



MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements and Supplemental Schedules
and Required Supplementary Information

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

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Independent Auditors' Report

The Board of Directors
Massachusetts Water Resources Authority:

We have audited the accompanying balance sheets of the Massachusetts Water Resources Authority (the Authority) as of June 30, 2009 and 2008, 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 did not audit the unfunded actuarial accrued liability reported in footnote 11(e). That information was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in the unfunded actuarial accrued liability in footnote 11(e), is based on the report of other auditors.

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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2009 and 2008, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 2, the Authority, in fiscal 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2009, 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 45 are not required parts of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors 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, 2009

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Management's Discussion and Analysis – Required Supplementary Information

June 30, 2009 and 2008

(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, 2009 and 2008. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights – Fiscal 2009

The fiscal 2009 customer service revenues were approximately \$550.7 million. Of this amount, rate revenues represent approximately 98%, or \$540.8 million, and were \$23 million higher than fiscal 2008. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$260.2 million in fiscal 2009. The 3.6% increase in total operating expenses over fiscal 2008 is the result of increased personnel costs, including the recognition of additional post-employment benefits expense of \$15.8 million and increased maintenance costs at Deer Island.

Net nonoperating expenses increased \$21.1 million, or 9.4%, primarily due to the \$17 million decrease in operating grant income. This represents debt service assistance from the Commonwealth, which the Authority did not receive in fiscal 2009.

Total assets at June 30, 2009 were approximately \$8.2 billion, a \$128 million, or 1.6%, increase over total assets at June 30, 2008. This increase was primarily reflected as an increase in restricted assets, due to an increase in the construction fund.

During fiscal 2009, the Authority issued 2009 Series A and B bonds in the aggregate amount of \$383 million to finance on-going capital projects, to retire \$77 million of Commercial Paper notes and to defease \$228.6 million of bonds outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2009, a \$32.1 million, or 0.5%, decrease over June 30, 2008. The decrease was due to disposal of assets no longer in use.

Pollution Remediation Obligations

In fiscal 2009 the Authority restated beginning Net Assets by \$6.6 million and created a corresponding liability to account for current and future pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. These obligations are related specifically to pollution remediation, and exclude pollution prevention and control. During the fiscal year, approximately \$3.7 million of expenditures were made and applied against the liability. The majority of the remaining liability, \$2.9 million, is expected to be paid in fiscal year 2010.

Financial Highlights – Fiscal 2008

The fiscal 2008 customer service revenues were approximately \$534.8 million. Of this amount, rate revenues represent approximately 97%, or \$517.8 million, and were \$22 million higher than fiscal 2007. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$251 million in fiscal 2008. The 10.6% increase in total operating expenses over fiscal 2007 is the result of increased personnel costs, including the

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June 30, 2009 and 2008

(Unaudited)

recognition of additional post-employment benefits expense of \$13.4 million relating to the implementation of GASB Statement No. 45.

Net nonoperating expenses increased \$23.3 million, or 11.6%, primarily due to a \$20 million increase in interest expense due to the variable rate market conditions.

Total assets at June 30, 2008 were approximately \$8.1 billion, a \$124.2 million, or 1.6%, increase over total assets at June 30, 2007. This increase was primarily reflected as an increase in other assets and deferred charges.

During fiscal 2008, the Authority issued 2008 Series A through F bonds in the aggregate amount of \$1.2 billion to defease \$1.2 billion of bonds outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2008, a \$7.2 million, or 0.1%, increase over June 30, 2007. The increase was due to other asset additions, primarily in the combined sewer overflow (CSO) program.

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, 2009 were approximately \$2 billion, a \$92 million decrease from June 30, 2008. Total assets increased \$128 million, or 1.6%, to \$8.2 billion, and total liabilities increased \$220 million, or 3.7% to \$6.2 billion.

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Management's Discussion and Analysis – Required Supplementary Information

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(Unaudited)

The Authority's total net assets at June 30, 2008 were approximately \$2.1 billion, a \$44 million decrease from June 30, 2007. Total assets increased \$124.2 million, or 1.6%, to \$8.1 billion, and total liabilities increased 2.9% to \$6 billion.

Net Assets

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	Percentage change 2009-2008	Percentage change 2008-2007
Current assets	\$ 118,948	114,348	107,291	4.0%	6.6%
Restricted assets	784,119	690,382	669,278	13.6	3.2
Capital assets	6,381,230	6,413,403	6,406,195	(0.5)	0.1
Other assets	915,525	854,070	765,231	7.2	11.6
Total assets	<u>8,199,822</u>	<u>8,072,203</u>	<u>7,947,995</u>	<u>1.6</u>	<u>1.6</u>
Current liabilities	320,609	323,667	146,318	(0.9)	121.2
Payable from restricted assets	210,801	219,067	203,323	(3.8)	7.7
Long-term debt	5,542,113	5,317,572	5,370,663	4.2	(1.0)
Long-term lease	34,217	34,733	35,210	(1.5)	(1.4)
Other liabilities	118,506	111,208	82,364	6.6	35.0
Total liabilities	<u>6,226,246</u>	<u>6,006,247</u>	<u>5,837,878</u>	<u>3.7</u>	<u>2.9</u>
Net assets:					
Invested in capital assets – net of related debt	1,120,891	1,289,563	1,441,950	(13.1)	(10.6)
Restricted	268,642	240,804	189,396	11.6	27.1
Unrestricted	584,043	535,589	478,771	9.0	11.9
Total net assets	<u>\$ 1,973,576</u>	<u>2,065,956</u>	<u>2,110,117</u>	<u>(4.5)%</u>	<u>(2.1)%</u>

Changes in Net Assets

The decrease in net assets at June 30, 2009 was \$92 million, or 4.5%, as compared with June 30, 2008. The Authority's total operating revenues increased by 2.7% to \$555.2 million and total operating expenses increased 3.6% to \$260.2 million.

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(Unaudited)

The decrease in net assets at June 30, 2008 was \$44 million, or 2.1%, as compared with June 30, 2007. The Authority's total operating revenues increased by 5.9% to \$540 million and total operating expenses increased 10.6% to \$251 million.

Changes in Net Assets

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	Percentage change 2009-2008	Percentage change 2008-2007
Operating revenues:					
Customer service revenues	\$ 550,720	534,809	506,354	3.0%	5.6%
Other revenues	<u>4,473</u>	<u>5,600</u>	<u>4,122</u>	<u>(20.1)</u>	<u>35.9</u>
Total operating revenues	<u>555,193</u>	<u>540,409</u>	<u>510,476</u>	<u>2.7</u>	<u>5.9</u>
Operating expenses:					
Operations	93,795	93,733	87,590	0.1	7.0
Maintenance	27,444	26,409	25,915	3.9	1.9
Payments in lieu of taxes	6,104	6,226	5,969	(2.0)	4.3
Engineering, general, and administrative	<u>132,828</u>	<u>124,687</u>	<u>107,493</u>	<u>6.5</u>	<u>16.0</u>
Total operating expenses	260,171	251,055	226,967	3.6	10.6
Depreciation and amortization	<u>190,765</u>	<u>180,173</u>	<u>180,179</u>	<u>5.9</u>	<u>—</u>
Operating income	104,257	109,181	103,330	(4.5)	5.7
Nonoperating items:					
Regulatory accounting provisions	48,974	64,912	47,699	(24.6)	36.1
Net nonoperating expenses	(246,164)	(225,106)	(201,792)	9.4	11.6
Capital grants and contributions	<u>7,120</u>	<u>6,852</u>	<u>6,455</u>	<u>3.9</u>	<u>6.2</u>
Total nonoperating items	<u>(190,070)</u>	<u>(153,342)</u>	<u>(147,638)</u>	<u>24.0</u>	<u>3.9</u>
Change in net assets	(85,813)	(44,161)	(44,308)	94.3	(0.3)
Total net assets – beginning of year	2,065,956	2,110,117	2,154,425	(2.1)	(2.1)
Restatement to comply with GASB	<u>(6,567)</u>	<u>—</u>	<u>—</u>	<u>100.0</u>	<u>—</u>
Total net assets – end of year	<u>\$ 1,973,576</u>	<u>2,065,956</u>	<u>2,110,117</u>	<u>(4.5)%</u>	<u>(2.1)%</u>

During fiscal 2009, the increases in customer service revenues were primarily due to the 4.4% increase in the rate revenue requirement (\$23 million).

