

MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements,
Required Supplementary Information and Supplemental Schedules

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

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Report of Independent Auditors

The Board of Directors
Massachusetts Water Resources Authority:

We have audited the balance sheets of the Massachusetts Water Resources Authority (the "Authority") as of June 30, 2001 and 2000, and the related statements of operations and changes in retained earnings, changes in contributed capital, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2001, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information on page 28 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made 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 basic financial statements. Such information has been subjected to the auditing procedures applied 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

Boston, Massachusetts
August 13, 2001

MASSACHUSETTS WATER RESOURCES AUTHORITY

Balance Sheets

June 30, 2001 and 2000

(Dollars in thousands)

Assets	2001	2000
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 42,644	42,249
Investments (note 4)	47,047	62,066
Intergovernmental loans (note 7)	10,388	9,722
Accounts receivable	1,911	2,552
Total unrestricted current assets	101,990	116,589
Restricted assets:		
Cash and investments (note 4)	681,708	705,273
Interest receivable	5,642	10,141
Grants receivable:		
Billed	1,549	10,533
Unbilled	2,553	2,412
Total restricted assets	691,452	728,359
Property, plant and equipment, net (notes 8 and 9)	6,223,985	6,048,743
Deferred charges (notes 3 and 9)	218,229	168,766
Other assets, net (notes 7 and 9)	102,801	86,776
Total assets	\$ 7,338,457	7,149,233
Liabilities and Fund Equity		
Current liabilities:		
Accounts payable and accrued expenses (note 13)	\$ 48,717	39,513
Commercial paper notes (note 6)	332,000	317,000
Current portion of long-term debt (note 6)	67,611	55,985
Total current liabilities	448,328	412,498
Payable from restricted assets:		
Accounts payable for construction	47,847	47,286
Accrued interest on bonds payable	55,684	50,312
Total payable from restricted assets	103,531	97,598
Retainage on construction in progress	43,892	47,984
Long-term debt, less current portion (note 6)	4,061,710	3,884,246
Reserves (note 5)	119,184	119,824
Deferred credits (note 3)	157,188	131,213
Total liabilities	4,933,833	4,693,363
Fund equity:		
Contributed capital	2,404,624	2,455,870
Commitments and contingencies (notes 10, 12 and 13)		
Total liabilities and fund equity	\$ 7,338,457	7,149,233

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Operations and Changes in Retained Earnings

Years ended June 30, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Customer services	\$ 390,718	378,150
Other	3,301	2,829
	<u>394,019</u>	<u>380,979</u>
Operating expenses:		
Operations	120,423	119,883
Maintenance	13,156	13,166
Payments in lieu of taxes	4,877	3,102
Engineering, general and administrative	79,153	79,004
	<u>217,609</u>	<u>215,155</u>
Income from operations before depreciation	176,410	165,824
Depreciation	<u>142,248</u>	<u>135,583</u>
Operating income	<u>34,162</u>	<u>30,241</u>
Regulatory accounting provisions:		
Decrease in reserves used to offset rates	640	—
Increase in deferrals, net (note 3)	23,488	27,297
	<u>24,128</u>	<u>27,297</u>
Nonoperating income (expense):		
Debt service grants	51,261	46,500
Investment income	60,923	51,466
Interest expense	(232,374)	(220,723)
	<u>(120,190)</u>	<u>(122,757)</u>
Net loss	<u>(61,900)</u>	<u>(65,219)</u>
Plus depreciation on property, plant and equipment funded by capital contributions and grants	<u>61,900</u>	<u>65,219</u>
Change in retained earnings	\$ <u>—</u>	<u>—</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Changes in Contributed Capital

Years ended June 30, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
Contributed capital, at beginning of year	\$ 2,455,870	2,509,692
Grants in aid of construction	10,149	11,397
Capital contribution	505	—
Less depreciation on property, plant and equipment funded by capital contributions and grants	<u>(61,900)</u>	<u>(65,219)</u>
Contributed capital, at end of year	<u>\$ 2,404,624</u>	<u>2,455,870</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

For the years ended June 30, 2001 and 2000

(Dollars in thousands)

	2001	2000
Cash flows from operating activities:		
Cash received from customers	\$ 390,754	377,537
Cash paid to suppliers for goods and services	(101,302)	(105,090)
Cash paid to employees for services	(103,649)	(107,002)
Cash paid in lieu of taxes	(4,877)	(3,089)
Other operating receipts	3,301	2,830
Net cash provided by operating activities	184,227	165,186
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds and from loans and notes	272,046	473,951
Capital grants for construction	18,991	21,946
Capital contributions	505	405
Debt service grant	51,261	48,925
Repayment of debt	(82,835)	(146,480)
Interest paid on debt	(211,205)	(201,828)
Plant expenditures	(336,600)	(423,481)
Net cash used for capital and related financing activities	(287,837)	(226,562)
Cash flows from investing activities:		
Purchases of short-term investments	(58,780)	(276,876)
Sales and maturities of short-term investments	222,489	130,482
(Increase) decrease in restricted cash and investments, net	(114,381)	155,426
Interest received	54,677	50,803
Net cash provided by investing activities	104,005	59,835
Net (decrease) increase in cash and cash equivalents	395	(1,541)
Cash and cash equivalents at beginning of year	42,249	43,790
Cash and cash equivalents at end of year	\$ 42,644	42,249
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	\$ 34,162	30,241
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	142,248	135,583
(Increase) decrease in other accounts, net	36	(610)
Increase (decrease) in accounts payable	7,781	(28)
Net cash provided by operating activities	\$ 184,227	165,186

Noncash financing activities:

General revenue refunding bonds in the principal amount of \$287,295 were issued in fiscal year 2000 to finance the tender of certain general revenue bonds.

