



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Financial Statements,  
Required Supplementary Information and Supplemental Schedules

June 30, 2002 and 2001

(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 balance sheets of the Massachusetts Water Resources Authority (the Authority) as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, in 2002, the Authority adopted the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*.

The Management's Discussion and Analysis on pages 3 through 9 and the required supplementary information on page 34 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.





In accordance with *Government Auditing Standards*, we have also issued a report, dated August 13, 2002, 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.

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

August 13, 2002

# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Required Supplementary Information Management's Discussion and Analysis Fiscal Year Ended June 30, 2002

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2002. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### **Financial Highlights**

The 2002 rate revenues were approximately \$389.5 million and were 3.5% higher than fiscal 2001 rate revenues, due to an increase in assessments. This was offset by a decrease in other customer services revenues of \$2.5 million or 1.8%. This decrease was primarily due to a reduction in water services provided to the City of Cambridge in fiscal 2002 as compared to fiscal 2001.

Other revenues decreased \$1.2 million or 37% due to a \$1.6 million settlement received in fiscal 2001.

Total operating expenses were approximately \$210.2 million in fiscal 2002. The 3.4% decrease in total operating expenses over 2001 is the result of lower salaries and wages caused by the Authority's early retirement incentive program and a lower operating contract for residuals processing. Operating expenses for fiscal 2002 were 2% less than the annual operating budget.

Net nonoperating expenses increased \$9.5 million or 8% primarily due a decrease in interest income of \$18 million offset by a decrease in interest expense of \$9.5 million.

Total assets at June 30, 2002 were approximately \$7.7 billion, a \$330 million or 4.5% increase over total assets at June 30, 2001.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2002, a \$218 million or 3.5% increase over June 30, 2001. The increase in total capital assets is primarily the result of the ongoing construction water projects, including the MetroWest Water Supply Tunnel, the Walnut Hill Water Treatment Plant and the Norumbega Covered Storage Project.

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

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

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

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Required Supplementary Information  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2002

**Financial Analysis of the Authority**

*Net Assets*

The Authority's total net assets at June 30, 2002 were approximately \$2.3 billion, a \$57.8 million decrease from June 30, 2001. Total assets increased \$330 million or 4.5% to \$7.7 billion, and total liabilities increased 7.9% to \$5.3 billion.

**Massachusetts Water Resources Authority  
 Net Assets (dollars in thousands)**

	<u>2002</u>	<u>2001</u>	<u>Percent change</u>
Current assets	\$ 102,393	101,990	0.4%
Restricted assets	753,628	691,452	9.0%
Capital assets	6,441,861	6,223,985	3.5%
Other assets	<u>370,591</u>	<u>321,030</u>	<u>15.4%</u>
Total assets	7,668,473	7,338,457	4.5%
Current liabilities	478,147	448,328	6.7%
Payable from restricted assets	101,648	103,531	(1.8)%
Long-term debt	4,386,967	4,061,710	8.0%
Long-term lease	37,108	—	100.0%
Other liabilities	<u>317,801</u>	<u>320,264</u>	<u>(1.0%)</u>
Total liabilities	5,321,671	4,933,833	7.9%
Net assets:			
Invested in capital assets, net of related debt	2,005,980	2,107,007	(4.8)%
Restricted	128,190	114,040	12.4%
Unrestricted	<u>212,632</u>	<u>183,577</u>	<u>15.8%</u>
Total net assets	\$ <u>2,346,802</u>	<u>2,404,624</u>	<u>(2.4)%</u>

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Required Supplementary Information  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2002

**Changes in Net Assets**

The decrease in net assets at June 30, 2002 was \$57.8 million or 12.8% greater than the decrease in 2001. The Authority's total operating revenues increased by 2.4% to \$403,482 thousand and total operating expenses increased 1.5% to \$365,425 thousand.

**Massachusetts Water Resources Authority  
 Change in Net Assets (dollars in thousands)**

	<u>2002</u>	<u>2001</u>	<u>Percent change</u>
Operating revenues:			
Customer service revenue	\$ 401,391	390,718	2.7%
Other revenue	2,091	3,301	(36.7)%
Total operating revenue	403,482	394,019	2.4%
Operating expenses:			
Operations	80,907	116,921	(30.8)%
Maintenance	16,346	16,658	(1.9)%
Payments in lieu of taxes	4,911	4,877	0.7%
Engineering, general and administrative	108,003	79,153	36.4%
Depreciation	155,258	142,248	9.1%
Total operating expenses	365,425	359,857	1.5%
Operating income	38,057	34,162	11.4%
Nonoperating items:			
Regulatory accounting provisions	27,953	24,128	15.9%
Net non-operating expenses	(129,685)	(120,190)	7.9%
Capital grants and contributions	5,853	10,654	(4.5)%
Change in net assets	(57,822)	(51,246)	12.8%
Total net assets, beginning of year	2,404,624	2,455,870	(2.1)%
Total net assets, end of year	\$ 2,346,802	2,404,624	(2.4)%

The increases in customer services revenues are primarily due to the 3.5% increase in the rate revenue requirement (\$13.2 million). This was offset by a decrease in other customer services revenues of \$2.5 million or 1.8%. This decrease was primarily due to a reduction in water services provided to the City of Cambridge in fiscal 2002 as compared to fiscal 2001. Other revenues decreased \$1.2 million due to a \$1.6 million settlement received in fiscal 2001.

Operating expenses before depreciation decreased \$7.4 million or 3.4% primarily in wages and salaries expenses and expenses related to residuals processing. Wages and salaries expenses were \$1.5 million lower than the prior year due to a one-time increase in the authority-wide accumulated leave balance accrual done in fiscal 2001. The new residuals processing contract increased sludge pelletization expenses

## MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2002

by \$935,000, but resulted in savings in chemical expenses of \$1.1 million, utility expenses of \$3.6 million and landfill use costs of \$1.7 million. Operating expense increases were also seen in lab testing and analysis (\$828,000), security (\$962,000) and lease rentals related to a new facility (\$748,000).

