



MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements and Supplemental Schedules
and Required Supplementary Information

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

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Independent Auditors' Report

The Board of Directors
Massachusetts Water Resources Authority:

We have audited the accompanying balance sheets of the Massachusetts Water Resources Authority (the Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2012 and 2011, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedules of funding progress on pages 3-10 and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other



knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental schedules listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

August 24, 2012

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights – Fiscal 2012

The fiscal 2012 customer service revenues were approximately \$599.4 million. Of this amount, rate revenues represent approximately 98.4%, or \$589.7 million, and were \$19.9 million higher than fiscal 2011. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$261.5 million in fiscal 2012. The 2.6% increase in total operating expenses over fiscal 2011 is the result of increases in personnel costs, diesel fuel, pension and other post employment benefits. Diesel fuel expenses increased as purchases expected to be made in fiscal 2011 were made in fiscal 2012. Pension expense increased as an additional, optional \$1.9 million contribution was made in fiscal 2012.

Net nonoperating expenses decreased \$44.7 million, or 17%, primarily due to a \$32.7 million decrease in interest expense, an \$11.6 million increase in investment income and receipt of a debt service grant of \$0.4 million. The decrease in interest expense was due to lower variable interest rates. The increase in investment income was primarily due to an increase in the unrealized gain on investments.

Total assets at June 30, 2012 were approximately \$8.5 billion, a \$91.5 million, or 1.1%, increase over total assets at June 30, 2011.

During fiscal 2012, the Authority issued General Revenue Refunding Bonds, 2011 Series C for \$327.2 million. The proceeds from these bonds were used to refund \$352.2 million of the Authority's outstanding bonds. The interest rate on these bonds is 3.125% to 5.25%. The Authority also issued General Revenue Bonds, 2012 Series A and General Revenue Refunding Bonds Series B, for \$150 million and \$86.8 million, respectively. The proceeds from the Series A bonds were used to fund on-going capital projects. The interest rate on these bonds is 2% to 5%. The proceeds from the Series B bonds were used to refund \$102.9 million of the Authority's outstanding bonds. The interest rate on these bonds is 4.25% to 5%.

Total capital assets (net of depreciation) were approximately \$6.2 billion at June 30, 2012, a \$72.0 million, or 1.1%, decrease over June 30, 2011. The decrease was primarily due to the capitalization of community-owned CSO projects to other assets.

Financial Highlights – Fiscal 2011

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

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

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

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

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

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

Derivative Instruments

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

Overview of the Financial Statements

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

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

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at June 30, 2012 were approximately \$1.8 billion, a \$41.7 million decrease from June 30, 2011. Total assets increased \$91.5 million, or 1.1%, to \$8.5 billion, and total liabilities increased \$133.2 million, or 2.0%, to \$6.6 billion.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

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

Net Assets

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	Percentage change 2012 – 2011	Percentage change 2011 – 2010
Current assets	\$ 117,332	117,010	118,708	0.3%	(1.4)%
Restricted assets	869,715	785,751	730,353	10.7	7.6
Capital assets	6,232,394	6,304,377	6,370,258	(1.1)	(1.0)
Other assets	1,162,767	1,127,303	1,044,006	3.1	8.0
Deferred outflows from derivative instruments	<u>92,381</u>	<u>48,623</u>	<u>64,441</u>	<u>90.0</u>	<u>(24.5)</u>
Total assets and deferred outflows	<u>\$ 8,474,589</u>	<u>8,383,064</u>	<u>8,327,766</u>	<u>1.1%</u>	<u>0.7%</u>
Current liabilities	\$ 300,868	291,357	315,104	3.3%	(7.5)%
Payable from restricted assets	202,306	208,930	210,182	(3.2)	(0.6)
Long-term debt	5,879,419	5,800,267	5,658,514	1.4	2.5
Long-term lease	32,404	33,056	33,659	(2.0)	(1.8)
Other liabilities	<u>226,345</u>	<u>174,521</u>	<u>192,833</u>	<u>29.7</u>	<u>(9.5)</u>
Total liabilities	<u>\$ 6,641,342</u>	<u>6,508,131</u>	<u>6,410,292</u>	<u>2.0%</u>	<u>1.5%</u>
Net assets:					
Invested in capital assets – net of related debt	\$ 845,989	972,480	1,076,654	(13.0)%	(9.7)%
Restricted	293,373	227,411	205,928	29.0	10.4
Unrestricted	<u>693,885</u>	<u>675,042</u>	<u>634,892</u>	<u>2.8</u>	<u>6.3</u>
Total net assets	<u>\$ 1,833,247</u>	<u>1,874,933</u>	<u>1,917,474</u>	<u>(2.2)%</u>	<u>(2.2)%</u>

