	<u>(54,388)</u>	<u>(67,610)</u>	13,222
Net change in deferrals	\$ <u><u>711,398</u></u>	<u><u>639,594</u></u>	<u><u>71,804</u></u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$41,104 and \$41,986 at June 30, 2011 and 2010, respectively.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(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, 2011 and 2010 were \$45,343 and \$43,670, respectively. Of these amounts, \$45,093 and \$43,420 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 contract was in force as of June 30, 2011 and 2010, respectively. Such contracts are fully collateralized and recorded at cost:

Investment agreement provider	Rate	Maturity	2011	2010
Wells Fargo Bank, N.A.	5.17	August 1, 2016	\$ 14,456	14,456
Total			\$ 14,456	14,456

(c) Credit Ratings

All debt securities purchased, such as FNMA, FHLMC, and FHLB issues have historically had a credit rating of AAA or they have been collateralized to AAA. On August 8, 2011, Standard & Poor's reduced the credit rating for these agencies to AA+. The reduction in credit rating did not affect the Authority's bond covenants or escrow requirements.

The guaranteed investment contracts themselves are not rated. Further, the certificates of deposits and money market funds are not rated.

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(d) Concentration Risk

The Authority has no investments, at fair value, which exceeds 5% of the Authority's total investments as of June 30, 2011 and 2010.

(e) Interest Rate Risk

The following is a listing of the Authority's fixed income investments and related maturity schedule as of June 30, 2011 and 2010:

June 30, 2011					
Investment maturities (in years)					
Investment type	Fair value	<1	1 – 3	4 – 8	>9
Money market mutual funds	\$ 467,791	467,791	—	—	—
U.S. Treasury notes and bonds	4,344	—	4,344	—	—
U.S. agency obligations	343,311	—	101,055	43,560	198,696
Guaranteed investment contract	14,456	—	—	14,456	—
Total	<u>\$ 829,902</u>	<u>467,791</u>	<u>105,399</u>	<u>58,016</u>	<u>198,696</u>

June 30, 2010					
Investment maturities (in years)					
Investment type	Fair value	<1	1 – 3	4 – 8	>9
Certificate of deposit	\$ 3,000	3,000	—	—	—
Money market mutual funds	455,730	455,730	—	—	—
U.S. Treasury notes and bonds	4,389	—	—	4,389	—
U.S. agency obligations	297,925	—	67,812	74,994	155,119
Guaranteed investment contract	14,456	—	—	14,456	—
Total	<u>\$ 775,500</u>	<u>458,730</u>	<u>67,812</u>	<u>93,839</u>	<u>155,119</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, 2011 and 2010

(Dollars in thousands)

(f) Restricted Investments by Fund

The following summarizes restricted investments as of June 30, 2011 and 2010 by various funds and accounts established by the Authority for debt covenants and other purposes:

	<u>2011</u>	<u>2010</u>
Restricted investments:		
Construction	\$ 164,456	135,921
Debt service reserves	246,192	240,717
Debt service	189,988	160,761
Revenue redemption	33,197	33,245
Revenue	69,342	73,417
Renewal and replacement reserve	37,552	38,564
Insurance	14,000	19,000
Community obligation and revenue enhancement	20,862	20,932
OPEB Reserve	801	—
Insurance related escrow deposits	5,550	4,389
Total restricted investments	\$ <u>781,940</u>	<u>726,946</u>

(5) Bond Resolution Reserves

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2011 and 2010 are as follows:

<u>Reserves</u>	<u>Sewer</u>	<u>Water</u>	<u>Total 2011</u>	<u>Total 2010</u>
Renewal and replacement	\$ 17,300	11,701	29,001	29,001
Insurance	7,000	7,000	14,000	19,000
Operating	25,793	11,416	37,209	37,616
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	\$ <u>68,492</u>	<u>31,834</u>	<u>100,326</u>	<u>105,733</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, 2011 and 2010.

The General Revenue Bond Resolution requires a three year review of the balance in the Insurance Reserve which is maintained to pay for the cost of replacement or repairs to the water and sewer systems as a result of fire or other causes customarily insured against, which is not covered by an existing insurance policy. The results of the independent review, completed in February 2011, reduced the reserve requirement from \$19,000 to \$14,000.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2011 and 2010 consisted of the following:

	2011	2010
General Revenue Bonds:		
1993 Series C, 5 1/4% to 6%, issued December 2, 1993, due 2011 to 2015	\$ 32,510	36,095
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2011 to 2042	529,295	529,295
2003 Series D, 4 5/8% to 5%, issued January 7, 2004, due 2022 to 2028	113,340	113,340
2004 Series A, 4 3/4% to 5 1/8%, issued June 10, 2004, due 2021 to 2029	104,870	104,870
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	200,000
2009 Series A, 3% to 5%, issued February 19, 2009 due 2011 to 2039	94,005	98,000
2010 Series A, 3% to 5%, issued May 6, 2010 due 2015 to 2040	100,000	100,000
2011 Series B, 2% to 5%, issued May 19, 2011 due 2012 to 2041	150,000	—
	1,524,020	1,381,600
General Revenue Refunding Bonds:		
1997 Series D, 6%, issued December 15, 1997, due 2014	7,310	7,310
1998 Series B, 5 1/2%, issued January 27, 1998, due 2012 to 2016	19,330	24,240
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	49,390	49,390
2005 Series A, 5% to 5 1/4%, issued April 14, 2005, due 2015 to 2034	356,665	380,350
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 2016 to 2040	263,940	264,945
2007 Series B, 5 1/4%, issued February 1, 2007 due 2023 to 2038	647,950	647,950
2009 Series B, 3% to 5%, issued February 19, 2009 due 2011 to 2039	282,560	285,200
2010 Series B, 5%, issued May 6, 2010 due 2014 to 2032	183,570	183,570
	1,891,005	1,923,245