Net non-operating expenses increased \$9.5 million or 8% primarily due to a decrease in interest income of \$18 million offset by a decrease in interest expense of \$9.5 million. Interest income decreased largely due to lower investment balances and lower interest rates during the year. Interest expense decreased due to the effect of lower interest rates on variable debt and the swap agreements associated with this debt. Lower interest rates reduced interest expense on variable rate debt, but at the same time increased swap expenses as the swap agreements have the Authority paying a fixed rate and receiving a variable rate. Working together these two components reduced interest expenses by \$7.4 million.

### Massachusetts Water Resources Authority Operating Costs by Functionality (dollars in thousands)

	2002	2001	Percent change
Wastewater treatment and transport	\$ 78,559	84,637	(7.18)%
Water treatment and transport	18,571	21,705	(14.4)%
Water and wastewater quality	9,101	8,711	4.5% %
Metering and monitoring	3,501	3,016	16.1%
Facilities planning, design and construction	12,308	14,458	(14.9)%
MIS	9,418	8,358	12.7%
Administration and support	46,754	43,105	8.5%
Total direct operating costs	178,212	183,990	(3.1)%
Indirect operating costs	31,955	33,619	(4.9)%
Total operating costs	\$ 210,167	217,609	(3.4)%

All of the functional areas of the Authority were affected by a decrease in wages and salaries primarily due to a reduction in the workforce. The Authority is transitioning from an agency staffed to both build and operate major capital investments to an agency focused on operations and maintenance. In 1999, as part of its business plan, the Authority established long-term agency-wide staffing targets. In fiscal 2002, the Authority's Board of Directors adopted an early retirement incentive program which increased the pace of staffing reductions this fiscal year. To better manage its workforce, the Authority has consolidated its water and wastewater field staff from ten facilities into one facility in Chelsea. By combining these and other operation functions, greater workforce flexibility and efficiencies were achieved.

The overall reduction in operating costs for Wastewater Treatment and Transport is attributable to significant savings achieved in the renegotiation of the sludge processing contract and competitive procurement of electricity at Deer Island due to deregulation. Water treatment and transport decreases are due to lower staffing levels. Water and Wastewater Quality increased due to lab testing and analysis related to the opening of the outfall tunnel. Facilities planning, design and construction spending decreased due to the completion of the Boston Harbor Project. MIS operating costs increased due to a consolidation of functions previously included in the Wastewater Treatment and Transport line item. In



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addition a computer network was installed at the new Chelsea facility, previously located at our headquarters facility. Administrative and support spending increased due to the opening of the Chelsea facility and additional security costs. Chelsea facility costs are expected to be somewhat offset as remote facility sites are surplus.

**Capital Asset and Debt Administration**

*Capital Assets*

As of June 30, 2002 the Authority had approximately \$6.4 billion of capital assets (net of depreciation). This includes land, construction in progress, plant and equipment for the water and sewer systems, furniture and fixtures, leasehold improvements and motor vehicles and equipment. The Authority’s net capital assets increased approximately \$218 million or 3.5% over the prior year.

**Massachusetts Water Resources Authority  
 Capital Assets  
 (net of depreciation, dollars in thousands)**

	<u>2002</u>	<u>2001</u>	<u>Percent change</u>
Land	\$ 16,806	16,806	0.0%
Construction in progress	1,177,074	991,444	18.7%
Plant and equipment, water and sewer systems	5,245,583	5,214,698	0.6%
Furniture and fixtures	21	358	(94.1)%
Leasehold improvements	1,734	—	100.0%
Motor vehicles and equipment	643	679	(5.3)%
Total net capital assets	\$ <u>6,441,861</u>	<u>6,223,985</u>	<u>3.5%</u>

Increases in construction in progress are primarily due to additional work on the Braintree/Weymouth Relief Facilities (\$42 million), the Norumbega Covered Storage facility (\$28 million), the Walnut Hill Water Treatment Plant (\$54 million) and the MetroWest Tunnel (\$59 million).

Increases in plant and equipment for the water and sewer systems include capitalization of final Boston Harbor Project costs (\$37 million), covered water storage facilities (\$41 million), water pipelines (\$32 million) and the new maintenance facility (\$37 million).

Increases in leasehold improvements (\$1.7 million) are primarily for improvements to the Authority’s facilities in the Charlestown Navy Yard.

***Debt Administration***

The Authority’s bond sales must be approved by the Board of Directors and must comply with rules and regulations of the United States Treasury Department and United States Securities and Exchange Commission. Neither the Commonwealth of Massachusetts (the “Commonwealth”) nor any political

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## Required Supplementary Information Management's Discussion and Analysis Fiscal Year Ended June 30, 2002

subdivision thereof shall be obligated to pay the principal of, premium or interest on any debt outstanding and neither faith and credit nor taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

### ***Bond Resolutions***

Under the General Bond Resolution rate covenant, the Authority is required to maintain revenues sufficient to pay: current expenses; debt service on indebtedness; required deposits to reserves; costs of maintenance, replacement and/or improvement to the wastewater and water systems that are considered current expenses; and additional amounts the Authority may be required to pay by any law or contract.

In addition to the rate covenant the Authority is required to meet two covenants with respect to debt service coverage. The primary debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.2 times that 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 required for debt service on all outstanding bonds, including subordinated bonds.

### ***Credit Rating***

Of the \$4.7 billion of revenue bonds the Authority currently has outstanding, \$2.6 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 \$1,633 million long-term, senior debt is rated "AA-" by FITCHRATINGS, "Aa3" by Moody's Investors Service, and "AA" by Standard and Poor's.

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

In June 2002, the Board of Directors approved the FY03 Current Expense Budget (CEB), which totals \$515.2 million. The FY03 CEB provides for \$400.9 million to be funded through rates and charges, and \$47.2 million to be offset by state debt service assistance. The FY03 CEB includes a transfer of \$13.3 million from the Rate Stabilization Fund. Of the amounts budgeted, capital financing expenses (before offsets from state debt service assistance) account for 60%; direct expenses account for 34%; and indirect expenses account for 6%. The direct expense budget reflects a shift of \$3.2 million of capital lease costs to debt service. Including such shift, total budgeted expenses for Fiscal Year 2003 are 4.7% less than total budgeted expenses for Fiscal Year 2002. Without the capital shift, the decrease from the Fiscal Year 2002 direct expense budget would be \$5.5 million or 3%.