In fiscal year 2000, an additional loss of \$7,000 on the sale of the Fore River Shipyard was deferred as described in note 9.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(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"), 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 eleven-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 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 and improvements to its facilities, and appropriate reserves. The Authority's financial statements are reported on the accrual basis of accounting as specified by the Governmental Accounting Standards Board's requirements for an enterprise fund.

Under the Governmental Accounting Standards Board ("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 No. 71, *Accounting for the Effects of Certain Types of Regulation*, to provide a better matching of revenues and expenses. The effect of this policy has been to defer certain costs, which will be recovered through future revenues in accordance with the Authority's rate model, and to record deferred credits for revenue collected through current rates for costs expected to be incurred in the future. The

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

effects of the Authority's accounting policies under Statement No. 71 are discussed further in notes 3 and 9.

(b) *Property, Plant and Equipment*

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

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

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

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

During fiscal 2001 and 2000, none of the Authority's interest expense was capitalized to construction in progress, in accordance with its current policy of recovering such costs through rates as incurred. Rates collected for principal payments on debt related to assets under construction are deferred until the related asset is completed and depreciation commences.

(d) *Depreciation*

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

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

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(e) Revenue Recognition

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

During fiscal year 2001, the Authority adopted GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*. This Statement had no material effect on fiscal year 2001.

(f) Contributed Capital

Nonrefundable contributions of capital, including the initial capitalization discussed above, tap fees received from new member communities, and grants from governmental agencies and others for construction purposes are credited to contributed capital. Depreciation expense on property, plant and equipment funded by grants or contributions is charged to contributed capital.

(g) 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 cash flow statements. 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.

(h) Payments in Lieu of Taxes

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

(i) Investments

Investments are recorded at fair value. Fair value is determined based on quoted market price. The Authority recorded unrealized gains of \$10,544 in fiscal 2001 and unrealized losses of \$3,288 in fiscal 2000.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(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 2001 and 2000 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance, June 30, 1999, net	\$ (17,786)	28,043	10,257
Difference between depreciation of property, plant and equipment not financed by grants or capital contributions, and debt service in excess of interest expense	27,972	13,515	41,487
Rate stabilization:			
Current year usage	2,590	1,110	3,700
Other, net	<u>(13,489)</u>	<u>(4,402)</u>	<u>(17,891)</u>
Balance, June 30, 2000, net	(713)	38,266	37,553
Difference between depreciation of property, plant and equipment not financed by grants or capital contributions, and debt service in excess of interest expense	32,187	17,308	49,495
Rate stabilization:			
Current year recovery	(15,418)	(5,324)	(20,742)
Current year usage	—	2,000	2,000
Other, net	<u>(4,381)</u>	<u>(2,884)</u>	<u>(7,265)</u>
Balance, June 30, 2001, net	\$ <u>11,675</u>	<u>49,366</u>	<u>61,041</u>

The net balance at June 30, 2001 and 2000 is presented on the balance sheets as follows:

	<u>2001</u>	<u>2000</u>	<u>Current year change</u>
Deferred charges	\$ 218,229	168,766	49,463
Deferred credits	<u>(157,188)</u>	<u>(131,213)</u>	<u>(25,975)</u>
Net change in deferrals	\$ <u>61,041</u>	<u>37,553</u>	<u>23,488</u>

The balance in the rate stabilization reserve which is included in deferred credits was \$63,062 and \$44,320 at June 30, 2001 and 2000, respectively.

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(4) Deposits and 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. These investments are recorded at fair value.

(a) Deposits

The Authority's deposits are classified as follows: those deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name ("Category 1"), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name ("Category 2"), and those deposits that are not collateralized ("Category 3"). Money market mutual funds are not categorized. A summary of these deposits as of June 30, 2001 and 2000 is as follows:

2001					
	<u>Category</u>			<u>Total</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>bank</u>	<u>amount</u>
				<u>balance</u>	<u>amount</u>
Cash and cash equivalents	\$ 200	—	54,762	54,962	45,844
Not categorized:					
Money market mutual funds				<u>334,441</u>	<u>334,441</u>
Total				\$ <u>389,403</u>	<u>380,285</u>
 2000					
	<u>Category</u>			<u>Total</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>bank</u>	<u>amount</u>
				<u>balance</u>	<u>amount</u>
Cash and cash equivalents	\$ 300	—	50,491	50,791	45,451
Not categorized:					
Money market mutual funds				<u>220,060</u>	<u>220,060</u>
Total				\$ <u>270,851</u>	<u>265,511</u>

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(b) Investments

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by the Authority's trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name. A summary of these investments as of June 30, 2001 and 2000 is as follows:

		2001			
		Category			
		1	2	3	Fair value
U.S. Government obligations	\$	46,356	—	—	46,356
U.S. Government Agency obligations		189,897	—	—	189,897
Guaranteed interest contracts		154,861	—	—	154,861
Total	\$	<u>391,114</u>	<u>—</u>	<u>—</u>	<u>391,114</u>
		2000			
		Category			
		1	2	3	Fair value
U.S. Government obligations	\$	43,805	—	—	43,805
U.S. Government Agency obligations		225,412	—	—	225,412
Guaranteed interest contracts		274,860	—	—	274,860
Total	\$	<u>544,077</u>	<u>—</u>	<u>—</u>	<u>544,077</u>

The Authority entered into two interest rate swap agreements to reduce the impact of changes in interest rates. The interest rate swaps matured in August 2000 (fiscal 2001), for which the notional amounts were \$90,000 and \$78,000. Under both of these agreements, the Authority paid variable interest rates, based on a Kenney Information Services Index, and received interest at a fixed rate of 7.56%. The differential paid or received was recognized as interest rates changed. Approximately \$457 and \$6,202 was earned on the interest rate swaps in fiscal 2001 and 2000, respectively.