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust:		
1993 Series A, 5 1/2%, issued March 18, 1993, due 2011 to 2013	\$ 1,165	1,735
1993 Series D, 5 1/8% to 5 1/4%, issued January 6, 1994, due 2011 to 2014	1,470	2,000
1995 Series A, 5% to 5 1/2%, issued November 21, 1995, due 2011 to 2015	1,995	2,640
1998 Series C, 4 3/4% to 5 3/8%, issued July 9, 1998, due 2011 to 2018	5,636	6,740
1999 Series E Sewer, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2011 to 2029	7,915	8,205
1999 Series E Water, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2011 to 2019	6,340	6,935
1999 Series F, 5 2/5% to 6%, issued November 3, 1999, due 2011 to 2029	293,815	306,800
2000 Series E Sewer, 5% to 5 5/8%, issued November 1, 2000, due 2011 to 2030	58,631	60,499
2000 Series E Water, 5% to 5 5/8%, issued November 1, 2000, due 2011 to 2020	7,345	7,953
2001 Series C Water, 5% to 5 1/4%, issued July 26, 2001, due 2012 to 2021	3,170	3,431
2001 Series D Sewer, 5 1/4% to 5 3/4%, issued July 26, 2001, due 2011 to 2029	4,724	5,127
2001 Series D Water, 5 1/8% to 5 3/4%, issued July 26, 2001, due 2011 to 2019	896	981
2002 Series H Sewer, 3 5/8% to 5 1/4%, issued October 31, 2002, due 2011 to 2032	75,130	77,410
2002 Series H Water, 3 5/8% to 5 1/4%, issued October 31, 2002, due 2011 to 2022	22,265	23,765
2002 Series I Sewer, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2011 to 2030	2,124	2,196
2002 Series I Water, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2011 to 2020	19	21
2003 Series A Water, 3 3/4% to 5 1/4%, issued October 31, 2002, due 2011 to 2022	1,026	1,096
2003 Series B Water, 5% to 5 1/4%, issued July 24, 2003, due 2012 to 2021	2,863	3,098
2003 Series C Sewer, 3 3/5% to 5 1/2%, issued November 6, 2003, due 2011 to 2033	27,075	27,836
2003 Series C Water, 3 3/8% to 5 1/2%, issued November 6, 2003, due 2011 to 2023	15,254	16,199

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
2004 Series C Sewer, 3 3/5% to 5 1/2%, issued October 26, 2004, due 2011 to 2033	\$ 9,194	9,452
2004 Series C Water, 3 3/4% to 5 1/4%, issued October 26, 2004, due 2011 to 2022	1,166	1,260
2004 Series D Sewer, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2011 to 2034	52,575	54,775
2004 Series D Water, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2011 to 2024	10,289	10,839
2005 Series C Sewer, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2011 to 2033	6,213	6,436
2005 Series C Water, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2011 to 2023	797	846
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2011 to 2035	57,716	59,655
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2011 to 2025	11,350	12,076
2005 Series E Sewer, 2%, issued November 16, 2005, due 2011 to 2025	305	327
2005 Series E Water, 2%, issued November 16, 2005, due 2011 to 2025	68	71
2006 Series C Sewer, 3 1/5% to 5 1/4%, issued October 26, 2006, due 2011 to 2034	7,656	7,913
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2011 to 2036	58,158	60,421
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2011 to 2026	24,190	25,636
2006 Series E Sewer, 2%, issued December 14, 2006, due 2011 to 2026	311	327
2006 Series E Water, 2%, issued December 14, 2006, due 2011 to 2026	139	147
2007 Series C Sewer, 2% to 2 3/10%, issued November 9, 2007, due 2011 to 2035	3,960	4,238
2007 Series C Water, 2%, issued November 9, 2007, due 2011 to 2025	2,281	2,430
2007 Series D Sewer, 2 3/10%, issued November 9, 2007, due 2011 to 2036	21,782	22,387
2007 Series E Sewer, 2% to 2 2/5%, issued December 18, 2007, due 2011 to 2037	55,511	57,326
2007 Series E Water, 2%, issued December 18, 2007, due 2011 to 2027	17,464	18,318

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
2008 Series G Sewer, 2%, issued		
December 9, 2008, due 2011 to 2026	\$ 5,276	5,567
2008 Series G Water, 2%, issued		
December 9, 2008, due 2011 to 2026	1,095	1,153
2009 Series C Sewer, 2% to 2 2/5%, issued		
March 18, 2009, due 2011 to 2038	84,134	87,747
2009 Series C Water, 2%, issued		
March 18, 2009, due 2011 to 2028	27,834	29,106
2009 Series D Sewer, 2% to 2 2/5%, issued		
December 15, 2009, due 2011 to 2037	10,610	11,001
2009 Series D Water, 2%, issued		
December 15, 2009, due 2011 to 2027	1,206	1,265
2010 Series D Sewer, 2% to 2 2/5%, issued		
July 8, 2010, due 2011 to 2040	25,660	—
2010 Series D Water, 2%, issued		
July 8, 2010, due 2011 to 2030	23,088	—
2011 Series A Sewer, 2% to 2 2/5%, issued		
March 15, 2011, due 2011 to 2038	5,951	—
2011 Series A Water, 2%, issued		
March 15, 2011, due 2011 to 2028	5,411	—
	<u>1,070,248</u>	<u>1,055,386</u>
General Revenue Bonds (variable rates):		
1999 Series B, 0.10% to 0.40%, issued January 29, 1999, due 2014 to 2028	69,300	72,600
	<u>69,300</u>	<u>72,600</u>
General Revenue Refunding Bonds (variable rates):		
2002 Series C, 0.10% to 0.35%, issued		
August 15, 2002, due 2020	70,575	70,575
2002 Series D, 0.03% to 0.35%, issued		
August 15, 2002, due 2016 to 2017	56,450	56,450
2008 Series A, 0.07% to 0.90%, issued May 29, 2008, due 2014 to 2037	337,675	337,675
2008 Series B, 0.09% to 0.34%, issued May 29, 2008, due 2016 to 2031	123,130	123,130
2008 Series C, 0.08% to 0.33%, issued May 29, 2008, due 2011 to 2026	187,700	189,200
2008 Series D, 0.24% to 0.33%, issued May 29, 2008, due 2011	—	12,240
2008 Series E, 0.09% to 0.32%, issued May 29, 2008, due 2012 to 2037	210,670	210,670