The FY03 CEB was adopted prior to the adoption of the Commonwealth budget in July 2002, and the Authority now expects to receive approximately \$32.9 million in state debt service assistance, which is \$14.3 million less than budgeted in the FY03 CEB. The Authority will recommend to the Board a number of options for offsetting this expected shortfall in Fiscal Year 2003, including a reduction in operating expenses, the restructuring of debt service, and an increase in the transfer from the Rate Stabilization and Bond Redemption Funds. The Board could also consider revising the rates and charges assessed to the Local Bodies for FY03.

## **MASSACHUSETTS WATER RESOURCES AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2002

### ***CIP 10 year plan***

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

- Completion of the MetroWest Water Supply Tunnel, ensuring reliable water delivery to all Authority customers
- Completion of the new Walnut Hill Water Treatment Plant to improve treatment facilities and to ensure high quality drinking water
- Completion of covered storage facilities, to provide safe, reliable storage for water treated at Walnut Hill and transported via the MetroWest Water Supply Tunnel
- Completion of the long-term CSO (Combined Sewer Overflow) control plan
- Completion of new wastewater interceptor facilities under construction, as well as additional planned facilities.

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

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

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Balance Sheets

June 30, 2002 and 2001

(Dollars in thousands)

Assets	2002	2001
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 34,058	42,644
Investments (note 4)	54,003	47,047
Intergovernmental loans (note 7)	12,515	10,388
Accounts receivable	1,817	1,911
Total unrestricted current assets	102,393	101,990
Restricted assets:		
Cash and investments (note 4)	743,742	681,708
Interest receivable	7,177	5,642
Grants receivable:		
Billed	1,540	1,549
Unbilled	1,169	2,553
Total restricted assets	753,628	691,452
Capital assets, not being depreciated (notes 8 and 9)	1,193,880	1,008,250
Capital assets, being depreciated, net (notes 8 and 9)	5,247,981	5,215,735
Deferred charges (notes 3 and 9)	243,386	218,229
Other assets, net (notes 7 and 9)	127,205	102,801
Total assets	\$ 7,668,473	7,338,457
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses (note 13)	\$ 43,177	48,717
Commercial paper notes (note 6)	317,000	332,000
Current portion of long-term debt (note 6)	117,970	67,611
Total current liabilities	478,147	448,328
Payable from restricted assets:		
Accounts payable for construction	45,935	47,847
Accrued interest on bonds payable	55,713	55,684
Total payable from restricted assets	101,648	103,531
Retainage on construction in progress	44,225	43,892
Long-term debt, less current portion (note 6)	4,386,967	4,061,710
Long-term capital lease (note 10)	37,108	—
Reserves (note 5)	119,184	119,184
Deferred credits (note 3)	154,392	157,188
Total liabilities	5,321,671	4,933,833
Net assets		
Invested in capital assets, net of related debt	2,005,980	2,107,007
Restricted	128,190	114,040
Unrestricted	212,632	183,577
Total net assets	2,346,802	2,404,624
Commitments and contingencies (notes 10, 12, and 13)		
Total liabilities and net assets	\$ 7,668,473	7,338,457

See accompanying notes to financial statements.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Customer services	\$ 401,391	390,718
Other	2,091	3,301
	<u>403,482</u>	<u>394,019</u>
Operating expenses:		
Operations	80,907	116,921
Maintenance	16,346	16,658
Payments in lieu of taxes	4,911	4,877
Engineering, general, and administrative	108,003	79,153
	<u>210,167</u>	<u>217,609</u>
Income from operations before depreciation	193,315	176,410
Depreciation	<u>155,258</u>	<u>142,248</u>
Operating income	<u>38,057</u>	<u>34,162</u>
Regulatory accounting provisions:		
Decrease in reserves used to offset rates	—	640
Increase in deferrals, net (note 3)	27,953	23,488
	<u>27,953</u>	<u>24,128</u>
Nonoperating revenues (expense):		
Debt service grants	50,207	51,261
Investment income	42,951	60,923
Interest expense	(222,843)	(232,374)
	<u>(129,685)</u>	<u>(120,190)</u>
Net loss before capital contributions	(63,675)	(61,900)
Capital grants and contributions	<u>5,853</u>	<u>10,654</u>
Change in net assets	(57,822)	(51,246)
Total net assets, beginning of year	<u>2,404,624</u>	<u>2,455,870</u>
Total net assets, end of year	<u>\$ 2,346,802</u>	<u>2,404,624</u>

See accompanying notes to financial statements.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from customers	\$ 401,455	390,754
Cash paid to suppliers for goods and services	(118,226)	(101,302)
Cash paid to employees for services	(92,172)	(103,649)
Cash paid in lieu of taxes	(4,911)	(4,877)
Other operating receipts	2,091	3,301
Net cash provided by operating activities	<u>188,237</u>	<u>184,227</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds and from loans and notes	412,992	272,046
Capital grants for construction	7,444	18,991
Capital contributions	—	505
Debt service grant	50,026	51,261
Capital lease principal payments	(26)	—
Capital lease interest payments	(242)	—
Repayment of debt	(67,656)	(82,835)
Interest paid on debt	(207,107)	(211,205)
Plant expenditures	(364,680)	(336,600)
Net cash used for capital and related financing activities	<u>(169,249)</u>	<u>(287,837)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(214,674)	(58,780)
Sales and maturities of short-term investments	75,959	222,489
Decrease (increase) in restricted cash and investments, net	77,230	(114,381)
Interest received	33,911	54,677
Net cash (used in) provided by investing activities	<u>(27,574)</u>	<u>104,005</u>
Net (decrease) increase in cash and cash equivalents	(8,586)	395
Cash and cash equivalents, beginning of year	<u>42,644</u>	<u>42,249</u>
Cash and cash equivalents, end of year	\$ <u><u>34,058</u></u>	\$ <u><u>42,644</u></u>
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	\$ 38,057	34,162
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	155,258	142,248
Decrease in other accounts, net	64	36
(Decrease) increase in accounts payable	(5,142)	7,781
Net cash provided by operating activities	\$ <u><u>188,237</u></u>	\$ <u><u>184,227</u></u>

Noncash financing activities:

Effective in May 2002, the Authority entered into a capital lease for the North Maintenance Facility in Chelsea in the amount of \$37,134.