Changes in Net Assets

The decrease in net assets at June 30, 2012 was \$41.7 million, or 2.2%, as compared with June 30, 2011. The Authority's total operating revenues increased by 3.1% to \$602.6 million and total operating expenses increased 2.6% to \$261.5 million.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

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

Changes in Net Assets

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Percentage change 2012 – 2011</u>	<u>Percentage change 2011 – 2010</u>
Operating revenues:					
Customer service revenues	\$ 599,372	579,240	571,360	3.5%	1.4%
Other revenues	3,248	5,114	2,938	(36.5)	74.1
Total operating revenues	<u>602,620</u>	<u>584,354</u>	<u>574,298</u>	<u>3.1</u>	<u>1.8</u>
Operating expenses:					
Operations	99,802	93,756	96,923	6.4	(3.3)
Maintenance	26,776	27,964	25,561	(4.2)	9.4
Payments in lieu of taxes	7,311	7,000	6,732	4.4	4.0
Engineering, general, and administrative	127,621	126,127	131,551	1.2	(4.1)
Total operating expenses	<u>261,510</u>	<u>254,847</u>	<u>260,767</u>	<u>2.6</u>	<u>(2.3)</u>
Depreciation and amortization	<u>191,124</u>	<u>180,734</u>	<u>189,798</u>	<u>5.7</u>	<u>(4.8)</u>
Operating income	<u>149,986</u>	<u>148,773</u>	<u>123,733</u>	<u>0.8</u>	<u>20.2</u>
Nonoperating items:					
Regulatory accounting provisions	22,575	74,139	67,995	(69.6)	9.0
Net nonoperating expenses	(224,883)	(263,761)	(234,588)	(14.7)	12.4
Capital grants and contributions	7,696	7,036	8,211	9.4	(14.3)
Changes in derivative related accounts	2,940	(8,728)	—	(133.7)	100.0
Loss on disposal of capital assets	—	—	(21,453)	—	(100.0)
Total nonoperating items	<u>(191,672)</u>	<u>(191,314)</u>	<u>(179,835)</u>	<u>0.2</u>	<u>6.4</u>
Change in net assets	<u>(41,686)</u>	<u>(42,541)</u>	<u>(56,102)</u>	<u>(2.0)</u>	<u>(24.2)</u>
Total net assets – beginning of year	<u>1,874,933</u>	<u>1,917,474</u>	<u>1,973,576</u>	<u>(2.2)</u>	<u>(2.8)</u>
Total net assets – end of year	<u>\$ 1,833,247</u>	<u>1,874,933</u>	<u>1,917,474</u>	<u>(2.2)%</u>	<u>(2.2)%</u>

During fiscal 2012, the increases in customer service revenues were primarily due to the 3.49% increase in the rate revenue requirement (\$19.9 million).

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

Total operating costs, before depreciation and amortization, were approximately \$261.5 million in fiscal 2012. The 2.6% increase in total operating expenses over fiscal 2011 is the result of increases in personnel costs, diesel fuel, pension and other post employment benefits. Diesel fuel expenses increased as purchases expected to be made in fiscal 2011 were made in fiscal 2012. Pension expense increased as an additional, optional \$1.9 million contribution was made in fiscal 2012.

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

In fiscal 2012, net nonoperating expenses decreased \$38.9 million, or 14.7%, primarily due to a \$26.9 million decrease in interest expense, an \$11.6 million increase in investment income and receipt of a debt service grant of \$0.4 million.

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

Operating Costs by Functionality

(Dollars in thousands)

	2012	2011	2010	Percentage change 2012 – 2011	Percentage change 2011 – 2010
Wastewater treatment and transport	\$ 95,137	91,223	100,157	4.3%	(8.9)%
Water treatment and transport	33,762	34,113	29,843	(1.0)	14.3
Water and wastewater quality	7,815	8,508	8,668	(8.1)	(1.8)
Metering and monitoring	5,511	6,054	5,174	(9.0)	17.0
Facilities planning, design, and construction	9,604	9,914	10,527	(3.1)	(5.8)
Management information systems	8,901	8,533	8,810	4.3	(3.1)
Administration and support	44,105	45,928	42,981	(4.0)	6.9
Total direct operating costs	204,835	204,273	206,160	0.3	(0.9)
Indirect operating costs	56,675	50,574	54,607	12.1	(7.4)
Total operating costs	\$ 261,510	254,847	260,767	2.6%	(2.3)%