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
2008 Series F, 0.08% to 0.35%, issued May 29, 2008, due 2016 to 2029	\$ 184,910	184,910
	<u>1,171,110</u>	<u>1,184,850</u>
	<u>5,725,683</u>	<u>5,617,681</u>
Less:		
Unamortized bond premiums and discounts	\$ 180,944	181,047
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(102,079)	(148,182)
Current portion of long-term debt	<u>(94,723)</u>	<u>(67,302)</u>
	<u>(15,858)</u>	<u>(34,437)</u>
Long-term debt, net	\$ <u>5,709,825</u>	<u>5,583,244</u>

Long-term obligations at June 30, 2011 and 2010 consisted of the following:

	<u>2011 beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011 ending balance</u>	<u>Due within one year</u>
General Revenue Bonds	\$ 1,454,200	150,000	10,880	1,593,320	37,570
General Revenue Refunding Bonds	3,108,095	—	45,980	3,062,115	8,340
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	1,079,052	66,554	45,248	1,100,358	48,813
Borrowings associated with derivative instruments	<u>51,604</u>	<u>38,900</u>	<u>30,172</u>	<u>60,332</u>	<u>—</u>
	\$ <u>5,692,951</u>	<u>255,454</u>	<u>132,280</u>	<u>5,816,125</u>	<u>94,723</u>
	<u>2010 beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010 ending balance</u>	<u>Due within one year</u>
General Revenue Bonds	\$ 1,511,680	100,000	157,480	1,454,200	6,885
General Revenue Refunding Bonds	3,051,070	183,570	126,545	3,108,095	15,170
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	1,075,549	47,576	44,073	1,079,052	45,247
Borrowings associated with derivative instruments	<u>51,604</u>	<u>—</u>	<u>—</u>	<u>51,604</u>	<u>—</u>
	\$ <u>5,689,903</u>	<u>331,146</u>	<u>328,098</u>	<u>5,692,951</u>	<u>67,302</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%,

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

respectively. For the year ended June 30, 2011, the Authority had primary and subordinated debt service coverage ratios of 191% and 120%, respectively.

Under the Authority's General Revenue Bond Resolution, all revenues, together with the investment earnings thereon, except to the extent that such earnings are required to be deposited in the Rebate Fund pursuant to a Supplemental Resolution, are pledged for payment of the Bonds.

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 \$6,450,000.

On June 2, 2010, the Authority executed Bond Anticipation Notes with the Massachusetts Water Pollution Abatement Trust (MWPAT) for funding under the American Reinvestment and Recovery Act of 2009 (ARRA). The principal on these notes, totaling \$33,036, will be forgiven upon issuance of a Project Completion Certificate and the Authority's compliance with the requirements of ARRA. The Authority drew down \$23,666 during the fiscal year 2010 and an additional \$6,443 during fiscal year 2011 which is presented as long-term debt on the Authority's balance sheet.

On May 19, 2011, the Authority issued General Revenue Bonds, 2011 Series B for \$150,000. The proceeds from these bonds were used to fund on-going capital projects and permanently finance tax-exempt commercial paper. The interest rate on these bonds is 2% to 5%.

On May 6, 2010, the Authority issued General Revenue Bonds, 2010 Series A, and General Revenue Refunding Bonds, 2010 Series B in the principal amounts of \$100,000 and \$183,570, respectively.

The proceeds from the Series A bonds were used to fund on-going capital projects. The interest rate on these bonds is 3% to 5%.

The proceeds from the Series B bonds were used to refund \$52,525 of General Revenue Bonds 1998 Series A, \$74,415 of General Revenue Bonds 2002 Series B, \$60,900 of General Revenue Refunding Bonds 2008 Series D and \$14,100 of General Revenue Refunding Bonds 2008 Series E. The interest rate on these bonds is 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$24,157 less than the debt service requirements of the refunded 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 \$6,366.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Synthetic Fixed Rate Swap Transactions

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 Securities Industry and Financial Markets Association (SIFMA) rate or a percentage of LIBOR). The SIFMA rate is based on the seven-day high-grade market index of tax-exempt variable rate demand obligations.

Item	Objective	Effective Date	Current notional amount	Termination date	Fixed payable swap rate	Variable receivable swap rate	Fair value at June 30, 2011	Fair value at June 30, 2010
A	Hedge changes in cash flows on the 2008 Series A Bonds	April 4, 2011	\$ 133,300	August 1, 2030	4.120%	67% LIBOR PLUS 0.13% SIFMA	(2,462)	(10,732)
B	Hedge changes in cash flows on the 2008 Series E Bonds	October 28, 2008	133,300	August 1, 2030	4.470		(10,022)	(10,732)
C	Hedge changes in cash flows on the 2008 Series A & E Bonds	August 1, 2030	70,400	August 1, 2037	6.585	67% LIBOR PLUS 0.13% SIFMA	(67)	794
D	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	112,315	November 1, 2026	3.994		(8,800)	(9,112)
E	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	74,880	November 1, 2026	4.032	SIFMA	(10,520)	(12,153)
F	Hedge changes in cash flows on the 2002 Series D, 2008 Series A & E Bonds	August 15, 2002	232,690	August 1, 2015	4.127	67% LIBOR	(16,752)	(22,506)
Total							\$ (48,623)	(64,441)

All of the above are pay-fixed interest rate swap agreements. Under these interest rate swap agreements, the Authority incurred net interest expense of \$27,508 and \$29,238 in fiscal 2011 and fiscal 2010, respectively.

During fiscal year 2011, the Authority amended two existing swap agreements (Items A&C) with a counterparty. The amendment changed the reference rate from the Securities Industry and Financial Markets Association (SIFMA) based index to 67% of the 3 month London Inter-Bank Offered Rate (LIBOR) plus 0.13% and the fixed interest rate paid by the Authority.