See accompanying notes to financial statements.

# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2002 and 2001

(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 and the economic measurement focus as specified by the Governmental Accounting Standards Board's 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.

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

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

**(b) Capital Assets**

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

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

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

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

During fiscal 2002 and 2001, 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

**(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.



# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

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) 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.

**(g) 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.

**(h) Investments**

Investments are recorded at fair value. Fair value is determined based on quoted market price. The Authority recorded unrealized gains of \$7,516 and \$10,544 in fiscal 2002 and 2001, respectively.

**(i) 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.

**(j) Changes in Accounting Principles**

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34), in 2002, effective July 1, 2001. Statement 34 establishes financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements and had no impact on net assets as of June 30, 2002 and 2001. The impact of changes in the report includes the inclusion of Management's Discussion and Analysis.

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, in 2002, effective July 1, 2001. The implementation of Statement No. 37 and Statement No. 38 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

**(k) Reclassifications**

Certain reclassifications were made to the fiscal year 2001 financial statements to conform to the fiscal year 2002 presentation.

**(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 2002 and 2001 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance, June 30, 2000, net	\$ (713)	38,266	37,553
Difference between depreciation of capital assets 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>(4,383)</u>	<u>(2,882)</u>	<u>(7,265)</u>
Balance, June 30, 2001, net	11,673	49,368	61,041
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	21,566	3,559	25,125
Rate stabilization:			
Current year recovery	679	(5,352)	(4,673)
Current year usage	6,728	4,872	11,600
Other, net	<u>(1,099)</u>	<u>(3,000)</u>	<u>(4,099)</u>
Balance, June 30, 2002, net	\$ <u><u>39,547</u></u>	<u><u>49,447</u></u>	<u><u>88,994</u></u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

The net balance at June 30, 2002 and 2001 is presented on the balance sheets as follows:

	<u>2002</u>	<u>2001</u>	<u>Current year change</u>
Deferred charges	\$ 243,386	218,229	25,157
Deferred credits	<u>(154,392)</u>	<u>(157,188)</u>	2,796
Net change in deferrals	\$ <u>88,994</u>	<u>61,041</u>	<u>27,953</u>

The balance in the rate stabilization reserve which is included in deferred credits was \$56,135 and \$63,062 at June 30, 2002 and 2001, respectively.

**(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, 2002 and 2001 is as follows:

	<u>2002</u>				
	<u>Category</u>			<u>Total bank balance</u>	<u>Carrying amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash and cash equivalents	\$ 200	—	39,060	39,260	34,258
Not categorized:				257,211	257,211
Money market mutual funds					
Total				\$ <u>296,471</u>	<u>291,469</u>

	<u>2001</u>				
	<u>Category</u>			<u>Total bank balance</u>	<u>Carrying amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash and cash equivalents	\$ 200	—	54,762	54,962	45,844
Not categorized:				334,441	334,441
Money market mutual funds					
Total				\$ <u>389,403</u>	<u>380,285</u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

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

**(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, 2002 and 2001 is as follows:

	<b>2002</b>			
	<b>Category</b>			<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
U.S. Government obligations	\$ 48,393	—	—	48,393
U.S. Government Agency obligations	247,640	—	—	247,640
Guaranteed interest contracts	244,301	—	—	244,301
Total	<u>\$ 540,334</u>	<u>—</u>	<u>—</u>	<u>540,334</u>
	<b>2001</b>			
	<b>Category</b>			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>Fair value</b>
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>

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 was earned on the interest rate swaps in fiscal 2001.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(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:

<u>Reserves</u>		<u>Sewer</u>	<u>Water</u>	<u>2002 Total</u>	<u>2001 Total</u>
Renewal and replacement	\$	27,300	16,701	44,001	44,001
Insurance		9,000	9,000	18,000	18,000
Operating		27,971	9,096	37,067	37,067
Community obligation and revenue enhancement		18,399	1,717	20,116	20,116
Total	\$	<u>82,670</u>	<u>36,514</u>	<u>119,184</u>	<u>119,184</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, 2002 and 2001.

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

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

	<u>2002</u>	<u>2001</u>
<b>General Revenue Bonds:</b>		
1990 Series A, 7 1/2%, issued February 15, 1990, due 2006	\$ 19,259	17,901
1992 Series A, 6 1/2%, issued April 8, 1992, due 2007 to 2019	387,845	387,845
1993 Series C, 4 3/4% to 6%, issued December 2, 1993, due 2002 to 2023	327,370	337,820
1994 Series A, 5 1/10% to 5 6/10%, issued August 16, 1994, due 2002 to 2007	20,155	20,155
1995 Series B, 4% to 6 1/4%, issued January 4, 1996, due 2002 to 2024	234,155	239,095
1996 Series A, 5 1/10% to 6%, issued November 5, 1996, due 2002 to 2010	30,865	33,415
1998 Series A, 4 1/2% to 5 1/2%, issued January 27, 1998, due 2002 to 2032	196,835	199,825
2000 Series A, 4 1/2% to 6 1/8%, issued March 1, 2000, due 2002 to 2039	282,710	284,335
2002 Series B, 5% to 5 1/2%, issued March 15, 2002, due 2002 to 2027	180,000	—
<b>General Revenue Refunding Bonds:</b>		
1992 Series B, 5 1/2% to 6 1/4%, issued December 17, 1992, due 2003 to 2020	446,160	446,160
1993 Series B, 5% to 5 1/2%, issued May 6, 1993, due 2002 to 2022	452,865	476,440
1997 Series D, 4 1/4% to 6%, issued December 15, 1997, due 2002 to 2020	135,015	135,015
1998 Series B, 4 1/4% to 5 1/2%, issued January 27, 1998, due 2005 to 2022	104,545	104,545