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(5) Bond Resolution Reserves

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

Reserves	Sewer	Water	2001 Total	2000 Total
Renewal and replacement	\$ 27,300	16,701	44,001	44,001
Insurance	9,000	9,000	18,000	18,640
Operating	27,971	9,096	37,067	37,067
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	\$ 82,670	36,514	119,184	119,824

A renewal and replacement reserve of \$6,000 that was established through grant receipts transferred from the Commonwealth in 1985 and is included in contributed capital at June 30, 2001 and 2000.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2001 consisted of the following:

General Revenue Bonds:

1990 Series A, 7 1/2%, issued February 15, 1990, due 2006	\$ 17,901
1992 Series A, 6 1/2%, issued April 8, 1992, due 2007 to 2019	387,845
1993 Series C, 4 3/4% to 6%, issued December 2, 1993, due 2001 to 2023	337,820
1994 Series A, 5 1/10% to 5 6/10%, issued August 16, 1994, due 2002 to 2007	20,155
1995 Series B, 4% to 6 1/4%, issued January 4, 1996, due 2001 to 2024	239,095
1996 Series A, 5 1/10% to 6%, issued November 5, 1996, due 2001 to 2010	33,415
1998 Series A, 4 1/2% to 5 1/2%, issued January 27, 1998, due 2001 to 2032	199,825
2000 Series A, 4% to 6 1/8%, issued March 1, 2000, due 2001 to 2039	284,335
2000 Series D, 5 1/2%, issued October 1, 2000, due 2009 to 2011	150,000

General Revenue Refunding Bonds:

1992 Series B, 5 1/2% to 6 1/4%, issued December 17, 1992, due 2003 to 2020	446,160
1993 Series B, 5% to 5 1/2%, issued May 6, 1993, due 2002 to 2022	476,440
1997 Series D, 4 1/4% to 6%, issued December 15, 1997, due 2002 to 2020	135,015
1998 Series B, 4 1/2% to 5 1/2%, issued January 27, 1998, due 2005 to 2022	104,545

Subordinated debt:

General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1993 Series A, 4 5/8% to 5 1/2%, issued March 18, 1993, due 2001 to 2013	12,095
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1993 Series D, 4 1/2% to 5 1/4%, issued January 6, 1994, due 2001 to 2014	8,790
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1995 Series A, 4 1/2% to 6%, issued November 21, 1995, due 2001 to 2015	10,185
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1998 Series C, 4% to 5 3/8%, issued July 9, 1998, due 2001 to 2018	18,425
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1999 Series E Sewer, 4% to 5 3/8%, issued October 6, 1999, due 2001 to 2029	10,479
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1999 Series E Water, 4% to 5 3/8%, issued October 6, 1999, due 2001 to 2019	11,596
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 1999 Series F, 4 2/10% to 6%, issued November 3, 1999, due 2001 to 2029	391,600
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 2000 Series E Sewer, 4 1/2% to 5 5/8%, issued November 1, 2000, due 2001 to 2030	60,425

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Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust (Subordinated Series), 2000 Series E Water, 4 1/2% to 5 5/8%, issued November 1, 2000, due 2001 to 2020	\$ 12,672
General Revenue Bonds (variable rate):	
1997 Series A, issued June 18, 1997, due 2002 to 2028	83,800
1997 Series B, issued June 18, 1997, due 2002 to 2028	83,800
1998 Series D, issued December 22, 1998, due 2008 to 2026	198,895
1999 Series A, issued January 14, 1999, due 2001 to 2028	95,400
1999 Series B, issued January 29, 1999, due 2001 to 2028	95,400
1999 Series C, issued June 8, 1999, due 2002 to 2029	73,400
1999 Series D, issued June 8, 1999, due 2002 to 2029	73,400
2000 Series B, issued March 22, 2000, due 2001 to 2037	135,300
2000 Series C, issued March 22, 2000, due 2001 to 2037	135,300
	<u>4,343,513</u>
Less:	
Unamortized issuance and discount costs	(117,524)
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(96,668)
Current portion of long-term debt	<u>(67,611)</u>
Long-term debt, net	<u>\$ 4,061,710</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, 2001, the Authority had primary and subordinated debt service coverage ratios of 173% and 110%, respectively.

The Act of 1984 imposes a limitation of \$600,000 on the total amount of bonds and notes which may be outstanding at any one time. The Authority has requested increases in its debt limit as necessary to allow for issuances of bonds in amounts required to finance the capital program. The state legislature increased the debt limit to \$5,400,000.

On October 1, 2000 the Authority issued General Revenue Bonds, 2000 Series D, in the principal amount of \$150,000. The proceeds from these bonds will be used to fund on-going capital projects. The fixed interest rate on these bonds is 5 1/2%. In connection with the issuance of these bonds, the Authority has entered into an interest rate swap agreement in the initial notional amount of \$150,000. Under this agreement the Authority will pay interest to the swap counterparty at a variable rate based on the seven-day, high grade market index of tax-exempt, variable rate demand obligations, published as the Bond Market Association Index (the "BMA Index"). In addition, the Authority will receive interest from the swap counterparty at a fixed rate of 4.906% per annum. In fiscal 2001 the Authority received approximately \$1,384 in interest income from this swap agreement.