For the swap execution on April 4, 2011, with a current notional amount of \$133,300, the fixed rate paid by the Authority is as follows: 4.120% from execution through August 2013, 5.144% from August 2013 through August 2019, and 6.585% from, August 2019 through August 2030.

For the swap execution on October 28, 2008, with a current notional amount of \$133,300, the fixed rate paid by the Authority is as follows: 4.470% from execution through August 2013, 5.494% from August 2013 through August 2019, and 6.935% from August 2019 through August 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2011 and 2010 is \$(48,623) and \$(64,441), respectively, and is reflected on the Authority's balance sheets as liability for derivative instruments. This liability is offset by deferred outflows from derivative instruments. The original notional amounts of the interest rate swaps totaled \$885,895.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

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. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. The Authority monitors swap counterparties’ credit ratings by the three rating agencies (FitchRatings, Moody’s Investors Service, and Standard and Poor’s). Collateral is obtained from any counterparty that does not maintain a set credit rating. Since all derivatives are in a liability position, there is no amount exposed to credit risk.

The following represents the credit ratings of the counterparties as of June 30, 2011:

<u>Derivative instrument</u>	<u>Counterparty credit rating</u>
Derivative A	AA-
Derivative B	AA
Derivative C	AA-
Derivative D	A+
Derivative E	A
Derivative F	Aa3

Basis Risk – The Authority is exposed to basis risk because the floating index the Authority receives on the swaps (SIFMA or 67% of LIBOR) is different than the basis of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

Termination Risk – The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If, at the time of termination, a derivative is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover Risk – The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature prior to the maturity of the debt. Derivative instruments A, B and F have a maturity date that is before the maturity date of the associated debt. The associated debt matures on August 1, 2037 for derivative instruments A and B and on August 1, 2021 for derivative instrument F.

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 the 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.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Using rates as of June 30, 2011, debt service requirements of the hedged variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows:

	<u>Variable-rate</u>		<u>Interest rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>swaps, net</u>	
Fiscal year ending June 30:				
2012	\$ 6,000	35,867	24,997	66,864
2013	43,810	33,869	22,083	99,762
2014	45,820	31,449	17,931	95,200
2015	55,320	28,552	13,597	97,469
2016	57,880	25,686	9,384	92,950
2017 – 2021	212,050	99,087	31,667	342,804
2022 – 2026	147,865	44,601	20,506	212,972
2027 – 2031	48,475	19,516	11,279	79,270
2032 – 2036	42,020	13,974	9,440	65,434
2037 – 2038	28,720	976	1,002	30,698
Total	<u>\$ 687,960</u>	<u>333,577</u>	<u>161,886</u>	<u>1,183,423</u>

At June 30, 2011, the following bonds outstanding are considered defeased in-substance:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Outstanding principal amount</u>
1992 Series A	2013 – 2019	100	\$ 277,585
1993 Series C	2011 – 2015	100	72,950
1995 Series B	2011 – 2013	100	24,330
1997 Series D	2013	100	6,900
1998 Series A	2011 – 2014	100	21,250
1998 Series B	2011 – 2013	100	5,615
2000 Series A	2011	100	17,550
2000 Series D	2011	100	50,000
2002 Series B	2011	100 to 101	164,130
2002 Series J	2012 – 2013	100	56,855
2003 Series D	2011 – 2013	100	38,435
2004 Series A	2011 – 2014	100	17,785
2004 Series B	2014	100	15,865
2005 Series A	2011 – 2013	100	28,370
2006 Series B	2011 – 2018	100	22,380
2009 Series A	2011	100	3,995
2009 Series B	2011	100	2,640

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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 June 2011, the Authority used funds on hand to defease \$3,995 of the 2009 Series A General Revenue bonds outstanding and \$14,925 of the 2005 Series A, \$1,005 of the 2006 Series B and \$2,640 of the 2009 Series B General Revenue Refunding bonds outstanding.

In June 2010, the Authority used funds on hand to defease \$8,625 of the 1993 Series C and \$18,540 of the 2002 Series J General Revenue bonds outstanding and \$6,900 of the 1997 Series D, \$435 of the 1998 Series B, and \$9,925 of the 2005 Series A General Revenue Refunding bonds outstanding.

At June 30, 2011, outstanding bonds that are redeemable before their scheduled due dates are as follows:

Description	Redemption date	Redemption price	Outstanding principal amount
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	December 2014	100	49,390
2005 Series A	August 2017	100	284,990
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	19,385
2006 Series A	August 2016	100	180,615
2006 Series B	August 2018	100	123,335
2006 Series B	August 2016	100	138,440
2007 Series A	February 2017	100	200,000
2009 Series A	August 2019	100	76,445
2009 Series B	August 2019	100	181,885
2010 Series A	August 2020	100	92,545
2010 Series B	August 2020	100	114,565
2011 Series B	August 2021	100	120,385

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 for bond series 1999B and 2002C and D and on any business day for bond series 2008A through F, respectively.

During fiscal 2011, the Authority executed loan agreements with the MWPAT providing for 2010 Series D Sewer and Water loans in the principal amounts of \$26,332 and \$23,088 respectively and 2011 Series A Sewer and Water loans in the principal amounts of \$5,951 and \$5,411, respectively. All proceeds for these loans were received by June 30, 2011, except for \$672 of the 2010 Series D Sewer loans.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

During fiscal 2010, the Authority executed loan agreements with the MWPAT providing for 2009 Series D Sewer and Water loans in the principal amounts of \$11,001 and \$1,265 respectively. All proceeds for these loans were received by June 30, 2010.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$88,156 will be recognized as capital grants in aid of construction over the term of the loans.