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Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Subordinated debt:		
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust:		
1993 Series A, 4 5/8% to 5 1/2%, issued March 18, 1993, due 2002 to 2013	\$ 10,610	12,095
1993 Series D, 4 1/2% to 5 1/4%, issued January 6, 1994, due 2002 to 2014	7,915	8,790
1995 Series A, 4 1/2% to 6%, issued November 21, 1995, due 2002 to 2015	9,260	10,185
1998 Series C, 4% to 5 3/8%, issued July 9, 1998, due 2002 to 2018	17,030	18,425
1999 Series E Sewer, 4% to 5 3/8%, issued October 6, 1999, due 2002 to 2029	10,250	10,479
1999 Series E Water, 4% to 5 3/8%, issued October 6, 1999, due 2002 to 2029	11,127	11,596
1999 Series F, 4 2/10% to 6%, issued November 3, 1999, due 2002 to 2029	384,335	391,600
2000 Series E Sewer, 4 1/2% to 5 5/8%, issued November 1, 2000, due 2002 to 2030	73,371	60,425
2000 Series E Water, 4 1/2% to 5 5/8%, issued November 1, 2000, due 2002 to 2030	12,200	12,672
2001 Series C Water, 3% to 5 1/4%, issued July 26, 2001, due 2002 to 2021	5,270	—
2001 Series D Sewer, 4% to 5 3/4%, issued July 26, 2001, due 2002 to 2019	8,025	—
2001 Series D Water, 4% to 5 3/4%, issued July 26, 2001, due 2002 to 2019	1,572	—
2001 Series D Sewer, 1.525%, issued July 26, 2001, due 2002 (interim)	10,979	—
2001 Series D Water, 1.525%, issued July 26, 2001, due 2002 (interim)	4,424	—
2002 Series A Sewer, 1.09%, issued May 7, 2002, due 2002 (interim)	20,000	—
2002 Series A Water, 1.09%, issued May 7, 2002, due 2002 (interim)	5,000	—
General Revenue Bonds (variable rate):		
1997 Series A, 0.8% to 5.5%, issued June 18, 1997, due 2002 to 2028	82,700	83,800
1997 Series B, 0.8% to 5.5%, issued June 18, 1997, due 2002 to 2028	82,700	83,800
1998 Series D, 0.9% to 5.5%, issued December 22, 1998, due 2008 to 2026	198,895	198,895
1999 Series A, 1.0% to 5.35%, issued January 14, 1999, due 2002 to 2028	94,200	95,400
1999 Series B, 0.8% to 5.3%, issued January 29, 1999, due 2002 to 2028	94,200	95,400
1999 Series C, 1.2% to 4.53%, issued June 8, 1999, due 2002 to 2029	72,600	73,400
1999 Series D, 1.2% to 4.7%, issued June 8, 1999, due 2002 to 2029	72,600	73,400
2000 Series B, 0.9% to 5.5%, issued March 22, 2000, due 2002 to 2037	135,000	135,300
2000 Series C, 0.9% to 5.5%, issued March 22, 2000, due 2002 to 2037	134,900	135,300
2001 Series A, 0.8% to 2.35%, issued September 26, 2001, due 2002 to 2023	95,000	—
2001 Series B, 0.8% to 2.35%, issued September 26, 2001, due 2023 to 2031	85,000	—

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
General Revenue Bonds (fixed rates):		
2000 Series D, 5 1/2%, issued October 1, 2000, due 2009 to 2011	\$ <u>150,000</u>	<u>150,000</u>
	<u>4,706,942</u>	<u>4,343,513</u>
Less:		
Unamortized issuance and discount costs	(112,693)	(117,524)
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(89,312)	(96,668)
Current portion of long-term debt	<u>(117,970)</u>	<u>(67,611)</u>
	<u>(319,975)</u>	<u>(281,803)</u>
Long-term debt, net	\$ <u><u>4,386,967</u></u>	<u><u>4,061,710</u></u>

Long-term debt at June 30, 2002 and 2001 consisted of the following:

	<u>2001</u>			<u>2002</u>	<u>Due</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>within</u>
	<u>balance</u>			<u>balance</u>	<u>one year</u>
General Revenue Bonds	\$ 2,645,086	361,358	29,455	2,976,989	36,240
General Revenue Refunding Bonds	1,162,160	—	23,575	1,138,585	25,695
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	<u>536,267</u>	<u>69,727</u>	<u>14,626</u>	<u>591,368</u>	<u>56,035</u>
	\$ <u><u>4,343,513</u></u>	<u><u>431,085</u></u>	<u><u>67,656</u></u>	<u><u>4,706,942</u></u>	<u><u>117,970</u></u>

	<u>2000</u>			<u>2001</u>	<u>Due</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>within</u>
	<u>balance</u>			<u>balance</u>	<u>one year</u>
General Revenue Bonds	\$ 2,540,543	151,263	46,720	2,645,086	29,455
General Revenue Refunding Bonds	1,177,590	—	15,430	1,162,160	23,575
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	<u>453,711</u>	<u>103,003</u>	<u>20,447</u>	<u>536,267</u>	<u>14,581</u>
	\$ <u><u>4,171,844</u></u>	<u><u>254,266</u></u>	<u><u>82,597</u></u>	<u><u>4,343,513</u></u>	<u><u>67,611</u></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, 2002, the Authority had primary and subordinated debt service coverage ratios of 173% and 110%, respectively.

# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

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(Dollars in thousands)

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 March 15, 2002, the Authority issued General Revenue Bonds, 2002 Series B in the principal amount of \$180,000. The proceeds from these bonds will be used to fund ongoing capital projects. The interest rates on these bonds range from 5% to 5.50%.

On September 26, 2001, the Authority issued Multi-Modal Subordinated General Revenue Bonds, 2001 Series A and B in the principal amount of \$180,000. The proceeds from these bonds will be used to fund ongoing capital projects. These bonds have a variable interest rate, which is currently reset weekly. The interest rate for the bonds outstanding during fiscal 2002 ranged from 0.80% to 2.35%. The maximum interest rate on the bonds shall not exceed 12% per annum. The bonds are secured by a \$180,000 standby bond purchase agreement, which terminates on September 26, 2006 and carries a fee of 0.15% per annum on the amount available.