Wastewater treatment and transport expenses increased due to increased preventive maintenance and asset protection costs, increased diesel costs as purchases expected to be made in fiscal 2011 were made in fiscal 2012 and increases in salaries and wages and chemical costs. Water and wastewater quality expenses decreased due to lower Harbor Outfall Monitoring activities. Metering and monitoring expenses decreased due to fewer equipment purchases.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012 and 2011, the Authority had \$6.2 billion and \$6.3 billion of capital assets (net of depreciation), respectively. This includes land, construction in progress, plant and equipment for the water and sewer systems, furniture and fixtures, leasehold improvements, and motor vehicles and equipment. The Authority's net capital assets decreased approximately \$72 million, or 1.1%, during fiscal 2012, primarily due to the capitalization of community-owned CSO projects to other assets.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	Percentage change 2012 – 2011	Percentage change 2011 – 2010
Land	\$ 24,255	23,497	13,413	3.2%	75.2%
Construction in progress	159,878	177,070	424,133	(9.7)	(58.3)
Plant and equipment, water, and sewer systems	6,045,143	6,100,592	5,930,317	(0.9)	2.9
Furniture and fixtures	1,033	1,324	1,529	(22.0)	(13.4)
Leasehold improvements	351	362	370	(3.0)	(2.2)
Motor vehicles and equipment	1,734	1,532	496	13.2	208.9
	<u>\$ 6,232,394</u>	<u>6,304,377</u>	<u>6,370,258</u>	<u>(1.1)%</u>	<u>(1.0)%</u>

Debt Administration

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

Bond Resolutions

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

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

Credit Rating

The Authority's \$3.5 billion Senior Lien General Revenue Bonds are rated Aa1 from Moody's Investors Service, AA+ by Standard and Poors Ratings Services and AA+ from FitchRatings. The \$1.2 billion Subordinate Lien General Revenue Bonds are rated Aa2 from Moody's Investors Service, AA by Standard and Poors Ratings Services and AA from FitchRatings. Some of the Authority's revenue bonds are enhanced by bond insurance. The credit ratings of these bond series will be the higher rating of either the Authority or the firm providing the enhancement. In the case of bonds enhanced by a letter of credit, the rating will be the highest of the Authority's, the provider or, if available, a joint rating. The subordinated debt of \$1.1 billion with the Massachusetts Water Pollution Abatement Trust is not rated as the Authority's debt.

Economic Factors and Next Year's Budget

In June 2012, the Board approved the fiscal 2013 Current Expense Budget (CEB), which totals \$635.9 million in expenses which includes \$350,000 in debt service offsets.

The \$635.9 million expense total is comprised of \$375.3 million (59%) in capital financing costs and \$260.6 million (41%) in operating expenses, of which \$214.9 million (82.5%) is for direct expenses and \$45.7 million (17.5%) is for indirect expenses. The total represents an increase of \$25.9 million from fiscal 2012 spending, which is comprised of \$15.4 million in higher operating costs and \$10.5 million in higher debt service costs.

The fiscal 2013 rate revenue requirement approved by the Board is \$607.5 million; an increase of 3.0% compared with the fiscal 2012 budget.

Fiscal 2013 budgeted nonrate revenue totals \$28.3 million, a decrease of \$2.0 million from actual fiscal 2012 nonrate revenue. The nonrate revenue budget is comprised of \$14.4 million in investment income, \$13.2 million in other user charges and other revenue and \$0.7 million in entrance fees.

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Management's Discussion and Analysis – Required Supplementary Information

June 30, 2012 and 2011

(Unaudited)

CIP 10 Year Plan

The Authority's planned spending for capital improvements in future years reflects the Authority's ongoing efforts to upgrade and maintain the system and to align its project prioritization process with the Master Plan.

Major planned and ongoing projects include:

- Improvement and replacement of equipment on Deer Island and at other facilities to ensure continued efficient and effective operations.
- Completion of the long-term CSO control plan, resulting in closing CSO outfalls and reducing CSO discharges to Boston Harbor and the Mystic, Charles, and Neponset River systems.
- Rehabilitation of the Hultman Aqueduct to provide transmission redundancy in order to ensure reliable water delivery and provide sufficient hydraulic capacity to support the John J. Carroll water treatment plant and covered storage facilities.
- Installation of ultraviolet light disinfection facilities at the John J. Carroll water treatment plant.
- Completion of covered storage facilities to provide safe, reliable storage for water treated at John J. Carroll water treatment plant and transported through the MetroWest Tunnel and Hultman Aqueduct.
- Demonstrate continued dedication to using resources efficiently, responding to climate change and reducing the environmental impacts of the Authority's daily operations by installing alternative energy sources.
- Continued commitment to the community assistance programs for both the sewer and water systems to improve local infrastructure.
- Continued investment for the upgrade of Management Information Systems to ensure the availability, integrity and security of data.
- Commence the Residuals Asset Protection program for maintaining and improving the operations and infrastructure of the biosolids processing in the long term.