During fiscal 2008, the increases in customer service revenues were primarily due to the 4.5% increase in the rate revenue requirement (\$22 million).

Total operating costs, before depreciation and amortization, in fiscal 2009 were \$260.2 million; a \$9.1 million or 3.6% increase over fiscal 2008. This increase is primarily due to increases in OPEB obligation (\$15.8 million)

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Management’s Discussion and Analysis – Required Supplementary Information

June 30, 2009 and 2008
(Unaudited)

and total personnel costs (\$3.1 million). OPEB expenses increased due to compliance with GASB 45 which requires the eventual recognition of the unfunded actuarially required contribution. Total personnel costs increased due to union contract increases for salaries and wages and increased health and dental insurance costs.

Total operating costs, before depreciation and amortization, in fiscal 2008 were \$251 million; a \$24 million or 10.6% increase over fiscal 2007. This increase is primarily due to increases in OPEB expenses (\$13.4 million) and total personnel costs (\$3.6 million). OPEB expenses increased with the implementation of GASB 45 which requires the eventual recognition of the unfunded actuarially required contribution. Total personnel costs increased due to union contract increases for salaries and wages and increased health and dental insurance costs.

In fiscal 2009, net nonoperating expenses increased \$21 million, or 9.4%, primarily due to a \$17 million decrease in operating grant income. This represents debt service assistance from the Commonwealth, which the Authority did not receive in fiscal 2009.

In fiscal 2008, net nonoperating expenses increased \$23.3 million, or 11.6%, primarily due to an increase in interest expense due to the variable rate market conditions during fiscal 2008.

Operating Costs by Functionality

(Dollars in thousands)

	2009	2008	2007	Percentage change 2009-2008	Percentage change 2008-2007
Wastewater treatment and transport	\$ 98,211	97,310	94,921	0.9%	2.5%
Water treatment and transport	29,915	29,153	27,607	2.6	5.6
Water and wastewater quality	8,398	8,584	8,361	(2.2)	2.7
Metering and monitoring	4,732	4,612	4,372	2.6	5.5
Facilities planning, design, and construction	10,472	10,495	10,027	(0.2)	4.7
Management information systems	9,059	8,941	8,727	1.3	2.5
Administration and support	44,954	43,324	39,897	3.8	8.6
Total direct operating costs	205,741	202,419	193,912	1.6	4.4
Indirect operating costs	54,430	48,636	33,055	11.9	47.1
Total operating costs	\$ 260,171	251,055	226,967	3.6%	10.6%

Across all functionalities the greatest increase in expense was due to increased wages and salaries due to union-negotiated contractual increases. Additional increases in administration and support are due to increases in fringe benefits as the result of increased health and dental insurance costs. Wastewater treatment and transport increased due to an increase in the contract cost to run the Authority’s sludge pelletization plant. Water treatment and transport experienced increases in chemical costs, particularly at the John J. Carroll Water Treatment Plant. Decreases in water and wastewater quality is primarily due to delays in harbor and outfall (HOM) reports, lower than projected need for as-needed task orders year-to date, and additional scope reductions that management made to HOM contract work.

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Management’s Discussion and Analysis – Required Supplementary Information

June 30, 2009 and 2008

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009 and 2008, the Authority had \$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 \$32 million, or 0.5% during fiscal 2009, primarily due to disposal of assets no longer in use.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	Percentage change 2009-2008	Percentage change 2008-2007
Land	\$ 6,618	6,692	6,692	(1.1)%	—%
Construction in progress	367,593	285,941	273,516	28.6	4.5
Plant and equipment, water, and sewer systems	6,006,101	6,119,821	6,122,818	(1.9)	—
Furniture and fixtures	21	21	2,210	—	(99.0)
Leasehold improvements	382	394	406	(3.0)	(3.0)
Motor vehicles and equipment	515	534	553	(3.6)	(3.4)
	<u>\$ 6,381,230</u>	<u>6,413,403</u>	<u>6,406,195</u>	<u>(0.5)%</u>	<u>0.1%</u>

Increases in construction in progress are primarily due to increased spending for the North Dorchester Bay CSO tunnel project, East Boston Branch sewer relief CSO, Morrissey Boulevard drain and Blue Hills covered storage.

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2009 and 2008

(Unaudited)

provide revenues available for bond debt service in an amount equal to 1.2 times that is required for debt service on all outstanding bonds, not including subordinated bonds. The subordinated debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.1 times that is required for debt service on all outstanding bonds, including subordinated bonds.

Credit Rating

Of the \$5.6 billion of revenue bonds the Authority currently has outstanding, \$2.8 billion is credit enhanced by a combination of bond insurance, liquidity, or letters of credit. The Authority's enhanced revenue bonds are rated "AAA" by FitchRatings, "Aaa" by Moody's Investors Service, and "AAA" by Standard and Poor's. The Authority's unenhanced \$0.6 billion long-term, senior debt is rated "AA" by FitchRatings, "Aa2" by Moody's Investors Service, and "AA+" by Standard and Poor's. Remaining unenhanced subordinated debt of \$1.1 billion is rated "AA-" by FitchRatings, "Aa3" by Moody's Investors Service and "AA" by Standard and Poor's. 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 2009, the Board approved the fiscal 2010 Current Expense Budget (CEB), which totals \$596.6 million in expenses before debt service offsets of \$0.4 million, for a net expense total of \$596.2 million. The \$0.4 million in debt service offsets is for debt service assistance.

The \$596.6 million expense total (before debt service offsets) is comprised of \$347.2 million (58.2%) in capital financing costs and \$249.4 million (41.8%) in operating expenses, of which \$209.6 million (84%) is for direct expenses and \$39.8 million (16%) is for indirect expenses. The total represents an increase of \$19.7 million from fiscal 2009 spending, which is comprised of \$3.3 million in higher operating costs and \$16.4 million in higher debt service costs.

The fiscal 2010 rate revenue requirement approved by the Board is \$561.4 million; an increase of 3.8% compared with the fiscal 2009 budget.

Fiscal 2010 budgeted nonrate revenue totals \$34.8 million, a decrease of \$4.4 million from actual fiscal 2009 nonrate revenue. The nonrate revenue budget is comprised of \$15.2 million in investment income, \$18.8 million in other user charges and other revenue and \$0.8 million in entrance fees.

CIP 10 Year Plan

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

- 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.

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Management's Discussion and Analysis – Required Supplementary Information

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(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, including Blue Hills Covered Storage, 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.