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, senior 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:			
2012	\$ 94,723	243,333	338,056
2013	108,715	241,604	350,319
2014	115,960	237,643	353,603
2015	145,007	232,235	377,242
2016	181,895	225,261	407,156
2017 – 2021	1,216,768	994,052	2,210,820
2022 – 2026	1,389,818	705,288	2,095,106
2027 – 2031	1,148,752	420,815	1,569,567
2032 – 2036	686,815	224,879	911,694
2037 – 2041	447,660	88,926	536,586
2042 – 2046	161,345	21,404	182,749
2047 – 2049	28,225	601	28,826
Total	\$ <u>5,725,683</u>	<u>3,636,041</u>	<u>9,361,724</u>

The Authority issued commercial paper notes of \$144,000 to finance capital expenditures, which are secured by \$100,000 and \$250,000 irrevocable direct-pay letters of credit which expire on September 8, 2012, and November 30, 2015, 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.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Commercial paper at June 30, 2011 and 2010 consisted of the following:

	2011 Beginning balance	Additions	Reductions	2011 Ending balance
0.31% commercial paper	\$ —	34,000	—	34,000
0.40% commercial paper	—	87,000	—	87,000
0.34% commercial paper	—	23,000	—	23,000
0.79% commercial paper	84,000	—	84,000	—
0.47% commercial paper	87,000	—	87,000	—
0.52% commercial paper	23,000	—	23,000	—
	<u>\$ 194,000</u>	<u>144,000</u>	<u>194,000</u>	<u>144,000</u>
	2010 Beginning balance	Additions	Reductions	2010 Ending balance
0.79% commercial paper	\$ —	84,000	—	84,000
0.47% commercial paper	—	87,000	—	87,000
0.52% commercial paper	—	23,000	—	23,000
2.77% commercial paper	84,000	—	84,000	—
3.16% commercial paper	87,000	—	87,000	—
1.66% commercial paper	23,000	—	23,000	—
	<u>\$ 194,000</u>	<u>194,000</u>	<u>194,000</u>	<u>194,000</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 \$24,222 and \$29,339 in fiscal 2011 and 2010, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2011 and 2010, is \$99,669 and \$102,258, respectively, and is included in other assets. The loans due within one year total \$26,758 and \$27,235 at June 30, 2011 and 2010, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(8) Capital Assets

Capital assets at June 30, 2011 and 2010 consisted of the following:

	<u>2010</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2011</u>
Capital assets – not being depreciated:				
Land	\$ 13,413	10,084	—	23,497
Construction in progress	424,133	101,943	(349,006)	177,070
Total capital assets – not being depreciated	<u>437,546</u>	<u>112,027</u>	<u>(349,006)</u>	<u>200,567</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,429,698	337,762	—	8,767,460
Furniture and fixtures	17,014	95	—	17,109
Leasehold improvements	2,423	—	—	2,423
Motor vehicles and equipment	948	1,065	—	2,013
Total capital assets – being depreciated	<u>8,450,083</u>	<u>338,922</u>	<u>—</u>	<u>8,789,005</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,499,381	167,487	—	2,666,868
Furniture and fixtures	15,485	300	—	15,785
Leasehold improvements	2,053	8	—	2,061
Motor vehicles and equipment	452	29	—	481
Total accumulated depreciation	<u>2,517,371</u>	<u>167,824</u>	<u>—</u>	<u>2,685,195</u>
Total capital assets – being depreciated – net	<u>5,932,712</u>	<u>171,098</u>	<u>—</u>	<u>6,103,810</u>
Capital assets – net	\$ <u>6,370,258</u>	<u>283,125</u>	<u>(349,006)</u>	<u>6,304,377</u>

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Capital assets at June 30, 2010 and 2009, consisted of the following:

	<u>2009</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2010</u>
Capital assets – not being depreciated:				
Land	\$ 6,618	6,884	(89)	13,413
Construction in progress	367,593	188,089	(131,549)	424,133
Total capital assets – not being depreciated	<u>374,211</u>	<u>194,973</u>	<u>(131,638)</u>	<u>437,546</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,358,741	120,698	(49,741)	8,429,698
Furniture and fixtures	13,047	3,967	—	17,014
Leasehold improvements	2,423	—	—	2,423
Motor vehicles and equipment	948	—	—	948
Total capital assets – being depreciated	<u>8,375,159</u>	<u>124,665</u>	<u>(49,741)</u>	<u>8,450,083</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,352,640	175,029	(28,288)	2,499,381
Furniture and fixtures	13,026	2,459	—	15,485
Leasehold improvements	2,041	12	—	2,053
Motor vehicles and equipment	433	19	—	452
Total accumulated depreciation	<u>2,368,140</u>	<u>177,519</u>	<u>(28,288)</u>	<u>2,517,371</u>
Total capital assets – being depreciated – net	<u>6,007,019</u>	<u>(52,854)</u>	<u>(21,453)</u>	<u>5,932,712</u>
Capital assets – net	\$ <u>6,381,230</u>	<u>142,119</u>	<u>(153,091)</u>	<u>6,370,258</u>

Depreciation and amortization for fiscal 2011 and 2010 was \$180,734 and \$189,798, respectively.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(9) 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, 2011 are as follows:

Year ending June 30:			
2012		\$	5,504
2013			5,163
2014			5,378
2015			5,040
2016			2,690
2017 – 2021			<u>11,695</u>
Total		\$	<u><u>35,470</u></u>

Rental expense was \$7,228 and \$6,057 in fiscal years 2011 and 2010, respectively.

(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, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 652	2,565	3,217
2013	705	2,512	3,217
2014	762	2,455	3,217
2015	824	2,393	3,217
2016	891	2,326	3,217
2017 – 2021	5,662	10,423	16,085
2022 – 2026	8,365	7,720	16,085
2027 – 2031	12,358	3,727	16,085
2032 – 2035	<u>2,837</u>	<u>112</u>	<u>2,949</u>
Total	\$ <u><u>33,056</u></u>	<u><u>34,233</u></u>	<u><u>67,289</u></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 \$11,142 of accumulated depreciation as of June 30, 2011.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(10) 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. Covered payroll for all Authority employees in the Plan was \$82,870 at the actuarial valuation date, January 1, 2011.

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.