Contacting the Authority's Financial Management

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Assets and Deferred Outflows	2012	2011
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 42,237	41,629
Investments (note 4)	47,827	47,962
Intergovernmental loans (note 7)	26,263	26,758
Accounts receivable	1,005	661
Total unrestricted current assets	<u>117,332</u>	<u>117,010</u>
Restricted assets:		
Investments (note 4)	866,922	781,940
Interest receivable	2,793	3,811
Total restricted assets	<u>869,715</u>	<u>785,751</u>
Capital assets – not being depreciated (note 8)	184,133	200,567
Capital assets – being depreciated – net (note 8)	6,048,261	6,103,810
Deferred charges (note 3)	782,394	765,786
Other assets, net (note 7)	380,373	361,517
Deferred outflows from derivative instruments (note 6)	92,381	48,623
Total	<u>\$ 8,474,589</u>	<u>8,383,064</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 53,097	52,634
Commercial paper notes (note 6)	144,000	144,000
Current portion of long-term debt (note 6)	103,771	94,723
Total current liabilities	<u>300,868</u>	<u>291,357</u>
Payable from restricted assets:		
Accounts payable for construction	17,427	24,301
Accrued interest on bonds payable	84,358	84,303
Reserves (note 5)	100,521	100,326
Total payable from restricted assets	<u>202,306</u>	<u>208,930</u>
Retainage on construction in progress	10,378	11,269
Long-term debt – less current portion (note 6)	5,879,419	5,800,267
Long-term capital lease (note 9)	32,404	33,056
Other postemployment benefits (note 11)	75,360	60,241
Liability for derivative instruments (note 6)	92,381	48,623
Deferred credits (note 3)	48,226	54,388
Total liabilities	<u>6,641,342</u>	<u>6,508,131</u>
Net assets:		
Invested in capital assets, net of related debt	845,989	972,480
Restricted	293,373	227,411
Unrestricted	693,885	675,042
Total net assets	<u>1,833,247</u>	<u>1,874,933</u>
Commitments and contingencies (notes 9, 10, 11, 12, and 13)		
Total	<u>\$ 8,474,589</u>	<u>8,383,064</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues (note 2):		
Customer services	\$ 599,372	579,240
Other	3,248	5,114
Total operating revenues	<u>602,620</u>	<u>584,354</u>
Operating expenses:		
Operations	99,802	93,756
Maintenance	26,776	27,964
Payments in lieu of taxes	7,311	7,000
Engineering, general, and administrative	127,621	126,127
Total operating expenses	<u>261,510</u>	<u>254,847</u>
Income from operations before depreciation	341,110	329,507
Depreciation and amortization	<u>191,124</u>	<u>180,734</u>
Operating income	<u>149,986</u>	<u>148,773</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	(195)	2,335
Change in deferrals, net (note 3)	22,770	71,804
Total regulatory accounting provisions	<u>22,575</u>	<u>74,139</u>
Nonoperating revenues (expenses):		
Debt service grant	384	—
Investment income	20,902	9,263
Interest expense	(246,169)	(273,024)
Changes in derivative related accounts	2,940	(8,728)
Total nonoperating expenses	<u>(221,943)</u>	<u>(272,489)</u>
Net loss before capital contributions	(49,382)	(49,577)
Capital grants and contributions	<u>7,696</u>	<u>7,036</u>
Decrease in net assets	(41,686)	(42,541)
Total net assets, beginning of year	<u>1,874,933</u>	<u>1,917,474</u>
Total net assets, end of year	<u>\$ 1,833,247</u>	<u>1,874,933</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 598,958	579,162
Cash paid to suppliers for goods and services	(119,506)	(116,553)
Cash paid to employees for services	(119,046)	(118,570)
Cash paid in lieu of taxes	(7,311)	(7,000)
Other operating receipts	3,248	5,114
Net cash provided by operating activities	<u>356,343</u>	<u>342,153</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	256,488	174,412
Capital grants for construction	7,696	7,036
Debt service grant	384	—
Capital lease principal payments	(652)	(603)
Capital lease interest payments	(2,565)	(2,614)
Repayment of debt	(185,514)	(105,586)
Interest paid on debt	(223,227)	(225,300)
Plant expenditures	(145,418)	(144,495)
Net cash used for capital and related financing activities	<u>(292,808)</u>	<u>(297,150)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(150,702)	(152,508)
Sales and maturities of short-term investments	224,200	104,459
Decrease in restricted cash and investments – net	(152,520)	(12,060)
Interest received	16,095	14,357
Net cash used for investing activities	<u>(62,927)</u>	<u>(45,752)</u>
Net increase (decrease) in cash and cash equivalents	608	(749)
Cash and cash equivalents, beginning of year	<u>41,629</u>	<u>42,378</u>
Cash and cash equivalents, end of year	\$ <u>42,237</u>	\$ <u>41,629</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 149,986	148,773
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	191,124	180,734
Change in other accounts	(352)	(113)
Change in accounts payable	15,585	12,759
Net cash provided by operating activities	\$ <u>356,343</u>	\$ <u>342,153</u>