Contacting the Authority's Financial Management

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

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Balance Sheets

June 30, 2009 and 2008

(Dollars in thousands)

Assets	2009	2008
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 44,298	43,408
Investments (note 4)	48,879	47,790
Intergovernmental loans (note 7)	25,324	22,660
Accounts receivable	447	490
Total unrestricted current assets	118,948	114,348
Restricted assets:		
Investments (note 4)	781,397	687,161
Interest receivable	2,722	3,221
Total restricted assets	784,119	690,382
Capital assets – not being depreciated (note 8)	374,211	292,633
Capital assets – being depreciated – net (note 8)	6,007,019	6,120,770
Deferred charges (notes 3 and 9)	594,548	554,589
Other assets, net (notes 7 and 9)	320,977	299,481
Total	\$ 8,199,822	8,072,203
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses (note 14)	\$ 44,877	55,443
Commercial paper notes (note 6)	194,000	191,000
Current portion of long-term debt (note 6)	81,732	77,224
Total current liabilities	320,609	323,667
Payable from restricted assets:		
Accounts payable for construction	22,595	36,637
Accrued interest on bonds payable	81,819	77,789
Reserves (note 5)	106,387	104,641
Total payable from restricted assets	210,801	219,067
Retainage on construction in progress	15,373	13,122
Long-term debt – less current portion (note 6)	5,542,113	5,317,572
Long-term capital lease (note 10)	34,217	34,733
Other long-term liabilities (note 12)	29,234	13,426
Deferred credits (note 3)	73,899	84,660
Total liabilities	6,226,246	6,006,247
Net assets:		
Invested in capital assets, net of related debt	1,120,891	1,289,563
Restricted	268,642	240,804
Unrestricted	584,043	535,589
Total net assets	1,973,576	2,065,956
Commitments and contingencies (notes 10, 11, 12, 13, and 14)		
Total	\$ 8,199,822	8,072,203

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues (note 2):		
Customer services	\$ 550,720	534,809
Other	4,473	5,600
Total operating revenues	<u>555,193</u>	<u>540,409</u>
Operating expenses:		
Operations	93,795	93,733
Maintenance	27,444	26,409
Payments in lieu of taxes	6,104	6,226
Engineering, general, and administrative	132,828	124,687
Total operating expenses	<u>260,171</u>	<u>251,055</u>
Income from operations before depreciation	295,022	289,354
Depreciation and amortization	<u>190,765</u>	<u>180,173</u>
Operating income	<u>104,257</u>	<u>109,181</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	(1,746)	(472)
Change in deferrals, net (note 3)	50,720	65,384
Total regulatory accounting provisions	<u>48,974</u>	<u>64,912</u>
Nonoperating revenues (expenses):		
Debt service grants	—	16,980
Investment income	21,247	41,199
Interest expense	(267,411)	(283,285)
Total nonoperating expenses	<u>(246,164)</u>	<u>(225,106)</u>
Net loss before capital contributions	(92,933)	(51,013)
Capital grants and contributions	<u>7,120</u>	<u>6,852</u>
Decrease in net assets	(85,813)	(44,161)
Total net assets, beginning of year	2,065,956	2,110,117
Restatement to comply with GASB Statement No. 49 (note 2)	(6,567)	—
Total net assets, end of year	<u>\$ 1,973,576</u>	<u>2,065,956</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 550,930	534,766
Cash paid to suppliers for goods and services	(126,125)	(109,114)
Cash paid to employees for services	(132,453)	(124,477)
Cash paid in lieu of taxes	(6,104)	(6,226)
Other operating receipts	4,473	5,600
Net cash provided by operating activities	<u>290,721</u>	<u>300,549</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	375,574	272,355
Capital grants for construction	7,120	6,852
Debt service grant	—	16,980
Capital lease principal payments	(516)	(477)
Capital lease interest payments	(2,701)	(2,740)
Repayment of debt	(178,755)	(172,630)
Interest paid on debt	(223,379)	(252,272)
Plant expenditures	(193,593)	(180,785)
Net cash used for capital and related financing activities	<u>(216,250)</u>	<u>(312,717)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(111,322)	(86,801)
Sales and maturities of short-term investments	83,242	141,003
Increase in restricted cash and investments – net	(66,223)	(75,874)
Interest received	20,722	36,420
Net cash (used for) provided by investing activities	<u>(73,581)</u>	<u>14,748</u>
Net increase in cash and cash equivalents	890	2,580
Cash and cash equivalents, beginning of year	<u>43,408</u>	<u>40,828</u>
Cash and cash equivalents, end of year	\$ <u>44,298</u>	\$ <u>43,408</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 104,257	109,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	190,765	180,173
Decrease in other accounts	11	88
Increase (decrease) in accounts payable	(4,312)	11,107
Net cash provided by operating activities	\$ <u>290,721</u>	\$ <u>300,549</u>

Noncash capital and related financing activities:

In February 2009, general revenue refunding bonds in the aggregate principal amount of \$285,200 were issued to retire \$77,000 in Commercial Paper notes and to defease \$228,580 of bonds outstanding.

In May 2008, general revenue refunding bonds in the aggregate principal amount of \$1,162,090 were issued to defease \$1,197,745 of bonds outstanding.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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(Dollars in thousands)

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

In addition, the Authority has adopted the provisions of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, to provide a better matching of revenues and expenses. The effect of this policy has been to defer certain costs, which will be recovered through future revenues in accordance with the Authority's rate model, and to record deferred credits for revenue collected

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through current rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under Statement No. 71 are discussed further in notes 3 and 9.

During the year, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The Statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated with clean up efforts. In compliance with the Statement, the Authority has restated beginning Net Assets and established a liability on its Balance Sheet for current and future expenses.

(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 2009 and 2008, 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.

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(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

(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 gains of \$915 and \$6,839 in fiscal 2009 and fiscal 2008, respectively, 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

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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.

(3) Deferred Charges and Credits

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

A summary of the activity of FASB No. 71 charges (credits) for fiscal 2009 and 2008 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2007 – net	\$ 339,747	64,798	404,545
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	71,581	10,507	82,088
Bond redemption, net	2,556	—	2,556
Other – net	<u>(8,638)</u>	<u>(10,622)</u>	<u>(19,260)</u>
Balance – June 30, 2008 – net	405,246	64,683	469,929
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	49,350	(9,391)	39,959
Rate stabilization, net	(11,644)	9,679	(1,965)
Other – net	<u>18,527</u>	<u>(5,801)</u>	<u>12,726</u>
Balance – June 30, 2009 – net	\$ <u><u>461,479</u></u>	<u><u>59,170</u></u>	<u><u>520,649</u></u>

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The net balance at June 30, 2009 and 2008, is presented on the balance sheets as follows:

	<u>2009</u>	<u>2008</u>	<u>Current year change</u>
Deferred charges	\$ 594,548	554,589	39,959
Deferred credits	(73,899)	(84,660)	10,761
Net change in deferrals	<u>\$ 520,649</u>	<u>469,929</u>	<u>50,720</u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$41,772 and \$43,737 at June 30, 2009 and 2008, respectively.

(4) Deposits and Investments

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

(a) Custodial Credit Risk – Deposits

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

The bank deposits at June 30, 2009 and 2008 were \$50,804 and \$46,854, respectively. Of these amounts, \$50,554 and \$46,754 were exposed to custodial credit risks as uninsured and uncollateralized.

(b) Investments

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

The following guaranteed investment contracts were in force as of June 30, 2009 and 2008, respectively, all of which are fully collateralized and recorded at cost:

<u>Investment agreement provider</u>	<u>Rate</u>	<u>Maturity</u>	<u>2009</u>	<u>2008</u>
AIG financial products	6.05	August 1, 2014	\$ —	18,342
Wachovia Bank	5.17	August 1, 2016	14,456	14,456
Total			<u>\$ 14,456</u>	<u>32,798</u>

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In September 2008, AIG was downgraded to an A – rating by Standard & Poor’s (S&P). This downgrade resulted from AIG’s lack of liquidity and its ability to raise sufficient capital to back its financial obligations. Under its contract with the Authority, AIG is required to maintain an S&P rating of at least AA – or else it will be in default. In the event of a default, the contract provides for the principal and unpaid interest to become due and payable immediately. On September 29, 2008 the Authority received from AIG the \$18,342 in principal and \$185 in accrued interest which was subsequently invested in the Massachusetts Municipal Depository Trust (MMDT).

(c) Credit Ratings

All debt securities purchased, such as FNMA, FHLMC, and FHLB issues have an implied credit rating of AAA or they have been collateralized to AAA. 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.

(d) Concentration Risk

The Authority has no investments, at fair value, which exceeds 5% of the Authority’s total investments as of June 30, 2009 and 2008.