(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 Authority's 2011 and 2010 contributions to the plan were based on an amount approved by the Retirement Board and the Authority's board of directors, which is based on an actuarially determined amount. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(c) Annual Pension Cost and Net Pension Obligation

The annual required contribution for the year ended June 30, 2011, determined by the January 1, 2010 actuarial valuation, was as follows:

Annual required contribution	\$	5,343
Contributions made		<u>(5,343)</u>
Increase (decrease) in net pension obligation		—
Net pension obligation, beginning of year		<u>—</u>
Net pension obligation, end of year	\$	<u><u>—</u></u>

(d) Three-Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>Percentage of ARC contributed</u>	<u>Net pension asset (obligation)</u>
Fiscal year ending:			
2011	\$ 5,343	100%	\$ —
2010	5,587	101	34
2009	5,314	296	10,415

(e) Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability	\$	341,521
Actuarial value of assets		<u>298,928</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>42,593</u></u>
Funded ratio		87.5%
Covered payroll	\$	82,870
UAAL as percentage of covered payroll		51.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. Effective for the January 1, 2007 actuarial valuation, the Authority changed to the entry age normal actuarial cost method. Prior actuarial valuations were completed using the aggregate cost method.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(f) Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$43,600 was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five year period. As of January 1, 2010 the unfunded actuarially accrued liability is being amortized over 14 years using an open group method which assumes a 4.5% per year increase in payroll.

(g) 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.

(11) Other Postemployment Benefits (OPEB)

(a) Plan Description

In addition to providing the pension benefits described, the Authority provides postemployment health care and life insurance benefits for retired employees through the Group Insurance Commission (GIC). The GIC is a quasi-independent state agency that administers an agent multi-employer defined benefit OPEB plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. As of January 1, 2010, the actuarial valuation date, approximately 368 retirees and survivors and 1,105 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(c) Funding Policy

Retirees who retired on or before July 1, 1994 contribute 10% of the cost of the health plans, as determined by the GIC. Those who retired after July 1, 1994 contribute 15% of the cost of the health plan and those who retired after October 1, 2009 contribute 20% of the cost of the health plan, as

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

determined by the GIC. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Authority's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of January 1, 2010:

Annual Required Contribution (ARC)	\$	17,433
Interest on net OPEB obligation		1,958
Adjustment to ARC		<u>(1,929)</u>
Annual OPEB cost		17,462
Contributions made		<u>(3,293)</u>
Increase in net OPEB obligation		14,169
Net OPEB obligation – beginning of year		<u>46,072</u>
Net OPEB obligation – end of year	\$	<u><u>60,241</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2011	\$ 17,462	19%	\$ 60,241
2010	18,989	11	46,072
2009	17,614	10	29,234

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(e) *Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2010, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$	192,096
Actuarial value of plan assets		—
		<hr/>
Unfunded actuarial accrued liability (UAAL)	\$	<u>192,096</u>
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	81,372
UAAL as a percentage of covered payroll		236%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) *Actuarial Methods and Assumptions*

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

In the January 1, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.25% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 6% long-term trend rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.25%.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(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 \$466,100 at June 30, 2011.

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 \$8,132,000 from fiscal 1986 through fiscal 2011, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$2,082,000 on these projects through fiscal 2021. 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 Authority's revised Long Term CSO Control Plan. Variances have most recently been issued by DEP in September and October 2010. The variances will respectively remain in place for the Charles River until October 1, 2013 and for the Alewife/Upper Mystic until September 1, 2013. 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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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, 29 of which are complete, and four of which are in design or under construction. The two remaining projects, both associated with Alewife Brook, are scheduled for design commencement by April 2012.

During the fiscal year 2011, the Authority was able to report completion of the North Dorchester Bay Storage Tunnel and Related Facilities Project in compliance with the Schedule Seven milestone because it had completed more than 99 percent of all planned construction, including all of the work necessary to bring the \$231,000 North Dorchester Bay combined sewer overflow (CSO) storage tunnel and related facilities project, the single most expensive CSO control project in Schedule Seven, into its full intended environmental and operational mode. As of May 4, 2011, the tunnel and related facilities were operational as intended and capable of achieving the environmental benefits of the project in accordance with the long term CSO control plan for North Dorchester Bay and the beaches of South Boston.

On April 14, 2011, two related Schedule Seven milestone projects, the Charles River Valley/South Charles River Relief Sewer gate controls project and the Charles River interceptor interconnections project were removed from Schedule Seven by order of the Federal Court. More recently, MWRA separated out the interconnection relief and floatables control at Outfall SOM01A project from the other Alewife Brook CSO control projects to expedite implementation of this project. With these two actions, the number of projects in MWRA's approved long-term CSO control plan remains at 35 as reported in past years.

Over the past year, the City of Cambridge has substantially completed the single construction contract that included two of the six projects in MWRA's long-term CSO control plan for Alewife Brook: the interceptor relief and floatables control at CAM002 and 401B and floatables control at CAM001 project. The contractor substantially completed these projects on October 31, 2010. Additionally, the CAM400 manhole separation project was substantially completed on March 30, 2011. The CAM400 manhole separation project resulted in the permanent elimination of CSO discharges at Outfall CAM400.