Noncash capital and related financing activities:

In December 2011, general revenue refunding bonds in the aggregate principal amount of \$327,160 were issued to defease \$352,190 of bonds outstanding.

In April 2012, general revenue refunding bonds in the aggregate principal amount of \$86,775 were issued to defease \$102,915 of bonds outstanding.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(1) Organization

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

The Authority is governed by an 11-member board of directors (the Board) chaired by the Secretary of Energy and Environmental Affairs for the Commonwealth. The Secretary and two other members are appointed by the Governor. Three members of the Board are appointed by the Mayor of Boston and three are appointed by the Authority's Advisory Board. One member is appointed by the Mayor of Quincy and one by the Winthrop Council President.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

In addition, the Authority has adopted the provisions of FASB *Accounting Standards Codification for Regulated Operations*, to provide a better matching of revenues and expenses. The effect of this policy has been to defer certain costs, which will be recovered through future revenues in accordance with the Authority's rate model, and to record deferred credits for revenue collected through current rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under FASB Accounting Standards Codification are discussed further in note 3.

(b) Capital Assets

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

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

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

(c) Interest Cost and Principal Payments on Construction

During fiscal 2012 and 2011, 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.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(d) Depreciation

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

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

(e) Revenue Recognition

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

(f) Cash and Cash Equivalents

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

(g) Payments in Lieu of Taxes

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

(h) Investments

Investments, other than guaranteed investment contracts, are recorded at fair value. Fair value is determined based on quoted market price. Guaranteed investment contracts are recorded at cost. The Authority recorded unrealized gains of \$4,632 in fiscal 2012 and unrealized losses of \$5,942 in fiscal 2011 as part of investment income.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(i) Use of Estimates

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

(j) Compensated Absences

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

(3) Deferred Charges and Credits

In accordance with FASB *Accounting Standards Codification for Regulated Operations*, deferred charges and credits result primarily from differences between depreciation on property, plant, and equipment not financed by grants or capital contributions, which is recovered through rates as principal payments on debt service, and from amounts determined by the Board to be utilized in a subsequent year to reduce customer billings (rate stabilization).

A summary of the activity of charges (credits) for fiscal 2012 and 2011 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2010 – net	\$ 561,638	77,956	639,594
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	27,504	18,776	46,280
Rate stabilization, net	(5,239)	6,121	882
Other – net	<u>16,820</u>	<u>7,822</u>	<u>24,642</u>
Balance – June 30, 2011 – net	600,723	110,675	711,398
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	9,344	7,264	16,608
Rate stabilization, net	482	(9,212)	(8,730)
Other – net	<u>(24)</u>	<u>14,916</u>	<u>14,892</u>
Balance – June 30, 2012 – net	\$ <u><u>610,525</u></u>	<u><u>123,643</u></u>	<u><u>734,168</u></u>

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The net balance at June 30, 2012 and 2011 is presented on the balance sheets as follows:

	<u>2012</u>	<u>2011</u>	<u>Current year change</u>
Deferred charges	\$ 782,394	765,786	16,608
Deferred credits	(48,226)	(54,388)	6,162
Net change in deferrals	\$ <u>734,168</u>	<u>711,398</u>	<u>22,770</u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$49,834 and \$41,104 at June 30, 2012 and 2011, respectively.

(4) Deposits and Investments

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

(a) Custodial Credit Risk – Deposits

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

The bank deposits at June 30, 2012 and 2011 were \$43,795 and \$45,343, respectively. Of these amounts, \$43,545 and \$45,093 were exposed to custodial credit risks as uninsured and uncollateralized.