(e) Interest Rate Risk

The following is a listing of the Authority’s fixed income investments and related maturity schedule as of June 30, 2009 and 2008:

Investment type	Fair value	June 30, 2009 Investment maturities (in years)			
		<1	1-3	4-8	>9
Certificate of deposit	\$ 3,000	3,000	—	—	—
Money market mutual funds	564,624	564,624	—	—	—
U.S. Treasury notes and bonds	4,282	—	—	4,282	—
U.S. agency obligations	243,914	7,309	13,626	107,930	115,049
Guaranteed investment contracts	14,456	—	—	14,456	—
Total	\$ 830,276	574,933	13,626	126,668	115,049

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June 30, 2008					
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	498,402	498,402	—	—	—
U.S. Treasury notes and bonds	4,130	—	—	4,130	—
U.S. agency obligations	196,621	—	7,304	123,031	66,286
Guaranteed investment contracts	32,798	18,342	—	—	14,456
Total	\$ 734,951	519,744	7,304	127,161	80,742

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.

(f) Restricted Investments by Fund

The following summarizes restricted investments as of June 30, 2009 and 2008 by various funds and accounts established by the Authority for debt covenants and other purposes:

	2009	2008
Restricted investments:		
Construction	\$ 199,641	105,237
Debt service reserves	231,228	220,868
Debt service	176,360	177,987
Revenue redemption	33,159	30,852
Revenue	62,749	67,452
Renewal and replacement reserve	34,212	33,947
Insurance	18,997	18,997
OPEB reserve	—	7,183
Community obligation and revenue enhancement	20,769	20,508
Insurance related escrow deposits	4,282	4,130
Total restricted investments	\$ 781,397	687,161

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(Dollars in thousands)

(5) Bond Resolution Reserves

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2009 and 2008 are as follows:

<u>Reserves</u>	<u>Sewer</u>	<u>Water</u>	<u>Total 2009</u>	<u>Total 2008</u>
Renewal and replacement	\$ 17,300	11,701	29,001	29,001
Insurance	9,500	9,500	19,000	19,000
Operating	28,029	10,241	38,270	36,524
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	\$ <u>73,228</u>	<u>33,159</u>	<u>106,387</u>	<u>104,641</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, 2009 and 2008.

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(Dollars in thousands)

(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
General Revenue Bonds:		
1993 Series C, 5 1/4% to 6%, issued December 2, 1993, due 2009 to 2015	\$ 48,095	51,285
1998 Series A, 4 3/4%, issued January 27, 1998, due 2028 to 2032	52,525	100,355
2002 Series B, 5% to 5 1/8%, issued March 15, 2002, due 2021 to 2027	74,415	74,415
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2011 to 2042	547,835	553,080
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	98,000	—
	<u>1,439,080</u>	<u>1,397,345</u>
General Revenue Refunding Bonds:		
1997 Series D, 6%, issued December 15, 1997, due 2008 to 2020	14,210	123,245
1998 Series B, 5 1/2%, issued January 27, 1998, due 2008 to 2022	24,675	103,165
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	49,390	49,390
2005 Series A, 3 1/8% to 5 1/4%, issued April 14, 2005, due 2008 to 2034	400,270	410,675
2005 Series B, 5%, issued April 14, 2005, due 2031 to 2035	80,290	80,290
2006 Series B, 4% to 5%, issued March 16, 2006, due 2015 to 2040	264,945	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	285,200	—
	<u>1,766,930</u>	<u>1,679,660</u>

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	<u>2009</u>	<u>2008</u>
General Revenue Bonds with the Massachusetts		
Water Pollution Abatement Trust:		
1993 Series A, 5 1/2%, issued March 18, 1993, due 2009 to 2013	\$ 2,450	3,305
1993 Series D, 5 1/8% to 5 1/4%, issued January 6, 1994, due 2009 to 2014	2,590	3,235
1995 Series A, 5% to 5 1/2%, issued November 21, 1995, due 2009 to 2015	3,340	4,090
1998 Series C, 4 1/2% to 5 3/8%, issued July 9, 1998, due 2009 to 2018	7,920	9,135
1999 Series E Sewer, 4 1/2% to 5 3/8%, issued October 6, 1999, due 2009 to 2029	8,486	8,758
1999 Series E Water, 4 1/2% to 5 3/8%, issued October 6, 1999, due 2009 to 2019	7,512	8,072
1999 Series F, 5 1/8% to 6%, issued November 3, 1999, due 2009 to 2029	318,875	330,155
2000 Series E Sewer, 4 3/4% to 5 3/8%, issued November 1, 2000, due 2009 to 2030	62,300	64,035
2000 Series E Water, 4 3/4% to 5 3/8%, issued November 1, 2000, due 2009 to 2020	8,539	9,111
2001 Series C Water, 5% to 5 1/4%, issued July 26, 2001, due 2010 to 2021	3,683	3,926
2001 Series D Sewer, 5% to 5 3/4%, issued July 26, 2001, due 2009 to 2029	5,521	5,905
2001 Series D Water, 5% to 5 3/4%, issued July 26, 2001, due 2009 to 2019	1,063	1,141
2002 Series H Sewer, 3 1/2% to 5 1/4%, issued October 31, 2002, due 2009 to 2032	79,635	81,790
2002 Series H Water, 3 1/2% to 5 1/4%, issued October 31, 2002, due 2009 to 2022	25,235	26,650
2002 Series I Sewer, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2009 to 2030	2,266	2,334
2002 Series I Water, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2009 to 2020	24	24
2003 Series A Water, 3 2/5% to 5 1/4%, issued October 31, 2002, due 2009 to 2022	1,163	1,229
2003 Series B Water, 5% to 5 1/4%, issued July 24, 2003, due 2010 to 2021	3,323	3,544
2003 Series C Sewer, 2 7/10% to 5 1/2%, issued November 6, 2003, due 2009 to 2033	28,583	29,324
2003 Series C Water, 2 7/10% to 5 1/2%, issued November 6, 2003, due 2009 to 2023	17,127	18,055

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(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
2004 Series C Sewer, 2 7/10% to 5 1/2%, issued October 26, 2004, due 2009 to 2033	\$ 9,706	9,956
2004 Series C Water, 3 2/5% to 5 1/4%, issued October 26, 2004, due 2009 to 2022	1,353	1,441
2004 Series D Sewer, 3% to 5 1/4%, issued November 29, 2004, due 2008 to 2034	56,919	59,007
2004 Series D Water, 3% to 5 1/4%, issued November 29, 2004, due 2008 to 2024	11,374	11,897
2005 Series C Sewer, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2008 to 2034	6,654	6,934
2005 Series C Water, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2008 to 2024	894	943
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2008 to 2035	61,550	63,403
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2008 to 2025	12,797	13,516
2005 Series E Sewer, 2%, issued November 16, 2005, due 2008 to 2025	347	366
2005 Series E Water, 2%, issued November 16, 2005, due 2008 to 2025	76	81
2006 Series C Sewer, 3% to 5 1/4%, issued October 26, 2006, due 2008 to 2034	8,164	8,410
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2008 to 2036	62,634	64,799
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2008 to 2026	27,076	28,509
2006 Series E Sewer, 2%, issued December 14, 2006, due 2008 to 2026	343	359
2006 Series E Water, 2%, issued December 14, 2006, due 2008 to 2026	154	161
2007 Series C Sewer, 2% to 2 3/10%, issued November 9, 2007, due 2008 to 2035	4,511	4,798
2007 Series C Water, 2%, issued November 9, 2007, due 2008 to 2025	2,579	2,727
2007 Series D Sewer, 2 3/10%, issued November 9, 2007, due 2008 to 2036	22,973	22,978
2007 Series E Sewer, 2% to 2 2/5%, issued December 18, 2007, due 2008 to 2037	58,742	58,853
2007 Series E Water, 2%, issued December 18, 2007, due 2008 to 2027	18,869	19,373