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 ongoing capital projects. The fixed interest rate on these bonds is 5 ½%. 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. The Authority received approximately \$4,819 and \$1,384 in interest income from this swap agreement in fiscal 2002 and 2001, respectively.

The Authority has entered into several interest rate swap agreements to reduce the impact of changes in interest rates on the Authority's variable rate debt. Under these agreements the Authority pays an average fixed interest rate of 3.96% and receives interest from the swap counterparties at a variable rate. This rate is based on the seven-day, high grade market index of tax-exempt, variable rate demand obligations published as the Bond Market Association Index. Under these agreements the Authority incurred net interest expense of \$17,931 and \$5,257 in fiscal 2002 and fiscal 2001, respectively.



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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At June 30, 2002, 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%	\$ 252,830
1992 Series A	2002	100% to 102%	283,500
1992 Series B	2000 to 2001	100%	3,790
1993 Series C	2004	102%	64,865
1994 Series A	2001, 2004	101.5%	113,145
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 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, which occurred in August 2002 (see note 14). Under this agreement the Authority will pay a fixed interest rate of 4.127% and receive a variable rate based upon the 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.

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2002:

<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
2002 Series B	August 2011	100% to 101%	161,885

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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 2002, the Authority executed loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) providing for 2001 Series C Water, 2001 Series D Sewer and Water and 2002 Series A Sewer and Water loans in the principal amounts of \$5,270, \$19,004, \$5,996, \$20,000 and \$5,000, respectively. All proceeds for these loans were received by June 30, 2002.

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 \$87,509 has been received as of June 30, 2002.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$133,425 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. 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:			
2003	\$ 117,970	220,082	338,052
2004	86,097	217,472	303,569
2005	97,741	212,856	310,597
2006	95,723	207,862	303,585
2007	105,409	202,961	308,370
2008-2012	907,891	898,470	1,806,361
2013-2017	987,713	661,763	1,649,476
2018-2022	1,089,740	422,977	1,512,717
2023-2027	756,111	197,867	953,978
2028-2032	277,180	82,123	359,303
2033-2037	122,319	40,159	162,478
2038-2040	63,048	4,788	67,836
Total	\$ <u>4,706,942</u>	<u>3,369,380</u>	<u>8,076,322</u>

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The Authority issued commercial paper notes of \$317,000 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, 2003 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, 2002 was 1.5%.

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

The Authority has entered into various interest-free loan agreements with certain member communities. Under these agreements, the Authority loaned these communities \$24,843 and \$17,421 in fiscal 2002 and 2001, respectively, to be received in four or five equal annual installments.

The long-term portion of these loans at June 30, 2002 and 2001 is \$39,595 and \$27,231, 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

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(Dollars in thousands)

**(8) Capital Assets**

Capital assets consisted of the following at June 30:

	<u>2001</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>2002</u>
Capital assets, not being depreciated:				
Land	\$ 16,806	—	—	16,806
Construction in progress	<u>991,444</u>	<u>364,934</u>	<u>179,304</u>	<u>1,177,074</u>
Total capital assets, not being depreciated	<u>1,008,250</u>	<u>364,934</u>	<u>179,304</u>	<u>1,193,880</u>
Capital assets, being depreciated:				
Plant and equipment, water and sewage system	6,430,350	177,987	—	6,608,337
Furniture and fixtures	19,199	35	—	19,234
Leasehold improvements	2,447	2,167	—	4,614
Motor vehicles and equipment	<u>1,595</u>	<u>—</u>	<u>—</u>	<u>1,595</u>
Total capital assets, being depreciated	<u>6,453,591</u>	<u>180,189</u>	<u>—</u>	<u>6,633,780</u>
Less accumulated depreciation for:				
Plant and equipment, water and sewage system	1,215,652	147,102	—	1,362,754
Furniture and fixtures	18,841	372	—	19,213
Leasehold improvements	2,447	433	—	2,880
Motor vehicles and equipment	<u>916</u>	<u>36</u>	<u>—</u>	<u>952</u>
Total accumulated depreciation	<u>1,237,856</u>	<u>147,943</u>	<u>—</u>	<u>1,385,799</u>
Total capital assets, being depreciated, net	<u>5,215,735</u>	<u>32,246</u>	<u>—</u>	<u>5,247,981</u>
Capital assets, net	\$ <u>6,223,985</u>	<u>397,180</u>	<u>179,304</u>	<u>6,441,861</u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

Capital assets consisted of the following at June 30:

	<u>2000</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>2001</u>
Capital assets, not being depreciated:				
Land	\$ 16,518	288	—	16,806
Construction in progress	<u>1,612,042</u>	<u>332,967</u>	<u>953,565</u>	<u>991,444</u>
Total capital assets, not being depreciated	<u>1,628,560</u>	<u>333,255</u>	<u>953,565</u>	<u>1,008,250</u>
Capital assets, being depreciated:				
Plant and equipment, water and sewage system	5,498,966	931,384	—	6,430,350
Furniture and fixtures	19,199	—	—	19,199
Leasehold improvements	2,447	—	—	2,447
Motor vehicles and equipment	<u>1,595</u>	<u>—</u>	<u>—</u>	<u>1,595</u>
Total capital assets, being depreciated	<u>5,522,207</u>	<u>931,384</u>	<u>—</u>	<u>6,453,591</u>
Less accumulated depreciation for:				
Plant and equipment, water and sewage system	1,080,668	134,984	—	1,215,652
Furniture and fixtures	18,469	372	—	18,841
Leasehold improvements	2,014	433	—	2,447
Motor vehicles and equipment	<u>873</u>	<u>43</u>	<u>—</u>	<u>916</u>
Total accumulated depreciation	<u>1,102,024</u>	<u>135,832</u>	<u>—</u>	<u>1,237,856</u>
Total capital assets, being depreciated, net	<u>4,420,183</u>	<u>795,552</u>	<u>—</u>	<u>5,215,735</u>
Capital assets, net	\$ <u>6,048,743</u>	<u>1,128,807</u>	<u>953,565</u>	<u>6,223,985</u>