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(Dollars in thousands)

In March 2000, the Authority issued General Revenue Bonds, 2000 Series A, in the principal amount of \$285,000, of which \$19,107 was used to refund \$18,090 of 1990 Series A General Revenue Bonds. The \$686 excess of reacquisition price over net carrying amount of the defeased bonds is being amortized as an adjustment to interest expense over the life of the defeased bonds. The cash flow required to make principal and interest payments on the Refunding Bonds is approximately \$4,421 more than the debt service requirements for the defeased bonds. The economic gain (difference between the present values of the debt service payments on the old and new debt) obtained from the refunding was \$411.

In March 2000, the Authority issued Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series B and C in the principal amount of \$270,600. The bonds are secured by a \$287,236 standby bond purchase agreement which terminates in 2005. The standby bond purchase agreement carries a fee of 0.15% on the amount available. These bonds have variable interest rates that are set weekly. To offset the variable interest rate characteristics of these bonds, the Authority entered into interest rate swap agreements resulting in the Authority paying fixed interest rates of 5.13% through July 2005. The rate increases to 4.47% through July 2013, 5.494% through July 2019 and then 6.935% through July 2037. The maximum interest rate on these bonds shall not exceed 12% per annum. In fiscal 2001, approximately \$2,199 and \$2,199 was paid on the 2000 Series B and C interest rate swap agreement, respectively. Proceeds from this issue totaling \$268,188 were used to retire \$312,490 of bonds outstanding. The \$29,021 excess of net carrying amount of the retired bonds over the reacquisition price is being amortized as an adjustment to interest expense over the life of the retired bonds. The cash flow required to make principal and interest payments on the Refunding Bonds is approximately \$42,076 less than the debt service requirements for the retired bonds.

On June 8, 1999, the Authority sold Subordinated General Revenue Bonds, 1999 Series C and D, each in the principal amount of \$75,000. The effective interest rate during fiscal 2001 ranged from 2.5% to 4.7%. The effective interest rate during fiscal 2000 ranged from 2.9% to 4.7%. These bonds are subject to mandatory sinking fund deposits prior to redemption. The Series C Bonds are presently being auctioned daily and the Series D Bonds, every 35 days.

In January 1999, the Authority issued Multi-Modal Subordinated General Revenue Bonds, 1999 Series A and B each in the principal amount of \$97,500. The Bonds are secured by a standby bond purchase agreement and a letter of credit in the amounts of \$98,686 and \$98,878, respectively, which terminate in January 2001. The standby purchase agreement and the letter of credit carry fees of 0.15% and 0.225% per annum, respectively, on the amount available. These bonds have variable interest rates which are currently reset weekly. To offset the variable rate characteristics of these Bonds, the Authority entered into interest rate swap agreements which result in the Authority paying fixed interest rates of 3.947% and 3.949%, respectively. In addition, the Authority receives interest from the swap counterparties at a variable rate; based on the seven-day, high grade market index of tax-exempt, variable rate demand obligations published as the Bond Market Association Index ("BMA Index"). The interest rate swap agreements expire in August 2006. The differential to be paid or received is recognized as a component of interest expense. Approximately \$188 and \$188 was paid on the 1999

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

Series A and B interest rate swap, respectively, in fiscal 2001. In addition, approximately \$203 and \$203 was paid on the 1999 Series A and B interest rate swaps, respectively, in fiscal 2000. The maximum interest rate on these bonds shall not exceed 12% per annum.

On December 22, 1998, the Authority issued Multi-Modal Subordinated General Revenue Refunding Bonds, 1998 Series D in the principal amount of \$198,895 which are secured by a \$201,304 standby bond purchase agreement which terminates November 1, 2003. The standby bond purchase agreement carries a fee of 0.15% per annum on the amount available. These bonds have a variable interest rate which is currently reset weekly. To offset the variable rate characteristics of the borrowings, the Authority entered into interest rate swap agreements resulting in the Authority paying fixed interest rates of 3.994% and receiving interest from the swap counterparties at a variable rate based on the seven-day, high grade market index of tax-exempt, variable rate demand obligations published as the BMA index. The interest rate swap agreements will expire on November 1, 2026. The differential to be paid or received is recognized as a component of interest expense. Approximately \$483 and \$505 was paid on the interest rate swaps in fiscal 2001 and 2000, respectively. The maximum interest rate on these bonds shall not exceed 12% per annum.

The proceeds of the 1998 Series D Refunding Bonds were used to defease \$182,230 of bonds outstanding. The \$23,322 excess of reacquisition price over net carrying amount of the defeased bonds is being amortized as an adjustment to interest expense over the life of the defeased bonds. The cash flow required to make principal and interest payments on the Refunding bonds is approximately \$19,762 less than the debt service requirements for the defeased bonds. The economic gain (difference between the present values of the debt service payments on the old and new debt) obtained from this refunding was \$12,277.