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	<u>2009</u>	<u>2008</u>
2008 Series G Sewer, 2%, issued December 9, 2008, due 2009 to 2026	\$ 5,852	—
2008 Series G Water, 2%, issued December 9, 2008, due 2009 to 2026	1,210	—
2009 Series C Sewer, 2% to 2 2/5%, issued March 18, 2009, due 2009 to 2038	81,489	—
2009 Series C Water, 2%, issued March 18, 2009, due 2009 to 2028	29,648	—
	<u>1,075,549</u>	<u>992,329</u>
General Revenue Bonds (variable rates): 1999 Series B, 0.22% to 7.5%, issued January 29, 1999, due 2013 to 2028	72,600	86,100
	<u>72,600</u>	<u>86,100</u>
General Revenue Refunding Bonds (variable rates): 2002 Series C, 0.24% to 7.71%, issued August 15, 2002, due 2020	70,575	70,575
2002 Series D, 0.13% to 7.07%, issued August 15, 2002, due 2009 to 2017	66,450	76,450
2008 Series A, 0.47% to 7.95%, issued May 29, 2008, due 2009 to 2037	338,005	338,005
2008 Series B, 0.20% to 7.75%, issued May 29, 2008, due 2009 to 2031	124,595	124,595
2008 Series C, 0.25% to 7.85%, issued May 29, 2008, due 2009 to 2026	194,900	199,400
2008 Series D, 0.25% to 7.85%, issued May 29, 2008, due 2010 to 2011	73,140	83,615
2008 Series E, 0.20% to 6.4%, issued May 29, 2008, due 2012 to 2037	224,770	224,770
2008 Series F, 0.15% to 7.7%, issued May 29, 2008, due 2009 to 2029	191,705	191,705
	<u>1,284,140</u>	<u>1,309,115</u>
	<u>5,638,299</u>	<u>5,464,549</u>
Less:		
Unamortized bond premiums and discounts	164,308	142,819
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(178,762)	(212,572)
Current portion of long-term debt	(81,732)	(77,224)
	<u>(96,186)</u>	<u>(146,977)</u>
Long-term debt, net	\$ <u>5,542,113</u>	<u>5,317,572</u>

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(Dollars in thousands)

Long-term debt at June 30, 2009 and 2008 consisted of the following:

		2008 beginning balance	Additions	Reductions	2009 ending balance	Due within one year
General Revenue Bonds	\$	1,483,445	98,000	69,765	1,511,680	3,375
General Revenue Refunding Bonds		2,988,775	285,200	222,905	3,051,070	34,285
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust		992,329	120,030	36,810	1,075,549	44,072
	\$	<u>5,464,549</u>	<u>503,230</u>	<u>329,480</u>	<u>5,638,299</u>	<u>81,732</u>
		2007 beginning balance	Additions	Reductions	2008 ending balance	Due within one year
General Revenue Bonds	\$	2,031,445	—	548,000	1,483,445	21,935
General Revenue Refunding Bonds		2,577,410	1,162,090	750,725	2,988,775	18,480
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust		905,358	119,799	32,828	992,329	36,809
	\$	<u>5,514,213</u>	<u>1,281,889</u>	<u>1,331,553</u>	<u>5,464,549</u>	<u>77,224</u>

The Authority is required to establish water and sewer rates and charges at a level sufficient to provide, among other things, primary and subordinated debt service coverage ratios of 120% and 110%, respectively. For the year ended June 30, 2009, the Authority had primary and subordinated debt service coverage ratios of 205% and 116%, 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 \$6,100,000.

On February 19, 2009, the Authority issued General Revenue Bonds, 2009 Series A, and General Revenue Refunding Bonds, 2009 Series B in the principal amounts of \$98,000 and \$285,200, 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%.

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The proceeds from the Series B bonds were used to retire \$77,000 of Commercial Paper Notes and refund \$107,805 of General Revenue Refunding Bonds 1997 Series D, \$47,830 of General Revenue Bonds 1998 Series A and \$72,945 of General Revenue Refunding Bonds 1998 Series B. The interest rate on these bonds is 3% to 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$28,484 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 \$19,526.

On May 29, 2008, the Authority issued General Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C, 2008 Series D, 2008 Series E and 2008 Series F in the principal amounts of \$338,005, \$124,595, \$199,400, \$83,615, \$224,770 and \$191,705, respectively.

The proceeds from the new bonds were used to defease \$1.2 billion of variable rate bonds outstanding. These new bonds are variable rate demand obligations which are reset weekly. The interest rates on the new bonds from issuance until the fiscal year end ranged from 1.25% to 1.75%.

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

Summary of Swap Transactions

Synthetic Fixed Rate Swap Transactions

Date of execution	Notional amount	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Lump-Sum payment from counterparty	Counterparty credit rating at June 30, 2009	Fair value at June 30, 2009
October 28, 2008	\$ 133,300	August 1, 2030	2008 Series A	4.470%	SIFMA	N/A	AA-	\$ (34,183)
October 28, 2008	133,300	August 1, 2030	2008 Series E	4.470	SIFMA	N/A	AA	(34,183)
August 1, 2030	70,400	August 1, 2037	2008 Series A & E	6.935	SIFMA	N/A	AA-	(3,356)
May 29, 2008	116,635	November 1, 2026	2008 Series C	3.994	SIFMA	N/A	A+	(8,359)
May 29, 2008	77,760	November 1, 2026	2008 Series C	4.032	70% LIBOR	N/A	A	(9,469)
August 15, 2002	312,640	August 1, 2015	2002 Series D, 2008 Series A, D & E	4.127	67% LIBOR	N/A	Aa3	(28,302)

Under these interest rate swap agreements, the Authority incurred net interest expense of \$23,195 and \$11,238 in fiscal 2009 and fiscal 2008, respectively.

For the swap execution on October 28, 2008, with a current notional amount of \$266,600, the fixed rate paid by the Authority is as follows: 5.130% from execution through August 2005, 4.470% from August 2005 through August 2013, 5.494% from August 2013 through August 2019, and 6.935% from August 2019 through August 2030.

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During fiscal year 2009, the Authority replaced the counterparties to two swap agreements due to the bankruptcy of Lehman Brothers Holdings, Inc., and its associated subsidiary companies. The first swap, with a notional amount of \$266,600, was replaced by two separate swap agreements of \$133,300 each, covering the period from October 28, 2008 until August 1, 2030. The second swap has a notional amount of \$70,400, and covers the period from August 1, 2030 until the bonds mature in 2037. Payments received from the replacement counterparties exceeded the amount of the termination payments made by the Authority.

Risk Disclosure

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

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

Swap Payments and Associated Bonds Outstanding

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

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Using rates as of June 30, 2009, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remains constant, were as follows:

	Variable-rate		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ending June 30:				
2010	\$ 15,700	36,794	28,052	80,546
2011	32,400	35,079	21,495	88,974
2012	48,240	32,943	13,086	94,269
2013	50,710	30,671	7,644	89,025
2014	53,020	28,305	6,103	87,428
2015 – 2019	227,850	106,951	23,272	358,073
2020 – 2024	212,405	58,174	23,302	293,881
2025 – 2029	81,335	24,106	13,117	118,558
2030 – 2034	16,900	16,396	9,376	42,672
2035 – 2038	53,840	4,524	2,908	61,272
Total	\$ 792,400	373,943	148,355	1,314,698

At June 30, 2009, the following bonds outstanding are considered defeased in-substance:

Description	Redemption date	Redemption price	Outstanding principal amount
1992 Series A	2009 – 2022	100 to 102	\$ 336,180
1993 Series C	2009 – 2023	100 to 102	75,190
1995 Series B	2009 – 2024	100	24,330
1998 Series A	2009 – 2026	100	30,285
1998 Series B	2009 – 2022	100	5,565
2000 Series A	2009 – 2039	100	269,050
2000 Series D	2009 – 2011	100	150,000
2002 Series B	2009 – 2024	100	93,945
2002 Series J	2012	100	38,315
2003 Series D	2009 – 2021	100	42,510
2004 Series A	2009 – 2020	100	20,405
2004 Series B	2016	100	15,865
2005 Series A	2010 – 2011	100	6,210
2006 Series B	2015 – 2020	100	21,375

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

In June 2009, the Authority used funds on hand to defease \$5,180 of the 1998 Series B, \$3,520 of the 2005 Series A and \$10,475 of the 2008 Series D General Revenue Refunding bonds outstanding.