(b) Investments

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

The following guaranteed investment contract was in force as of June 30, 2012 and 2011, respectively. Such contracts are fully collateralized and recorded at cost:

<u>Investment agreement provider</u>	<u>Rate</u>	<u>Maturity</u>	<u>2012</u>	<u>2011</u>
Wells Fargo Bank, N.A.	5.17%	August 1, 2016	\$ <u>14,456</u>	<u>14,456</u>
Total			\$ <u>14,456</u>	<u>14,456</u>

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(c) Credit Ratings

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

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

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

(d) Concentration Risk

The Authority has no investments, at fair value, which exceeds 5% of the Authority's total investments as of June 30, 2012 and 2011.

(e) Interest Rate Risk

The following is a listing of the Authority's fixed income investments and related maturity schedule as of June 30, 2012 and 2011:

		June 30, 2012				
		Investment maturities (in years)				
Investment type	Fair value	<1	1 – 3	4 – 8	>9	
Money market mutual funds	\$ 620,311	620,311	—	—	—	
U.S. Treasury notes and bonds	4,238	—	4,238	—	—	
U.S. agency obligations	275,744	—	72,982	58,362	144,400	
Guaranteed investment contract	14,456	—	—	14,456	—	
Total	\$ 914,749	620,311	77,220	72,818	144,400	

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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

(f) Restricted Investments by Fund

The following summarizes restricted investments as of June 30, 2012 and 2011 by various funds and accounts established by the Authority for debt covenants and other purposes:

	<u>2012</u>	<u>2011</u>
Restricted investments:		
Construction	\$ 240,904	164,456
Debt service reserves	235,723	246,192
Debt service	197,022	189,988
Revenue redemption	33,163	33,197
Revenue	82,033	69,342
Renewal and replacement reserve	37,072	37,552
Insurance	14,000	14,000
Community obligation and revenue enhancement	20,745	20,862
OPEB Reserve	803	801
Insurance related escrow deposits	5,457	5,550
Total restricted investments	\$ <u>866,922</u>	<u>781,940</u>

(5) Bond Resolution Reserves

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2012 and 2011 are as follows:

<u>Reserves</u>		<u>Sewer</u>	<u>Water</u>	<u>2012 Total</u>	<u>2011 Total</u>
Renewal and replacement	\$	17,300	11,701	29,001	29,001
Insurance		7,000	7,000	14,000	14,000
Operating		25,651	11,753	37,404	37,209
Community obligation and revenue enhancement		18,399	1,717	20,116	20,116
Total	\$	<u>68,350</u>	<u>32,171</u>	<u>100,521</u>	<u>100,326</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, 2012 and 2011.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2012 and 2011 consisted of the following:

	2012	2011
General Revenue Bonds:		
1993 Series C, 5 1/4%, issued December 2, 1993, due 2013 to 2015	\$ 28,705	32,510
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2014 to 2042	297,300	529,295
2003 Series D, 4 5/8% to 5%, issued January 7, 2004,	—	113,340
2004 Series A, 4 3/4% to 5 1/8%, issued June 10, 2004,	—	104,870
2006 Series A, 4% to 5%, issued March 16, 2006, due 2023 to 2046	200,000	200,000
2007 Series A, 4 3/8% to 5%, issued February 1, 2007 due 2023 to 2046	198,000	200,000
2009 Series A, 3% to 5%, issued February 19, 2009 due 2012 to 2039	91,160	94,005
2010 Series A, 3% to 5%, issued May 6, 2010 due 2016 to 2040	98,895	100,000
2011 Series B, 2% to 5%, issued May 19, 2011 due 2012 to 2041	147,335	150,000
2012 Series A, 2% to 5%, issued April 19, 2012 due 2013 to 2042	150,000	—
	1,211,395	1,524,020
General Revenue Refunding Bonds:		
1997 Series D, 6%, issued December 15, 1997	—	7,310
1998 Series B, 5 1/2%, issued January 27, 1998	—	19,330
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	48,950	49,390
2005 Series A, 5% to 5 1/4%, issued April 14, 2005, due 2015 to 2034	356,665	356,665
2005 Series B, 5%, issued April 14, 2005, due 2031 to 2035	80,290	80,290
2006 Series B, 4% to 5%, issued March 16, 2006, due 2016 to 2040	263,940	263,940
2007 Series B, 5 1/4%, issued February 1, 2007 due 2023 to 2038	647,950	647,950