There has been no imposition of penalties by the Court against MWRA on the merits of the claims originally asserted in the Boston Harbor Case to date. The Court always retains the right to order remedial action and to assess penalties.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(c) *Deer Island Submarine Power Cable*

In 2004, the United States Army Corps of Engineers (Corps) asserted that Boston Edison Co. (NStar), its subsidiary Harbor Energy Electric Company (HEEC), and the Authority were in violation of a permit (MA BOSS 198900530, dated August 31, 1989) which authorized the installation of a submarine electric power cable. The cable runs under the channel bed of Boston Harbor and extends from South Boston to Deer Island and is used to provide electric power for Deer Island operations. The Corps alleges that the power cable, in places, has been installed at depths less than those required by the permit. The Corps has demanded that the permittees develop plans and an implementation schedule for bringing the cable's depth and location into compliance with the permit. The demand has been made in connection with proposed dredging operations intended to deepen the harbor channel so as to make it navigable by deep-draft vessels. The Authority has responded to the Corps stating that it had become a co-permittee only to facilitate issuance of the permit, that it did not install and has never owned the cable, and therefore, it has neither any right nor financial responsibility, nor the ability, to move or alter the position of the cable. In May 2005, the Department of Justice (DOJ) advised the permittees that the matter had been referred to DOJ by the Corps for the purpose of either commencing a lawsuit to compel the relocation of the cable or negotiating an amicable resolution that would bring the permittees into compliance with the permit's conditions. The Authority has informed the Court in the Boston Harbor Case of its position in its Compliance and Progress report filed on June 15, 2005. DOJ, the Corps and the permittees last met in March 2009. Discussions continue to involve the potential for use of a so-called "mechanical option" which involves protecting the cable from dredging operations by covering it with concrete mats. The Authority has advised NStar and HEEC that it believes it has no financial responsibility whatsoever for the costs of either protecting or relocating the cable.

(d) *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' 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.

REQUIRED SUPPLEMENTARY INFORMATION

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedules of Funding Progress

Required Supplementary Information

June 30, 2011

(Unaudited)

(Dollars in thousands)

Employees' retirement system

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2011	\$ 298,928	341,521	42,593	87.5%	\$ 82,870	51.4%
January 1, 2010	276,270	319,876	43,606	86.4	81,962	53.2
January 1, 2009	222,477	301,652	79,175	73.8	82,314	96.2
January 1, 2008	240,484	278,050	37,566	86.5	78,925	47.6
January 1, 2007	211,716	255,962	44,246	82.7	75,444	58.6
January 1, 2005	172,512	172,512	—	100.0	75,790	—

Effective for the January 1, 2007 actuarial valuation, the Authority changed actuarial cost methods. See footnote 10 (e).

Other postemployment benefits

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2010	\$ —	192,096	192,096	—%	\$ 81,372	236.1%
January 1, 2008	—	180,833	180,833	—	79,298	228.0
January 1, 2006	—	154,449	154,449	—	72,476	213.1

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

MASSACHUSETTS WATER RESOURCES AUTHORITY

Accounts Established by the General Revenue Bond Resolution

Year ended June 30, 2011
(comparative totals for June 30, 2010)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2010	\$ 135,921	73,417	455,655	57,564	722,557
Proceeds from:					
Revenue bonds and loans	165,106	—	9,306	—	174,412
Cash received from customers	—	584,276	—	—	584,276
Interest income	348	4,807	4,370	(982)	8,543
Grant receipts	235	—	6,801	—	7,036
Construction payments	(145,088)	593	—	—	(144,495)
Capital lease payments	(607)	—	(2,610)	—	(3,217)
Debt service payment	(2,491)	(25,473)	(302,922)	—	(330,886)
Other commonwealth payments	—	(22,765)	—	—	(22,765)
Interfund transfers	9,969	(321,966)	317,026	(5,029)	—
Transfers from (to) operating account	1,063	(223,547)	2,612	—	(219,872)
Balance – June 30, 2011	\$ <u>164,456</u>	<u>69,342</u>	<u>490,238</u>	<u>51,553</u>	<u>775,589</u>
		<u>Sewer</u>	<u>Water</u>	<u>2011 total</u>	<u>2010 total</u>
Restricted cash and investments:					
Construction	\$	102,558	61,898	164,456	135,921
Debt service reserves		159,665	86,526	246,191	240,717
Debt service		135,490	54,498	189,988	160,761
Revenue redemption		6,088	27,109	33,197	33,245
Revenue		15,213	54,129	69,342	73,417
Renewal and replacement reserve		24,092	13,461	37,553	38,567
Insurance		7,000	7,000	14,000	18,997
Community obligation and revenue enhancement		17,858	3,004	20,862	20,932
Total restricted cash and investments	\$	<u>467,964</u>	<u>307,625</u>	<u>775,589</u>	<u>722,557</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2011

(Dollars in thousands)

Assets and Deferred Outflows	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 25,564	16,065	41,629
Investments	33,552	14,410	47,962
Intergovernmental loans	7,915	18,843	26,758
Accounts receivable	95	566	661
Total unrestricted current assets	<u>67,126</u>	<u>49,884</u>	<u>117,010</u>
Restricted assets:			
Cash and investments	472,256	309,684	781,940
Interest receivable	2,487	1,324	3,811
Total restricted assets	<u>474,743</u>	<u>311,008</u>	<u>785,751</u>
Capital assets – not being depreciated	114,823	85,744	200,567
Capital assets – being depreciated – net	3,739,330	2,364,480	6,103,810
Deferred charges	611,128	154,658	765,786
Other assets – net	255,689	105,828	361,517
Deferred outflows from derivative instruments	43,953	4,670	48,623
Total	<u>\$ 5,306,792</u>	<u>3,076,272</u>	<u>8,383,064</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 42,637	9,997	52,634
Commercial paper notes	92,000	52,000	144,000
Current portion of long-term debt	76,499	18,224	94,723
Total current liabilities	<u>211,136</u>	<u>80,221</u>	<u>291,357</u>
Payable from restricted assets:			
Accounts payable for construction	22,489	1,812	24,301
Accrued interest on bonds payable	55,402	28,901	84,303
Reserves	68,492	31,834	100,326
Total payable from restricted assets	<u>146,383</u>	<u>62,547</u>	<u>208,930</u>
Retainage on construction in progress	8,028	3,241	11,269
Long-term debt – less current portion	3,836,346	1,963,921	5,800,267
Long-term capital leases	22,540	10,516	33,056
Other postemployment benefits	43,075	17,166	60,241
Liability for derivative instruments	43,953	4,670	48,623
Deferred credits	10,405	43,983	54,388
Total liabilities	<u>4,321,866</u>	<u>2,186,265</u>	<u>6,508,131</u>
Net assets:			
Invested in capital assets – net of related debt	321,964	650,516	972,480
Restricted	151,993	75,418	227,411
Unrestricted	510,969	164,073	675,042
Total net assets	<u>984,926</u>	<u>890,007</u>	<u>1,874,933</u>
Commitments and contingencies			
Total	<u>\$ 5,306,792</u>	<u>3,076,272</u>	<u>8,383,064</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2010