In June 2008, the Authority used funds on hand to defease \$5,570 of the 1997 Series D and \$385 of the 1998 Series B General Revenue bonds outstanding.

At June 30, 2009, outstanding bonds that are redeemable before their scheduled due dates are as follows:

Description	Redemption date	Redemption price	Outstanding principal amount
1998 Series A	August 2014	100	\$ 52,525
2002 Series B	August 2011	100 – 101	74,415
2002 Series J	August 2012	100	200,000
2003 Series D	August 2013	100	113,340
2004 Series A	August 2014	100	104,870
2004 Series B	August 2014	100	49,390
2005 Series A	August 2017	100	285,000
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	200,000
2006 Series B	August 2018	100	261,775
2007 Series A	February 2017	100	200,000
2009 Series A	August 2019	100	76,445
2009 Series B	August 2019	100	181,885

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

During fiscal 2009, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) providing for 2008 Series G Sewer and Water loans and 2009 Series C Sewer and Water loans in the principal amounts of \$5,852, \$1,210, and \$91,648 and \$30,458, respectively. All proceeds for these loans were received by June 30, 2009, except \$10,969, principal for 2009 Series C Sewer and Water. The remaining funds are expected to be drawn down in fiscal 2010.

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During fiscal 2008, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) providing for 2007 Series C, 2007 Series D and 2007 Series E Sewer and Water loans in the principal amounts of \$7,525, \$22,978, and \$81,765, respectively. All proceeds for these loans were received by June 30, 2008, except \$3,539, principal for 2007 Series E Sewer and Water. \$1,831 of the remaining funds were drawn down in fiscal 2009.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$103,747 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, 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:			
2010	\$ 81,732	241,304	323,036
2011	94,485	239,186	333,671
2012	127,312	234,598	361,910
2013	122,692	230,772	353,464
2014	153,245	225,820	379,065
2015 – 2019	922,403	1,022,998	1,945,401
2020 – 2024	1,395,838	785,068	2,180,906
2025 – 2029	1,217,132	486,205	1,703,337
2030 – 2034	758,120	257,607	1,015,727
2035 – 2039	478,665	117,094	595,759
2040 – 2044	205,490	37,157	242,647
2045 – 2049	81,185	5,287	86,472
Total	<u>\$ 5,638,299</u>	<u>3,883,096</u>	<u>9,521,395</u>

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The Authority issued commercial paper notes of \$194,000 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.

Commercial paper at June 30, 2009 and 2008 consisted of the following:

	2009 Beginning balance	Additions	Reductions	2009 Ending balance
2.77% commercial paper	\$ —	84,000	—	84,000
3.16% commercial paper	—	87,000	—	87,000
1.66% commercial paper	—	23,000	—	23,000
3.70% commercial paper	52,000	—	52,000	—
3.75% commercial paper	139,000	—	139,000	—
	<u>\$ 191,000</u>	<u>194,000</u>	<u>191,000</u>	<u>194,000</u>
	2008 Beginning balance	Additions	Reductions	2008 Ending balance
3.62% commercial paper	\$ 39,000	—	39,000	—
3.70% commercial paper	—	52,000	—	52,000
3.75% commercial paper	—	139,000	—	139,000
	<u>\$ 39,000</u>	<u>191,000</u>	<u>39,000</u>	<u>191,000</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 \$29,591 and \$17,086 in fiscal 2009 and 2008, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2009 and 2008, is \$100,355 and \$96,144, respectively, and is included in other assets. The loans due within one year total \$25,324 and \$22,660 at June 30, 2009 and 2008, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

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(8) Capital Assets

Capital assets at June 30, 2009 and 2008, consisted of the following:

	<u>2008</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2009</u>
Capital assets – not being depreciated:				
Land	\$ 6,692	—	(74)	6,618
Construction in progress	<u>285,941</u>	<u>147,980</u>	<u>(66,328)</u>	<u>367,593</u>
Total capital assets – not being depreciated	<u>292,633</u>	<u>147,980</u>	<u>(66,402)</u>	<u>374,211</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,430,845	66,302	(138,406)	8,358,741
Furniture and fixtures	33,061	—	(20,014)	13,047
Leasehold improvements	5,081	26	(2,684)	2,423
Motor vehicles and equipment	<u>1,595</u>	<u>—</u>	<u>(647)</u>	<u>948</u>
Total capital assets – being depreciated	<u>8,470,582</u>	<u>66,328</u>	<u>(161,751)</u>	<u>8,375,159</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,311,024	170,571	(128,955)	2,352,640
Furniture and fixtures	33,040	—	(20,014)	13,026
Leasehold improvements	4,687	38	(2,684)	2,041
Motor vehicles and equipment	<u>1,061</u>	<u>19</u>	<u>(647)</u>	<u>433</u>
Total accumulated depreciation	<u>2,349,812</u>	<u>170,628</u>	<u>(152,300)</u>	<u>2,368,140</u>
Total capital assets – being depreciated – net	<u>6,120,770</u>	<u>(104,300)</u>	<u>(9,451)</u>	<u>6,007,019</u>
Capital assets – net	<u>\$ 6,413,403</u>	<u>43,680</u>	<u>(75,853)</u>	<u>6,381,230</u>

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Capital assets at June 30, 2008 and 2007, consisted of the following:

	<u>2007</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2008</u>
Capital assets – not being depreciated:				
Land	\$ 6,692	—	—	6,692
Construction in progress	273,516	175,658	(163,233)	285,941
Total capital assets – not being depreciated	<u>280,208</u>	<u>175,658</u>	<u>(163,233)</u>	<u>292,633</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,267,612	163,233	—	8,430,845
Furniture and fixtures	33,061	—	—	33,061
Leasehold improvements	5,081	—	—	5,081
Motor vehicles and equipment	1,595	—	—	1,595
Total capital assets – being depreciated	<u>8,307,349</u>	<u>163,233</u>	<u>—</u>	<u>8,470,582</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,144,794	166,230	—	2,311,024
Furniture and fixtures	30,851	2,189	—	33,040
Leasehold improvements	4,675	12	—	4,687
Motor vehicles and equipment	1,042	19	—	1,061
Total accumulated depreciation	<u>2,181,362</u>	<u>168,450</u>	<u>—</u>	<u>2,349,812</u>
Total capital assets – being depreciated – net	<u>6,125,987</u>	<u>(5,217)</u>	<u>—</u>	<u>6,120,770</u>
Capital assets – net	<u>\$ 6,406,195</u>	<u>170,441</u>	<u>(163,233)</u>	<u>6,413,403</u>

Depreciation and amortization for fiscal 2009 and 2008, was \$190,765 and \$180,173, respectively.

(9) Other Assets

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

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expected to be recovered through future rates. During fiscal 2000, the \$7,000 receivable was determined to be uncollectible increasing the deferred loss on the original sale to \$35,303.

(10) Leases

(a) Operating

The Authority leases electrical power assets, office space in Boston, and other property under long-term operating leases. Future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year at June 30, 2009, are as follows:

Year ending June 30:			
	2010	\$	5,396
	2011		5,255
	2012		5,107
	2013		4,977
	2014		4,636
	2015 – 2019		9,417
	2020 – 2024		912
	Total	\$	<u><u>35,700</u></u>

Rental expense was \$7,291 and \$6,977 in fiscal years 2009 and 2008, 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, 2009, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2010	\$ 558	2,659	3,217
2011	603	2,614	3,217
2012	652	2,565	3,217
2013	705	2,512	3,217
2014	762	2,455	3,217
2015 – 2019	4,844	11,241	16,085
2020 – 2024	7,156	8,929	16,085
2025 – 2029	10,572	5,513	16,085
2030 – 2034	8,365	1,019	9,384
Total	\$ <u><u>34,217</u></u>	<u><u>39,507</u></u>	<u><u>73,724</u></u>

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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 \$8,666 of accumulated depreciation as of June 30, 2009.