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
2009 Series B, 3% to 5%, issued February 19, 2009 due 2012 to 2039	\$ 280,220	282,560
2010 Series B, 5%, issued May 6, 2010 due 2014 to 2032	183,570	183,570
2011 Series C, 3 1/8% to 5 1/4%, issued December 8, 2011 due 2018 to 2042	327,160	—
2012 Series B, 4 1/4% to 5%, issued April 19, 2012, due 2026 to 2029	86,775	—
	<u>2,275,520</u>	<u>1,891,005</u>
 General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust:		
1993 Series A, 5 1/2%, issued March 18, 1993, due 2012 to 2013	600	1,165
1993 Series D, 5 1/5% to 5 1/4%, issued January 6, 1994, due 2012 to 2014	1,005	1,470
1995 Series A, 5% to 5 1/2%, issued November 21, 1995, due 2012 to 2015	1,445	1,995
1998 Series C, 4 3/4% to 5 3/8%, issued July 9, 1998, due 2012 to 2018	4,606	5,636
1999 Series E Sewer, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2012 to 2029	7,615	7,915
1999 Series E Water, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2012 to 2019	5,730	6,340
1999 Series F, 5 1/2% to 6%, issued November 3, 1999, due 2012 to 2029	279,865	293,815
2000 Series E Sewer, 5% to 5 5/8%, issued November 1, 2000, due 2012 to 2030	56,688	58,631
2000 Series E Water, 5% to 5 5/8%, issued November 1, 2000, due 2012 to 2020	6,720	7,345
2001 Series C Water, 5% to 5 1/4%, issued July 26, 2001, due 2013 to 2021	2,900	3,170
2001 Series D Sewer, 5 1/4% to 5 3/4%, issued July 26, 2001, due 2012 to 2029	4,303	4,724
2001 Series D Water, 5 1/5% to 5 3/4%, issued July 26, 2001, due 2012 to 2019	810	896
2002 Series H Sewer, 5% to 5 1/4%, issued October 31, 2002, due 2012 to 2032	72,805	75,130
2002 Series H Water, 5% to 5 1/4%, issued October 31, 2002, due 2012 to 2022	20,735	22,265

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Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
2002 Series I Sewer, 5% to 5 5/8%, issued October 31, 2002, due 2012 to 2030	\$ 2,047	2,124
2002 Series I Water, 5% to 5 5/8%, issued October 31, 2002, due 2012 to 2020	17	19
2003 Series A Water, 4% to 5 1/4%, issued October 31, 2002, due 2012 to 2022	955	1,026
2003 Series B Water, 5% to 5 1/4%, issued July 24, 2003, due 2013 to 2021	2,619	2,863
2003 Series C Sewer, 3 5/8% to 5 1/2%, issued November 6, 2003, due 2012 to 2033	26,296	27,075
2003 Series C Water, 3 3/4% to 5 1/2%, issued November 6, 2003, due 2012 to 2023	14,292	15,254
2004 Series C Sewer, 3 3/5% to 5 1/2%, issued October 26, 2004, due 2012 to 2033	8,929	9,194
2004 Series C Water, 4% to 5 1/4%, issued October 26, 2004, due 2012 to 2022	1,069	1,166
2004 Series D Sewer, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2012 to 2034	50,315	52,575
2004 Series D Water, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2012 to 2024	9,725	10,289
2005 Series C Sewer, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2012 to 2033	5,985	6,213
2005 Series C Water, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2012 to 2023	747	797
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2012 to 2035	55,733	57,716
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2012 to 2025	10,621	11,350
2005 Series E Sewer, 2%, issued November 16, 2005, due 2012 to 2025	301	305
2005 Series E Water, 2%, issued November 16, 2005, due 2012 to 2025	67	68
2006 Series C Sewer, 3 1/5% to 5 1/4%, issued October 26, 2006, due 2012 to 2034	7,391	7,656
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2012 to 2036	55,844	58,158
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2012 to 2026	22,736	24,190
2006 Series E Sewer, 2%, issued December 14, 2006, due 2012 to 2026	294	311
2006 Series E Water, 2%, issued December 14, 2006, due 2012 to 2026	132	139