On June 18, 1997, the Authority issued Multi-Modal Subordinated General Revenue Bonds, 1997 Series A and B, which are secured by a \$177,129 standby bond purchase agreement which terminates on June 18, 2002. The standby bond purchase agreement carries a fee of 0.0875% per annum on the amount available. These bonds have a variable interest rate which currently is reset weekly. The interest rate for the bonds outstanding during fiscal 2001 ranged from 1.5% to 5.5%. The interest rate for the bonds outstanding during fiscal 2000 ranged from 2.1% to 5.5%. The maximum interest rate on these bonds shall not exceed 12% per annum. These bonds are subject to mandatory sinking fund deposits prior to redemption. The variable interest rate may be converted to a fixed rate at the Authority's option, upon 45 day's notice.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

At June 30, 2001, the following bonds outstanding are considered defeased in substance:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>		<u>Outstanding principal amount</u>
1991 Series A	2001 to 2004	100% to 102%	\$	258,855
1992 Series A	2002	100% to 102%		283,500
1992 Series B	2000 to 2001	100%		7,375
1993 Series C	2004	102%		64,865
1994 Series A	2001, 2004	101.5%		115,950
1996 Series A	2006	101%		109,085

The proceeds and available funds were deposited in an irrevocable trust with an escrow agent 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 fiscal 2000, \$16,115 was available to transfer into restricted cash to retire debt as it matures in future years.

The 1998 Series D and the 1999 Series A and B Bonds are subject to mandatory sinking fund deposits prior to redemption. The variable rate may be converted to a fixed rate at the Authority's option upon 45-days' notice.

In 2001, the Authority entered into a \$350,000 forward interest rate swap agreement to facilitate the refunding of approximately \$345,000 of 1992 Series B refunding bonds, scheduled for August 2002. Under this agreement the Authority will pay a fixed interest rate of 4.127% and receive a variable rate based upon a London Interbank Offered Rate ("LIBOR") index. This variable to fixed swap will match variable rate bonds that the Authority plans to issue in 2002 to retire the 1992 Series B bonds.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2001:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Outstanding principal amount</u>
1992 Series B	November 2002	100% to 102%	\$ 446,155
1993 Series B	March 2003	100% to 102%	252,245
1993 Series C	December 2004	100% to 102%	120,245
1994 Series A	August 2004	100% to 101.5%	10,860
1995 Series B	December 2005	100% to 102%	179,730
1996 Series A	November 2006	100% to 101%	15,625
1997 Series D	August 2008	100% to 101%	113,375
1998 Series A	August 2008	100%	141,290
1998 Series B	August 2008	100%	72,945
2000 Series A	August 2010	100% to 101%	246,655

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.

The Authority executed loan agreements with the Massachusetts Water Pollution Abatement Trust ("MWPAT") providing for 1993 Series A, 1993 Series D, 1995 Series A, and 1998 Series C Loans in the principal amounts of \$148,575, \$86,985, \$84,585, and \$125,000, respectively, to finance and refinance a portion of the Authority's water pollution abatement projects.

During fiscal 2000, the Authority executed loan agreements with MWPAT providing for 1999 Series E Sewer, 1999 Series E Water and 1999 Series F loans in the principal amounts of \$10,703, \$12,057 and \$406,585, respectively. Proceeds totaling \$311,384 of the 1999 F loans were used to defease \$320,490 of loans outstanding. The \$8,311 excess of net carrying amount of the defeased bonds over the reacquisition price is being amortized as an adjustment to interest expense over the life of the defeased bonds. The economic gain (difference between the present values of the debt service payments on the old and new debt) obtained from the refunding was \$2,179.

During fiscal 2001 the Authority executed loan agreements with MWPAT providing for 2000 Series E Sewer and 2000 Series E Water loans in the principal amounts of \$77,552 and \$12,672, respectively, of which \$73,097 has been received as of June 30, 2001.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$119,007 will be recognized as capital grants in aid of construction over the term of the loans.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

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. 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 payable in the fiscal years ending June 30, 2002, 2003, 2004, 2005, 2006 and thereafter are as follows: \$67,611, \$74,413, \$81,873, \$93,356, \$71,915, and \$3,954,345, respectively.

The Authority issued commercial paper notes of \$332,000 to finance capital expenditures, which are secured by a \$257,000 and \$102,466 irrevocable direct-pay letters of credit which expire on January 20, 2002 and September 8, 2004, respectively.

The maximum aggregate principal amount of commercial paper which may be outstanding at any one time is \$350,000. These letters of credit carry a fee of 0.225% and 0.28% per annum, respectively, on the amount available. The weighted average interest rate on commercial paper outstanding at June 30, 2001 was 3.05%.

(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 \$17,421 and \$4,292 in fiscal 2001 and 2000, respectively, to be received in four or five equal annual installments.

The long-term portion of these loans at June 30, 2001 and 2000 is \$27,231 and \$20,796, respectively, and is included in other assets. This program is designed to assist member communities with sewer and water systems rehabilitation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(8) Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30:

	<u>Sewer</u>	<u>Water</u>	<u>Total 2001</u>	<u>Total 2000</u>
Land	\$ 13,485	3,321	16,806	16,518
Plant and equipment, water and sewerage system	4,483,325	1,947,025	6,430,350	5,498,966
Motor vehicles and equipment	937	658	1,595	1,595
Furniture and fixtures	9,677	9,522	19,199	19,199
Leasehold improvements	1,224	1,223	2,447	2,447
	<u>4,508,648</u>	<u>1,961,749</u>	<u>6,470,397</u>	<u>5,538,725</u>
Less accumulated depreciation	<u>(687,360)</u>	<u>(550,496)</u>	<u>(1,237,856)</u>	<u>(1,102,024)</u>
Net property, plant and equipment	3,821,288	1,411,253	5,232,541	4,436,701
Construction in progress	<u>239,432</u>	<u>752,012</u>	<u>991,444</u>	<u>1,612,042</u>
Total property, plant and equipment, net	\$ <u>4,060,720</u>	<u>2,163,265</u>	<u>6,223,985</u>	<u>6,048,743</u>

(9) Other Assets

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(10) Leases

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 noncancellable lease terms in excess of one year are as follows at June 30, 2001:

Year ending June 30:

2002	\$ 14,716
2003	14,548
2004	14,366
2005	14,185
2006	14,006
Thereafter	<u>152,333</u>
	\$ <u>224,154</u>

In fiscal 2001, the Authority occupied a new maintenance facility under a 30-year lease agreement. Aggregate estimated future minimum payments include \$121,880 for this lease.