(11) Retirement Benefits

(a) *Plan Description*

The Enabling Act provided for the establishment of the Massachusetts Water Resources Authority Employees’ Retirement System (the Plan), a contributory single-employer retirement system that is separate from the State Employees Retirement System. The Plan is a defined benefit pension plan covering those employees not employed by the MDC prior to July 1, 1985. Covered payroll for all Authority employees in the Plan was \$78,925 at the actuarial valuation date, January 1, 2008.

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 2009 and 2008 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.

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(c) Annual Pension Cost and Net Pension Obligation

The annual required contribution for the current year, determined by the January 1, 2007 actuarial valuation, was as follows:

Annual required contribution	\$	5,314
Contributions made		<u>(5,314)</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>

Although the Authority has a net pension asset, it has elected to reserve against this balance, in accordance with FASB Statement No. 71. This balance is reserved because the net pension asset resulted from the timing of payments according to the funding schedule and cannot be accessed by the Authority unless the plan is terminated. The likelihood of such an event has been deemed remote.

(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:			
2009	\$ 8,630	162%	\$ —
2008	4,259	100	—
2007	4,094	100	—

(e) Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability	\$	278,050
Actuarial value of assets		<u>240,484</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>37,566</u></u>
Funded ratio		86.5%
Covered payroll	\$	78,925
UAAL as percentage of covered payroll		47.6%

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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.

(f) Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2008, actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$37.6 million 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, 2008 the unfunded actuarially accrued liability is being amortized over 17 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.

(12) 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, 2008, the actuarial valuation date, approximately 308 retirees and survivors and 1,128 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

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(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, as 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 2009 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, 2009, 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, 2008:

Annual Required Contribution (ARC)	\$	17,554
Interest on net OPEB obligation		571
Adjustment to ARC		<u>(511)</u>
Annual OPEB cost		17,614
Contributions made		<u>(1,806)</u>
Increase in net OPEB obligation		15,808
Net OPEB obligation – beginning of year		<u>13,426</u>
Net OPEB obligation – end of year	\$	<u><u>29,234</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>
2009	\$ 17,614	10%	\$ 29,234
2008	15,120	11%	13,426

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

The Authority’s net OPEB obligation as of June 30, 2009 is recorded as “other long-term liabilities.”

(e) Funded Status and Funding Progress

The funded status of the plan as of January 1, 2008, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$	180,833
Actuarial value of plan assets		—
		—
Unfunded actuarial accrued liability (UAAL)	\$	180,833
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	79,298
UAAL as a percentage of covered payroll		228%

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, 2008 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 5% 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, 2009 and 2008

(Dollars in thousands)

(13) 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 \$365,460 at June 30, 2009.

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 \$7,435,000 from fiscal 1986 through fiscal 2009, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$1,756,000 on these projects through fiscal 2019. 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 alleged 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 involving a series of projects 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. That agreement 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, the terms of which 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 August 2007. The variances will remain in place, respectively, for the Charles River until October 1, 2010 and for the Alewife/Upper Mystic until September 1, 2010. 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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Authority to implement the CSO requirements set forth in the Court Schedule and to meet the levels of control described in the Authority's long term CSO control plan. Upon completion of the long term CSO control plan and with results that demonstrate performance parameters are as predicted, the stipulation makes the Authority responsible for only those CSO outfalls which it owns and operates. As a result of the agreement, the Authority now has 35 CSO projects, 24 of which are complete, and six of which are under construction. The estimated cost to complete the Authority's long term CSO control plan is now \$278.8 million, including contingency and escalation of unawarded contracts.

The Authority and the City of Cambridge resumed design efforts in 2008 as to several CSO projects which comprise the Alewife Brook CSO control plan even though a Chapter 30A appeal commenced by a citizens' group remained pending in Suffolk Superior Court (SUCV2007-05011-F) at that time. The appeal was taken from an October 2007 Final Decision of DEP which upheld a Superseding Order of Conditions (Order) issued by DEP in March 2005 with respect to the City's Cambridge Park Drive Area Drainage Project. The Superior Court has since affirmed the DEP Final Decision and, based upon findings of a lack of standing of the plaintiff group, has denied efforts by that group to lodge a further appeal to the Massachusetts Appeals Court. As a result of the appeal process, the remaining CSO projects which comprise the Alewife Brook CSO control plan have been delayed at least 27 months beyond the corresponding milestones in Schedule Seven. The City of Cambridge is currently in the process of finalizing a schedule for these projects and anticipates that it will commence construction of the first of these projects in early 2010.

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. EPA and MWRA in the past year settled a separate civil enforcement proceeding in which MWRA paid a small civil penalty and is in the process of performing three supplemental environmental projects, all directed at resolving allegations contained in a supplemental complaint filed with the Court in the Boston Harbor case on July 1, 2008. The Court entered the parties' settlement agreement as an Order in the case in September 2008.

In addition, the Court always retains the right to order remedial action and to assess penalties.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2009 and 2008

(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.

(14) 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.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

The Authority reimburses the Commonwealth on a paid-claims basis for unemployment claims. Claims expensed during fiscal 2009 and 2008 were \$86 and \$81, respectively. The Authority is a licensed self-insurer for workers' compensation. Excess loss insurance is carried on workers' compensation as required by law in excess of \$500 per occurrence retention, with a limit of \$25,000 per occurrence.

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

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

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

Changes in the claims liability insurance reserves in fiscal 2009 and 2008 were as follows:

	General liability and property	Workers' compensation
Liability balance – June 30, 2007	\$ 1,876	1,727
Provision to record estimated losses	623	1,160
Payments	<u>(670)</u>	<u>(1,614)</u>
Liability balance – June 30, 2008	1,829	1,273
Provision to record estimated losses	271	1,841
Payments	<u>(1,131)</u>	<u>(1,696)</u>
Liability balance – June 30, 2009	\$ <u>969</u>	<u>1,418</u>

REQUIRED SUPPLEMENTARY INFORMATION

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedules of Funding Progress

Required Supplementary Information

June 30, 2009

(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, 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	—
January 1, 2003	146,188	146,188	—	100.0	66,711	—
January 1, 2002	141,069	141,069	—	100.0	66,322	—
January 1, 2001	128,385	128,385	—	100.0	65,955	—

Effective for the January 1, 2007 actuarial valuation, the Authority changed actuarial cost methods. See footnote 11 (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, 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, 2009

(comparative totals for June 30, 2008)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2008	\$ 105,237	67,453	450,215	52,943	675,848
Proceeds from:					
Revenue bonds and loans	288,317	—	10,256	—	298,573
Cash received from customers	—	555,403	—	—	555,403
Interest income	1,771	7,687	10,677	285	20,420
Grant receipts	—	—	7,120	—	7,120
Construction payments	(193,859)	266	—	—	(193,593)
Capital lease payments	(518)	—	(2,699)	—	(3,217)
Debt service payment	(943)	(7,216)	(316,974)	—	(325,133)
Other commonwealth payments	—	(32,091)	—	—	(32,091)
Interfund transfers	3,043	(303,246)	300,222	(19)	—
Transfers from (to) operating account	(3,407)	(225,507)	2,699	—	(226,215)
Balance – June 30, 2009	\$ <u>199,641</u>	<u>62,749</u>	<u>461,516</u>	<u>53,209</u>	<u>777,115</u>

	<u>Sewer</u>	<u>Water</u>	<u>2009 total</u>	<u>2008 total</u>
Restricted cash and investments:				
Construction	\$ 147,746	51,895	199,641	105,237
Debt service reserves	144,440	86,788	231,228	220,868
Debt service	117,243	59,117	176,360	177,987
Revenue redemption	6,032	27,127	33,159	30,852
Revenue	15,033	47,716	62,749	67,452
Renewal and replacement reserve	21,850	12,362	34,212	33,947
Insurance	9,499	9,498	18,997	18,997
Community obligation and revenue enhancement	17,781	2,988	20,769	20,508
Total restricted cash and investments	\$ <u>479,624</u>	<u>297,491</u>	<u>777,115</u>	<u>675,848</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2009