Depreciation for FY 2002 and 2001 was \$155,258 and \$142,248, 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 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, 2002 and 2001

(Dollars in thousands)

**(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 are as follows at June 30, 2002:

Year ending June 30:

2003	\$	10,485
2004		10,303
2005		10,122
2006		9,943
2007		6,938
2008-2012		26,853
2013-2017		15,386
2018-2022		<u>1,590</u>
	\$	<u><u>91,620</u></u>

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 \$13,126 and \$11,754 in fiscal years 2002 and 2001, respectively.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

**(b) Capital**

In fiscal 2002, 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 are as follows at June 30, 2002:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 323	2,894	3,217
2004	349	2,868	3,217
2005	377	2,840	3,217
2006	408	2,809	3,217
2007	441	2,776	3,217
2008-2012	2,805	13,280	16,085
2013-2017	4,144	11,941	16,085
2018-2022	6,122	9,963	16,085
2023-2027	9,044	7,041	16,085
2028-2032	13,095	2,724	15,819
	<u>37,108</u>	<u>59,136</u>	<u>96,244</u>
Total	\$ <u>37,108</u>	<u>59,136</u>	<u>96,244</u>

**(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 ten years of service. The Authority's covered payroll for members of this plan for the year ended June 30, 2002 was \$11,478. Total covered payroll for all Authority employees was \$83,879 for the year ended June 30, 2002.

**(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.

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

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

benefits. Ordinary disability benefits are available only to employees under age 55 with at least ten 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, Massachusetts 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 ten or more years of service.

The 2002 contribution to the plan was based on an amount approved by the Retirement Board and the Authority's Board of Directors. The 2001 contribution to the Plan was 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.

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

	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
Fiscal year ending:			
2002	\$ 2,438	100%	—
2001	2,616	100%	\$ —
2000	3,235	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 2002 and 2001.



# MASSACHUSETTS WATER RESOURCES AUTHORITY

## Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

### (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 \$627,284 at June 30, 2002.

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.

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 \$7,548,000 from fiscal 1986 through fiscal 2012, of which \$5,880,000 has been spent as of June 30, 2002, 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 \$810,000.

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 2002 and 2001 were immaterial. The Authority is a licensed self-insurer for workers'

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

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.

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.

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 2002 and 2001 were as follows:

	<b>General liability, property, and casualty</b>	<b>Workers' compensation</b>	<b>OCIP projects</b>
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	1,868	365	2,921
Provision to record estimated losses	371	1,363	5,537
Payments	<u>(779)</u>	<u>(1,561)</u>	<u>(2,669)</u>
Liability balance, June 30, 2002	<u>\$ 1,460</u>	<u>167</u>	<u>5,789</u>

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Notes to Financial Statements

June 30, 2002 and 2001

(Dollars in thousands)

**(14) Subsequent Events**

On August 15, 2002, the Authority issued Multi-Modal Subordinated General Revenue Bonds, 2002 Series C, D, E, F, and G in the aggregate principal amount of \$430,000. The proceeds from these bonds, along with deposits on-hand, will be used to refund the total outstanding principal of 1992 Series B bonds of \$446,160.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Required Supplementary Information  
(Unaudited)

June 30, 2002

(Dollars in thousands)

Schedule of Funding Progress

<b>Actuarial valuation</b>	<b>Assets (a)</b>	<b>Actuarial accrued liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage covered payroll ((b-a)/(c))</b>
1/1/2001	\$ 128,385	\$ 128,385	—	100%	\$ 65,955	—
1/1/1999	96,318	96,318	—	100%	66,782	—
1/1/1998	77,712	77,712	—	100%	63,579	—

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

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Supplemental Schedule of Accounts Established  
by the General Revenue Bond Resolution

Activity for the year ended June 30, 2002 and  
comparative totals as of June 30, 2002 and 2001

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance at June 30, 2001	\$ 79,240	80,810	453,546	68,112	681,708
Proceeds from:					
Revenue bonds and loans	323,536	—	14,456	—	337,992
Commercial paper	75,000	—	—	—	75,000
Cash received from customers	—	403,546	—	—	403,546
Interest income	1,509	9,651	25,642	2,477	39,279
Grant receipts	2,247	—	5,197	—	7,444
Debt service grant	—	—	50,026	—	50,026
Construction payments	(364,680)	—	—	—	(364,680)
Capital lease payments	(26)	—	(242)	—	(268)
Debt service payment	(1,272)	—	(273,491)	—	(274,763)
Other Commonwealth payments	—	(22,159)	—	—	(22,159)
Interfund transfers	(3,229)	(203,866)	207,122	(27)	—
Transfers (to) from operating account	179	(189,804)	242	—	(189,383)
Balance at June 30, 2002	\$ <u>112,504</u>	<u>78,178</u>	<u>482,498</u>	<u>70,562</u>	<u>743,742</u>

	<u>Sewer</u>	<u>Water</u>	<u>2002 Total</u>	<u>2001 Total</u>
Restricted cash and investments:				
Construction	\$ 26,502	86,002	112,504	79,240
Debt service reserves	215,291	47,159	262,450	245,573
Debt service	114,060	37,914	151,974	142,232
Revenue redemption	39,354	7,777	47,131	45,041
Revenue	47,487	30,691	78,178	80,810
Renewal and replacement reserve	34,183	18,382	52,565	50,115
Insurance	8,999	8,998	17,997	17,997
Community obligation and revenue enhancement	18,931	2,012	20,943	20,700
Total restricted cash and investments	\$ <u>504,807</u>	<u>238,935</u>	<u>743,742</u>	<u>681,708</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Supplemental Schedule  
Combining Balance Sheet

June 30, 2002

(Dollars in thousands)