The Authority has the option to extend the lease agreements on the Boston offices for a subsequent five-year period at costs ranging from the current market rent at the extension date to an 18% increase.

Rental expense was \$11,754 and \$12,371 in fiscal years 2001 and 2000, respectively.

(11) Retirement Benefits

All MDC personnel who became employees of the Authority on July 1, 1985, and were members of the State Employees Retirement System, retained their membership in that system. The Authority is not liable for retirement allowances paid to or on account of these employees. Funding of the pension liability of the State Employees Retirement System is the obligation of the Commonwealth. Employees covered by this plan become 100% vested after 10 years of service. The Authority's covered payroll for members of this plan for the year ended June 30, 2001 was \$11,863. Total covered payroll for all Authority employees was \$80,061 for the year ended June 30, 2001.

(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.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

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 1/2% 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 after December 31, 1983 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 2001 and 2000 contributions to the Plan were based on 3.78% of covered payroll, as determined by the Retirement Board and approved by the Authority's Board of Directors. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation.

(c) *Annual Pension Cost*

The annual required contribution for the current year was determined as part of the January 1, 2001, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 5.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. Assets are valued at market value.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(d) Three-Year Trend Information

<u>Fiscal year ending</u>		<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>		<u>Net pension obligation</u>
2000	\$	2,616	100%	\$	—
1999		3,235	100%		—
1998		2,621	100%		—

The Authority's policy is to provide certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. Premiums for retired employees were immaterial in fiscal year 2001 and 2000.

(12) Commitments and Contingencies

A major capital improvement program is currently in progress. As part of this program, the Authority has entered into a number of contracts for the design and construction of facilities. Commitments under these contracts aggregated approximately \$825,481 at June 30, 2001.

Under an order of the Federal District Court of Massachusetts, the Authority is required to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. On December 15, 2000, the Authority reported substantial completion of the construction of Battery C of secondary treatment, the last milestone relating to the construction of new primary and secondary treatment facilities that commenced in December 1990. The remaining schedule establishes, among other things, a timetable of target dates for construction of a number of combined sewer overflow control projects that commenced in April 1996 and are to be completed by November 2008. Despite certain unanticipated delays related to siting issues or newly discovered information in a few projects, the Authority is in substantial compliance with the schedule requirements for these projects.

As a result of a finding of liability for a Clean Water Act violation by the MDC's sewerage operations, a substantial part of the Authority's construction programs have been subject to court supervision. In addition, the Court has reserved the right to order further remedial action and assess penalties. The Authority cannot predict whether penalties will be requested by litigants or assessed by the Courts in the future. No penalties have been assessed to date, and the Authority has no reason to expect any at this time.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

The Authority's operating and construction plans are designed to comply with the Federal District Court's schedule of actions. The Authority anticipates capital expenditures of approximately \$7,478,000 from fiscal 1986 through fiscal 2011, of which \$5,489,000 has been spent as of June 30, 2001, including those projects required to comply with the Federal District Court's schedule. 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 \$809,000.

In February 1998, the United States, acting on behalf of the Environmental Protection Agency, commenced suit against the Authority and the MDC to compel the Authority to build a water filtration facility at the Walnut Hill Treatment Plant. Although the U.S. District Court judge decided that as of January 1999, the Authority was not in current compliance with the criteria for a waiver from filtration, he ordered a trial to determine whether the Authority's overall plan would protect public health as well as a filtration plant. The trial took place between December 1999 and April 2000. On May 5, 2000, the U.S. District Court ruled in favor of the Authority, finding the Authority in compliance with the waiver criteria, and that its plan for ozonation/chloramination treatment was a sound alternative to filtration. The United States filed an appeal from this decision to the United States Court of Appeals for the First Circuit, which issued a unanimous decision on July 16, 2001, affirming the exercise of discretion by the U.S. District Court in refusing to order filtration for the Authority's water supply system.

The Authority is also a defendant, or may derivatively be a defendant, in several legal actions arising out of the operations of the water and sewer systems. It is the opinion of management that no material adverse assessments will result from these actions.

(13) Risk Management

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

On July 1, 1998, the Authority instituted an Alternative Risk Transfer insurance program, which combines the Authority's various insurance coverages into one program with a per occurrence deductible of \$2,500. The Authority reimburses the Commonwealth on a paid-claims basis for unemployment claims. Claims paid during fiscal 2001 and 2000 were immaterial. 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 and in the aggregate amount of \$2,000.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

The Authority participates in and pays premiums to the Commonwealth's Group Insurance Contract 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.

The MetroWest Water Supply Tunnel is being insured under an Owner's Controlled Insurance Program ("OCIP"). The Authority provides workers' compensation, general liability and pollution coverage for operations of the contractors on this project. There is a \$500 self-insurance retention for each coverage with a total aggregate self-insurance retention of \$1,250 for a combined claim under the OCIP.

The Authority also instituted a second OCIP for the Walnut Hill Water Treatment Plant. The Authority provides workers' compensation, general liability and pollution coverage for operations of the contractors on this project. There is a \$500 self-insured retention per occurrence for each coverage. There were no material reported losses during fiscal 2000 and 2001.