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 30,350	13,948	44,298
Investments	35,692	13,187	48,879
Intergovernmental loans	8,940	16,384	25,324
Accounts receivable	57	390	447
Total unrestricted current assets	<u>75,039</u>	<u>43,909</u>	<u>118,948</u>
Restricted assets:			
Cash and investments	482,493	298,904	781,397
Interest receivable	1,843	879	2,722
Total restricted assets	<u>484,336</u>	<u>299,783</u>	<u>784,119</u>
Capital assets – not being depreciated	258,244	115,967	374,211
Capital assets – being depreciated – net	3,625,451	2,381,568	6,007,019
Deferred charges	482,294	112,254	594,548
Other assets – net	233,266	87,711	320,977
Total	<u>\$ 5,158,630</u>	<u>3,041,192</u>	<u>8,199,822</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 36,610	8,267	44,877
Commercial paper notes	135,000	59,000	194,000
Current portion of long-term debt	58,757	22,975	81,732
Total current liabilities	<u>230,367</u>	<u>90,242</u>	<u>320,609</u>
Payable from restricted assets:			
Accounts payable for construction	19,714	2,881	22,595
Accrued interest on bonds payable	53,512	28,307	81,819
Reserves	73,228	33,159	106,387
Total payable from restricted assets	<u>146,454</u>	<u>64,347</u>	<u>210,801</u>
Retainage on construction in progress	11,504	3,869	15,373
Long-term debt – less current portion	3,673,338	1,868,775	5,542,113
Long-term capital leases	23,299	10,918	34,217
Other long-term liabilities	21,058	8,176	29,234
Deferred credits	20,815	53,084	73,899
Total liabilities	<u>4,126,835</u>	<u>2,099,411</u>	<u>6,226,246</u>
Net assets:			
Invested in capital assets – net of related debt	395,094	725,797	1,120,891
Restricted	178,657	89,985	268,642
Unrestricted	458,044	125,999	584,043
Total net assets	<u>1,031,795</u>	<u>941,781</u>	<u>1,973,576</u>
Commitments and contingencies			
Total	<u>\$ 5,158,630</u>	<u>3,041,192</u>	<u>8,199,822</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2008

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 29,614	13,794	43,408
Investments	35,426	12,364	47,790
Intergovernmental loans	8,607	14,053	22,660
Accounts receivable	147	343	490
Total unrestricted current assets	<u>73,794</u>	<u>40,554</u>	<u>114,348</u>
Restricted assets:			
Cash and investments	411,140	276,021	687,161
Interest receivable	1,896	1,325	3,221
Total restricted assets	<u>413,036</u>	<u>277,346</u>	<u>690,382</u>
Capital assets – not being depreciated	194,089	98,544	292,633
Capital assets – being depreciated – net	3,711,374	2,409,396	6,120,770
Deferred charges	432,944	121,645	554,589
Other assets – net	219,042	80,439	299,481
Total	<u>\$ 5,044,279</u>	<u>3,027,924</u>	<u>8,072,203</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 38,796	16,647	55,443
Commercial paper notes	86,449	104,551	191,000
Current portion of long-term debt	68,127	9,097	77,224
Total current liabilities	<u>193,372</u>	<u>130,295</u>	<u>323,667</u>
Payable from restricted assets:			
Accounts payable for construction	30,770	5,867	36,637
Accrued interest on bonds payable	50,397	27,392	77,789
Reserves	72,197	32,444	104,641
Total payable from restricted assets	<u>153,364</u>	<u>65,703</u>	<u>219,067</u>
Retainage on construction in progress	9,907	3,215	13,122
Long-term debt – less current portion	3,545,649	1,771,923	5,317,572
Long-term capital leases	23,650	11,083	34,733
Other long-term liabilities	9,676	3,750	13,426
Deferred credits	27,698	56,962	84,660
Total liabilities	<u>3,963,316</u>	<u>2,042,931</u>	<u>6,006,247</u>
Net assets:			
Invested in capital assets – net of related debt	513,606	775,957	1,289,563
Restricted	148,817	91,987	240,804
Unrestricted	418,540	117,049	535,589
Total net assets	<u>1,080,963</u>	<u>984,993</u>	<u>2,065,956</u>
Commitments and contingencies			
Total	<u>\$ 5,044,279</u>	<u>3,027,924</u>	<u>8,072,203</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2009

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 362,869	187,851	550,720
Other	3,678	795	4,473
Total operating revenues	<u>366,547</u>	<u>188,646</u>	<u>555,193</u>
Operating expenses:			
Operations	60,002	33,793	93,795
Maintenance	22,087	5,357	27,444
Payments in lieu of taxes	—	6,104	6,104
Engineering, general, and administrative	93,949	38,879	132,828
Total operating expenses	<u>176,038</u>	<u>84,133</u>	<u>260,171</u>
Income from operations before depreciation	190,509	104,513	295,022
Depreciation	133,774	56,991	190,765
Operating income	<u>56,735</u>	<u>47,522</u>	<u>104,257</u>
Regulatory accounting provisions:			
Change in reserves	(1,031)	(715)	(1,746)
Change in deferred credits – net	56,233	(5,513)	50,720
Total regulatory accounting provisions	<u>55,202</u>	<u>(6,228)</u>	<u>48,974</u>
Nonoperating income (expense):			
Debt service grants	—	—	—
Investment income	12,685	8,562	21,247
Interest expense	(179,351)	(88,060)	(267,411)
Total nonoperating expense	<u>(166,666)</u>	<u>(79,498)</u>	<u>(246,164)</u>
Net loss before capital grants	(54,729)	(38,204)	(92,933)
Capital grants	6,074	1,046	7,120
Decrease in net assets	(48,655)	(37,158)	(85,813)
Total net assets – beginning of year	1,080,963	984,993	2,065,956
Restatement to comply with GASB Statement No. 49 (note 2)	(513)	(6,054)	(6,567)
Total net assets – end of year	\$ <u>1,031,795</u>	<u>941,781</u>	<u>1,973,576</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2008

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 352,041	182,768	534,809
Other	5,094	506	5,600
Total operating revenues	<u>357,135</u>	<u>183,274</u>	<u>540,409</u>
Operating expenses:			
Operations	60,133	33,600	93,733
Maintenance	21,280	5,129	26,409
Payments in lieu of taxes	—	6,226	6,226
Engineering, general, and administrative	87,562	37,125	124,687
Total operating expenses	<u>168,975</u>	<u>82,080</u>	<u>251,055</u>
Income from operations before depreciation	188,160	101,194	289,354
Depreciation	<u>127,094</u>	<u>53,079</u>	<u>180,173</u>
Operating income	<u>61,066</u>	<u>48,115</u>	<u>109,181</u>
Regulatory accounting provisions:			
Change in reserves	(446)	(26)	(472)
Change in deferred credits – net	65,498	(114)	65,384
Total regulatory accounting provisions	<u>65,052</u>	<u>(140)</u>	<u>64,912</u>
Nonoperating income (expense):			
Debt service grants	15,112	1,868	16,980
Investment income	25,110	16,089	41,199
Interest expense	(194,423)	(88,862)	(283,285)
Total nonoperating expense	<u>(154,201)</u>	<u>(70,905)</u>	<u>(225,106)</u>
Net loss before capital grants	<u>(28,083)</u>	<u>(22,930)</u>	<u>(51,013)</u>
Capital grants	<u>5,881</u>	<u>971</u>	<u>6,852</u>
Decrease in net assets	<u>(22,202)</u>	<u>(21,959)</u>	<u>(44,161)</u>
Total net assets – beginning of year	<u>1,103,165</u>	<u>1,006,952</u>	<u>2,110,117</u>
Total net assets – end of year	<u>\$ 1,080,963</u>	<u>984,993</u>	<u>2,065,956</u>

See accompanying independent auditors' report.