<b>Assets</b>	<b>Sewer</b>	<b>Water</b>	<b>Combined total</b>
Unrestricted current assets:			
Cash and cash equivalents	\$ 24,212	9,846	34,058
Investments	37,740	16,263	54,003
Intergovernmental loans	4,842	7,673	12,515
Accounts receivable	1,291	526	1,817
Total unrestricted current assets	<u>68,085</u>	<u>34,308</u>	<u>102,393</u>
Restricted assets:			
Cash and investments	504,807	238,935	743,742
Interest receivable	4,699	2,478	7,177
Grants receivable:			
Billed	1,596	(56)	1,540
Unbilled	1,169	—	1,169
Total restricted assets	<u>512,271</u>	<u>241,357</u>	<u>753,628</u>
Capital assets, not being depreciated	317,343	876,537	1,193,880
Capital assets, being depreciated, net	3,788,219	1,459,762	5,247,981
Deferred charges	172,655	70,731	243,386
Other assets, net	95,628	31,577	127,205
Total assets	<u>\$ 4,954,201</u>	<u>2,714,272</u>	<u>7,668,473</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 21,794	21,383	43,177
Commercial paper notes	—	317,000	317,000
Current portion of long-term debt	96,158	21,812	117,970
Total current liabilities	<u>117,952</u>	<u>360,195</u>	<u>478,147</u>
Payable from restricted assets:			
Accounts payable for construction	26,541	19,394	45,935
Accrued interest on bonds payable	41,730	13,983	55,713
Total payable from restricted assets	<u>68,271</u>	<u>33,377</u>	<u>101,648</u>
Retainage on construction in progress	11,244	32,981	44,225
Long-term debt, less current portion	3,287,529	1,099,438	4,386,967
Long-term capital leases	25,234	11,874	37,108
Reserves	82,670	36,514	119,184
Deferred credits	133,108	21,284	154,392
Total liabilities	<u>3,726,008</u>	<u>1,595,663</u>	<u>5,321,671</u>
Net assets			
Invested in capital assets, net of related debt	1,000,195	1,005,785	2,005,980
Restricted	85,861	42,329	128,190
Unrestricted	142,137	70,495	212,632
Total net assets	<u>1,228,193</u>	<u>1,118,609</u>	<u>2,346,802</u>
Commitments and contingencies			
Total liabilities and net assets	<u>\$ 4,954,201</u>	<u>2,714,272</u>	<u>7,668,473</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Supplemental Schedule  
Combining Balance Sheet

June 30, 2001

(Dollars in thousands)

<b>Assets</b>	<b>Sewer</b>	<b>Water</b>	<b>Combined total</b>
Unrestricted current assets:			
Cash and cash equivalents	\$ 29,842	12,802	42,644
Investments	33,296	13,751	47,047
Intergovernmental loans	4,485	5,903	10,388
Accounts receivable	307	1,604	1,911
Total unrestricted current assets	<u>67,930</u>	<u>34,060</u>	<u>101,990</u>
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	<u>552,916</u>	<u>138,536</u>	<u>691,452</u>
Capital assets, not being depreciated	252,917	755,333	1,008,250
Capital assets, being depreciated, net	3,807,803	1,407,932	5,215,735
Deferred charges	151,073	67,156	218,229
Other assets, net	79,500	23,301	102,801
Total assets	<u>\$ 4,912,139</u>	<u>2,426,318</u>	<u>7,338,457</u>
<b>Liabilities and Net Assets</b>			
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	<u>82,973</u>	<u>365,355</u>	<u>448,328</u>
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	<u>67,048</u>	<u>36,483</u>	<u>103,531</u>
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	<u>3,657,752</u>	<u>1,276,081</u>	<u>4,933,833</u>
Net assets			
Invested in capital assets, net of related debt	1,061,150	1,045,857	2,107,007
Restricted	76,232	37,808	114,040
Unrestricted	117,005	66,572	183,577
Total net assets	<u>1,254,387</u>	<u>1,150,237</u>	<u>2,404,624</u>
Commitments and contingencies			
Total liabilities and net assets	<u>\$ 4,912,139</u>	<u>2,426,318</u>	<u>7,338,457</u>

See accompanying independent auditors' report.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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

Year ended June 30, 2002

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 288,953	112,438	401,391
Other	1,909	182	2,091
	<u>290,862</u>	<u>112,620</u>	<u>403,482</u>
Operating expenses:			
Operations	53,290	27,617	80,907
Maintenance	13,138	3,208	16,346
Payments in lieu of taxes	—	4,911	4,911
Engineering, general, and administrative	76,727	31,276	108,003
	<u>143,155</u>	<u>67,012</u>	<u>210,167</u>
Income from operations before depreciation	147,707	45,608	193,315
Depreciation	<u>109,323</u>	<u>45,935</u>	<u>155,258</u>
Operating income (loss)	<u>38,384</u>	<u>(327)</u>	<u>38,057</u>
Regulatory accounting provisions:			
Increase in reserves recovered through rates	—	—	—
Decrease in deferred credits, net	27,872	81	27,953
	<u>27,872</u>	<u>81</u>	<u>27,953</u>
Nonoperating income (expense):			
Debt service grants	44,171	6,036	50,207
Investment income	32,112	10,839	42,951
Interest expense	(174,358)	(48,485)	(222,843)
	<u>(98,075)</u>	<u>(31,610)</u>	<u>(129,685)</u>
Net loss before capital contributions	(31,819)	(31,856)	(63,675)
Capital grants and contributions	<u>5,625</u>	<u>228</u>	<u>5,853</u>
Change in net assets	(26,194)	(31,628)	(57,822)
Total net assets, beginning of year	<u>1,254,387</u>	<u>1,150,237</u>	<u>2,404,624</u>
Total net assets, end of year	\$ <u><u>1,228,193</u></u>	<u><u>1,118,609</u></u>	<u><u>2,346,802</u></u>

See accompanying notes to financial statements.



**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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

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	75,102	41,819	116,921
Maintenance	13,750	2,908	16,658
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 before capital contributions	(30,600)	(31,300)	(61,900)
Capital grants and contributions	<u>9,126</u>	<u>1,528</u>	<u>10,654</u>
Change in net assets	(21,474)	(29,772)	(51,246)
Total net assets, beginning of year	<u>1,275,861</u>	<u>1,180,009</u>	<u>2,455,870</u>
Total net assets, end of year	\$ <u><u>1,254,387</u></u>	<u><u>1,150,237</u></u>	<u><u>2,404,624</u></u>

See accompanying notes to financial statements.