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 2001 and 2000 were as follows:

	<u>General liability, property and casualty</u>	<u>Workers' compensation</u>	<u>OCIP projects</u>
Liability balance, June 30, 1999	\$ 2,005	\$ 860	\$ 622
Provision to record estimated losses	228	1,657	4,212
Payments	<u>(673)</u>	<u>(1,635)</u>	<u>(2,880)</u>
Liability balance, June 30, 2000	1,560	882	1,954
Provision to record estimated losses	529	824	3,047
Payments	<u>(221)</u>	<u>(1,341)</u>	<u>(2,080)</u>
Liability balance, June 30, 2001	<u>\$ 1,868</u>	<u>\$ 365</u>	<u>\$ 2,921</u>

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2001 and 2000

(Dollars in thousands)

(14) Segment Information – Water and Sewer Funds

Financial segment information as of and for the years ended June 30, 2001 and 2000 are presented below:

	<u>Sewer</u>	<u>Water</u>	<u>Total 2001</u>
Operating revenues	\$ 288,186	105,833	394,019
Depreciation expense	98,300	43,948	142,248
Operating (loss) income	42,714	(8,552)	34,162
Net loss	(30,600)	(31,300)	(61,900)
Net working capital deficit	(15,043)	(331,295)	(346,338)
Total assets	4,912,139	2,426,318	7,338,457
Total equity	1,254,387	1,150,237	2,404,624
	<u>Sewer</u>	<u>Water</u>	<u>Total 2000</u>
Operating revenues	\$ 285,887	95,092	380,979
Depreciation expense	93,961	41,622	135,583
Operating (loss) income	43,780	(13,539)	30,241
Net loss	(33,431)	(31,788)	(65,219)
Net working capital (deficit)	628	(296,537)	(295,909)
Total assets	4,807,679	2,341,554	7,149,233
Total equity	1,275,861	1,180,009	2,455,870

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
(Unaudited)

June 30, 2001

(Dollars in thousands)

Schedule of Funding Progress

<u>Actuarial valuation</u>	<u>Assets (a)</u>	<u>Actuarial accrued liability (AAL) - entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage covered payroll ((b-a)/(c))</u>
1/1/01	\$ 128,385	\$ 128,385	—	100%	\$ 65,955	—
1/1/99	96,318	96,318	—	100%	66,782	—
1/1/98	77,712	77,712	—	100%	63,579	—

Actuarial information about the Plan for other years is not readily available.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Supplemental Schedule of Funds and Accounts Established
by the General Revenue Bond Resolution

Activity for the year ended June 30, 2001 and
comparative totals as of June 30, 2001 and 2000

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance at June 30, 2000	\$ 140,931	55,205	444,566	64,571	705,273
Proceeds from:					
Revenue bonds and loans	257,046	—	—	—	257,046
Commercial paper	15,000	—	—	—	15,000
Cash received from customers	—	394,055	—	—	394,055
Interest income	7,172	13,161	37,935	3,494	61,762
Capital contributions	—	505	—	—	505
Grant receipts	13,982	—	5,009	—	18,991
Debt service grant	—	—	51,261	—	51,261
Construction payments	(336,600)	—	—	—	(336,600)
Debt service payment	(1,148)	—	(292,892)	—	(294,040)
Other Commonwealth payments	—	(15,172)	—	—	(15,172)
Interfund transfers	(17,069)	(190,644)	207,666	47	—
Transfers (to) from operating account	(74)	(176,300)	1	—	(176,373)
Balance at June 30, 2001	\$ <u>79,240</u>	<u>80,810</u>	<u>453,546</u>	<u>68,112</u>	<u>681,708</u>
		<u>Sewer</u>	<u>Water</u>	<u>2001 Total</u>	<u>2000 Total</u>
Restricted cash and investments:					
Construction	\$ 73,819	5,421	79,240	140,931	
Debt service reserves	211,770	33,803	245,573	240,472	
Debt service	113,741	28,491	142,232	124,723	
Revenue redemption	38,832	6,209	45,041	59,227	
Revenue	45,602	35,208	80,810	55,205	
Renewal and replacement reserve	33,028	17,087	50,115	46,574	
Insurance	8,999	8,998	17,997	17,997	
Community obligation and revenue enhancement	18,699	2,001	20,700	20,144	
Total restricted cash and investments	\$ <u>544,490</u>	<u>137,218</u>	<u>681,708</u>	<u>705,273</u>	

See independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Supplemental Schedule
Combining Balance Sheet

June 30, 2001

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 29,842	12,802	42,644
Investments	33,296	13,751	47,047
Accounts receivable:			
Intergovernmental loans	4,485	5,903	10,388
Other	307	1,604	1,911
Total accounts receivable	4,792	7,507	12,299
Total unrestricted current assets	67,930	34,060	101,990
Restricted assets:			
Cash and investments	544,490	137,218	681,708
Interest receivable	4,277	1,365	5,642
Grants receivable:			
Billed	1,596	(47)	1,549
Unbilled	2,553	—	2,553
Total restricted assets	552,916	138,536	691,452
Property, plant and equipment, net	4,060,720	2,163,265	6,223,985
Deferred charges	151,073	67,156	218,229
Other assets, net	79,500	23,301	102,801
Total assets	\$ 4,912,139	2,426,318	7,338,457
Liabilities and Fund Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 25,135	23,582	48,717
Commercial paper notes	—	332,000	332,000
Current portion of long-term debt	57,838	9,773	67,611
Total current liabilities	82,973	365,355	448,328
Payable from restricted assets:			
Accounts payable for construction	24,339	23,508	47,847
Accrued interest on bonds payable	42,709	12,975	55,684
Total payable from restricted assets	67,048	36,483	103,531
Retainage on construction in progress	17,767	26,125	43,892
Long-term debt, less current portion	3,267,894	793,816	4,061,710
Reserves	82,670	36,514	119,184
Deferred credits	139,400	17,788	157,188
Total liabilities	3,657,752	1,276,081	4,933,833
Fund equity:			
Contributed capital	1,254,387	1,150,237	2,404,624
Commitments and contingencies			
Total liabilities and fund equity	\$ 4,912,139	2,426,318	7,338,457

See independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Supplemental Schedule
Combining Balance Sheet

June 30, 2000

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 19,352	22,897	42,249
Investments	48,549	13,517	62,066
Accounts receivable:			
Intergovernmental loans	5,313	4,409	9,722
Other	231	2,321	2,552
Total accounts receivable	5,544	6,730	12,274
Total unrestricted current assets	73,445	43,144	116,589
Restricted assets:			
Cash and investments	509,344	195,929	705,273
Interest receivable	6,627	3,514	10,141
Grants receivable:			
Billed	9,882	651	10,533
Unbilled	2,412	—	2,412
Total restricted assets	528,265	200,094	728,359
Property, plant and equipment, net	4,015,692	2,033,051	6,048,743
Deferred charges	118,902	49,864	168,766
Other assets, net	71,375	15,401	86,776
Total assets	\$ 4,807,679	2,341,554	7,149,233
Liabilities and Fund Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 23,621	15,892	39,513
Commercial paper notes	—	317,000	317,000
Current portion of long-term debt	49,196	6,789	55,985
Total current liabilities	72,817	339,681	412,498
Payable from restricted assets:			
Accounts payable for construction	20,544	26,742	47,286
Accrued interest on bonds payable	39,175	11,137	50,312
Total payable from restricted assets	59,719	37,879	97,598
Retainage on construction in progress	25,122	22,862	47,984
Long-term debt, less current portion	3,171,555	712,691	3,884,246
Reserves	82,990	36,834	119,824
Deferred credits	119,615	11,598	131,213
Total liabilities	3,531,818	1,161,545	4,693,363
Fund equity:			
Contributed capital	1,275,861	1,180,009	2,455,870
Commitments and contingencies			
Total liabilities and fund equity	\$ 4,807,679	2,341,554	7,149,233

See independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Supplemental Schedule
Combining Statement of Operations and Changes in Retained Earnings

Year ended June 30, 2001

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 285,080	105,638	390,718
Other	3,106	195	3,301
	<u>288,186</u>	<u>105,833</u>	<u>394,019</u>
Operating expenses:			
Operations	77,483	42,940	120,423
Maintenance	11,369	1,787	13,156
Payments in lieu of taxes	—	4,877	4,877
Engineering, general and administrative	58,320	20,833	79,153
	<u>147,172</u>	<u>70,437</u>	<u>217,609</u>
Income from operations before depreciation	141,014	35,396	176,410
Depreciation	<u>98,300</u>	<u>43,948</u>	<u>142,248</u>
Operating income (loss)	<u>42,714</u>	<u>(8,552)</u>	<u>34,162</u>
Regulatory accounting provisions:			
Increase in reserves recovered through rates	320	320	640
Decrease in deferred credits, net	12,386	11,102	23,488
	<u>12,706</u>	<u>11,422</u>	<u>24,128</u>
Nonoperating income (expense):			
Debt service grants	45,871	5,390	51,261
Investment income	46,813	14,110	60,923
Interest expense	(178,704)	(53,670)	(232,374)
	<u>(86,020)</u>	<u>(34,170)</u>	<u>(120,190)</u>
Net loss	<u>(30,600)</u>	<u>(31,300)</u>	<u>(61,900)</u>
Plus depreciation on property, plant and equipment funded by capital contributions and grants	<u>30,600</u>	<u>31,300</u>	<u>61,900</u>
Change in retained earnings	\$ <u>—</u>	<u>—</u>	<u>—</u>

See independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Supplemental Schedule
Combining Statement of Operations and Changes in Retained Earnings

Year ended June 30, 2000

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 283,231	94,919	378,150
Other	2,656	173	2,829
	<u>285,887</u>	<u>95,092</u>	<u>380,979</u>
Operating expenses:			
Operations	78,382	41,501	119,883
Maintenance	11,367	1,799	13,166
Payments in lieu of taxes	—	3,102	3,102
Engineering, general and administrative	58,397	20,607	79,004
	<u>148,146</u>	<u>67,009</u>	<u>215,155</u>
Income from operations before depreciation	137,741	28,083	165,824
Depreciation	93,961	41,622	135,583
Operating income (loss)	<u>43,780</u>	<u>(13,539)</u>	<u>30,241</u>
Regulatory accounting provisions			
Increase in reserves recovered through rates	—	—	—
Decrease in deferred credits, net	17,076	10,221	27,297
	<u>17,076</u>	<u>10,221</u>	<u>27,297</u>
Nonoperating income (expense):			
Debt service grants	42,028	4,472	46,500
Investment income	40,112	11,354	51,466
Interest expense	(176,427)	(44,296)	(220,723)
	<u>(94,287)</u>	<u>(28,470)</u>	<u>(122,757)</u>
Net loss	<u>(33,431)</u>	<u>(31,788)</u>	<u>(65,219)</u>
Plus depreciation on property, plant and equipment funded by capital contributions and grants	33,431	31,788	65,219
Change in retained earnings	\$ <u>—</u>	<u>—</u>	<u>—</u>

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