(Dollars in thousands)

Assets and Deferred Outflows	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 29,098	13,280	42,378
Investments	34,960	13,594	48,554
Intergovernmental loans	8,665	18,570	27,235
Accounts receivable	240	301	541
Total unrestricted current assets	<u>72,963</u>	<u>45,745</u>	<u>118,708</u>
Restricted assets:			
Cash and investments	435,979	290,967	726,946
Interest receivable	2,245	952	3,197
Grants receivable	210	—	210
Total restricted assets	<u>438,434</u>	<u>291,919</u>	<u>730,353</u>
Capital assets – not being depreciated	378,774	58,772	437,546
Capital assets – being depreciated – net	3,527,705	2,405,007	5,932,712
Deferred charges	573,044	134,160	707,204
Other assets – net	230,310	106,492	336,802
Deferred outflows from derivative instruments	57,954	6,487	64,441
Total	<u>\$ 5,279,184</u>	<u>3,048,582</u>	<u>8,327,766</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 44,674	9,128	53,802
Commercial paper notes	135,000	59,000	194,000
Current portion of long-term debt	50,890	16,412	67,302
Total current liabilities	<u>230,564</u>	<u>84,540</u>	<u>315,104</u>
Payable from restricted assets:			
Accounts payable for construction	18,101	5,227	23,328
Accrued interest on bonds payable	53,664	27,457	81,121
Reserves	72,276	33,457	105,733
Total payable from restricted assets	<u>144,041</u>	<u>66,141</u>	<u>210,182</u>
Retainage on construction in progress	11,323	3,387	14,710
Long-term debt – less current portion	3,761,399	1,897,115	5,658,514
Long-term capital leases	22,920	10,739	33,659
Other postemployment benefits	33,114	12,958	46,072
Liability for derivative instruments	57,954	6,487	64,441
Deferred credits	11,406	56,204	67,610
Total liabilities	<u>4,272,721</u>	<u>2,137,571</u>	<u>6,410,292</u>
Net assets:			
Invested in capital assets – net of related debt	379,454	697,200	1,076,654
Restricted	139,477	66,451	205,928
Unrestricted	487,532	147,360	634,892
Total net assets	<u>1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>
Commitments and contingencies			
Total	<u>\$ 5,279,184</u>	<u>3,048,582</u>	<u>8,327,766</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2011

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 391,924	187,316	579,240
Other	3,646	1,468	5,114
Total operating revenues	<u>395,570</u>	<u>188,784</u>	<u>584,354</u>
Operating expenses:			
Operations	56,308	37,448	93,756
Maintenance	20,147	7,817	27,964
Payments in lieu of taxes	—	7,000	7,000
Engineering, general, and administrative	83,026	43,101	126,127
Total operating expenses	<u>159,481</u>	<u>95,366</u>	<u>254,847</u>
Income from operations before depreciation	236,089	93,418	329,507
Depreciation	<u>123,681</u>	<u>57,053</u>	<u>180,734</u>
Operating income	<u>112,408</u>	<u>36,365</u>	<u>148,773</u>
Regulatory accounting provisions:			
Change in reserves	3,785	(1,450)	2,335
Change in deferred credits – net	39,085	32,719	71,804
Total regulatory accounting provisions	<u>42,870</u>	<u>31,269</u>	<u>74,139</u>
Nonoperating income (expense):			
Investment income	6,253	3,010	9,263
Interest expense	(181,266)	(91,758)	(273,024)
Changes in derivative related accounts	(7,506)	(1,222)	(8,728)
Total nonoperating expense	<u>(182,519)</u>	<u>(89,970)</u>	<u>(272,489)</u>
Net loss before capital grants	(27,241)	(22,336)	(49,577)
Capital grants	<u>5,704</u>	<u>1,332</u>	<u>7,036</u>
Decrease in net assets	(21,537)	(21,004)	(42,541)
Total net assets – beginning of year	<u>1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>
Total net assets – end of year	\$ <u>984,926</u>	<u>890,007</u>	<u>1,874,933</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2010

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 384,685	186,675	571,360
Other	1,977	961	2,938
Total operating revenues	<u>386,662</u>	<u>187,636</u>	<u>574,298</u>
Operating expenses:			
Operations	62,759	34,164	96,923
Maintenance	20,710	4,851	25,561
Payments in lieu of taxes	—	6,732	6,732
Engineering, general, and administrative	93,027	38,524	131,551
Total operating expenses	<u>176,496</u>	<u>84,271</u>	<u>260,767</u>
Income from operations before depreciation	210,166	103,365	313,531
Depreciation	<u>130,031</u>	<u>59,767</u>	<u>189,798</u>
Operating income	<u>80,135</u>	<u>43,598</u>	<u>123,733</u>
Regulatory accounting provisions:			
Change in reserves	952	(298)	654
Change in deferred credits – net	55,780	11,561	67,341
Total regulatory accounting provisions	<u>56,732</u>	<u>11,263</u>	<u>67,995</u>
Nonoperating income (expense):			
Investment income	17,839	8,564	26,403
Interest expense	(174,842)	(86,149)	(260,991)
Loss on disposal of capital assets	(11,888)	(9,565)	(21,453)
Total nonoperating expense	<u>(168,891)</u>	<u>(87,150)</u>	<u>(256,041)</u>
Net loss before capital grants	(32,024)	(32,289)	(64,313)
Capital grants	<u>6,692</u>	<u>1,519</u>	<u>8,211</u>
Decrease in net assets	(25,332)	(30,770)	(56,102)
Total net assets – beginning of year	<u>1,031,795</u>	<u>941,781</u>	<u>1,973,576</u>
Total net assets – end of year	<u>\$ 1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>

See accompanying independent auditors' report.