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Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
2007 Series C Sewer, 2% to 2 3/10%, issued November 9, 2007, due 2012 to 2035	\$ 3,737	3,960
2007 Series C Water, 2%, issued November 9, 2007, due 2012 to 2025	2,133	2,281
2007 Series D Sewer, 2 3/10%, issued November 9, 2007, due 2012 to 2036	21,163	21,782
2007 Series E Sewer, 2% to 2 2/5%, issued December 18, 2007, due 2012 to 2037	53,653	55,511
2007 Series E Water, 2%, issued December 18, 2007, due 2012 to 2027	16,591	17,464
2008 Series G Sewer, 2%, issued December 9, 2008, due 2012 to 2026	4,981	5,276
2008 Series G Water, 2%, issued December 9, 2008, due 2012 to 2026	1,036	1,095
2009 Series C Sewer, 2% to 2 2/5%, issued March 18, 2009, due 2012 to 2038	80,441	84,134
2009 Series C Water, 2%, issued March 18, 2009, due 2012 to 2028	26,536	27,834
2009 Series D Sewer, 2% to 2 2/5%, issued December 15, 2009, due 2012 to 2037	10,210	10,610
2009 Series D Water, 2%, issued December 15, 2009, due 2012 to 2027	1,146	1,206
2010 Series D Sewer, 2% to 2 2/5%, issued July 8, 2010, due 2012 to 2040	25,557	25,660
2010 Series D Water, 2%, issued July 8, 2010, due 2012 to 2030	22,140	23,088
2011 Series A Sewer, 2% to 2 2/5%, issued March 15, 2012, due 2012 to 2038	5,707	5,951
2011 Series A Water, 2%, issued March 15, 2012, due 2012 to 2028	5,153	5,411
2012 Series C Sewer, 2% to 2 2/5%, issued June 6, 2012, due 2012 to 2040	8,053	—
2012 Series C Water, 2%, issued June 6, 2012, due 2012 to 2030	3,942	—
2012 Series d Sewer, 2% to 2 2/5%, issued June 13, 2012, due 2013 to 2042	44,049	—
2012 Series D Water, 2%, issued June 13, 2012, due 2013 to 2032	8,589	—
	<u>1,086,759</u>	<u>1,070,248</u>

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
General Revenue Bonds (variable rates):		
1999 Series B, 0.04% to 0.27%, issued January 29, 1999, due 2016 to 2028	\$ 62,300	69,300
	<u>62,300</u>	<u>69,300</u>
General Revenue Refunding Bonds (variable rates):		
2002 Series C, 0.02% to 0.27%, issued August 15, 2002, due 2020	35,120	70,575
2002 Series D, 0.02% to 0.28%, issued August 15, 2002, due 2016 to 2017	56,450	56,450
2008 Series A, 0.02% to 0.24%, issued May 29, 2008, due 2014 to 2037	337,675	337,675
2008 Series B, 0.04% to 0.32%, issued May 29, 2008, due 2016 to 2031	123,130	123,130
2008 Series C, 0.04% to 0.32%, issued May 29, 2008, due 2012 to 2026	181,700	187,700
2008 Series E, 0.05% to 0.25%, issued May 29, 2008, due 2012 to 2037	210,670	210,670
2008 Series F, 0.03% to 0.22%, issued May 29, 2008, due 2016 to 2029	184,910	184,910
	<u>1,129,655</u>	<u>1,171,110</u>
	<u>5,765,629</u>	<u>5,725,683</u>
Less:		
Unamortized bond premiums and discounts	233,398	180,944
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(106,174)	(102,079)
Current portion of long-term debt	(103,771)	(94,723)
	<u>23,453</u>	<u>(15,858)</u>
Long-term debt, net	\$ <u>5,789,082</u>	<u>5,709,825</u>

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Long-term obligations at June 30, 2012 and 2011 consisted of the following:

	2012 beginning balance	Additions	Reductions	2012 ending balance	Due within one year
General revenue bonds	\$ 1,593,320	150,000	469,625	1,273,695	6,195
General revenue refunding bonds	3,062,115	413,935	70,875	3,405,175	46,810
General revenue bonds with the Massachusetts water pollution Abatement trust	1,100,358	68,141	48,795	1,119,704	50,766
Borrowings associated with derivative instruments	60,332	—	2,940	57,392	—
	<u>\$ 5,816,125</u>	<u>632,076</u>	<u>592,235</u>	<u>5,855,966</u>	<u>103,771</u>
	2011 beginning balance	Additions	Reductions	2011 ending balance	Due within one year
General revenue bonds	\$ 1,454,200	150,000	10,880	1,593,320	37,570
General revenue refunding bonds	3,108,095	—	45,980	3,062,115	8,340
General revenue bonds with the Massachusetts water pollution Abatement trust	1,079,052	66,554	45,248	1,100,358	48,813
Borrowings associated with derivative instruments	51,604	38,900	30,172	60,332	—
	<u>\$ 5,692,951</u>	<u>255,454</u>	<u>132,280</u>	<u>5,816,125</u>	<u>94,723</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, 2012, the Authority had primary and subordinated debt service coverage ratios of 206% and 116%, respectively.

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

The Act of 1984 imposes a limitation of \$600,000 on the total amount of bonds and notes which may be outstanding at any one time. The Authority has requested increases in its debt limit as necessary to allow for issuances of bonds in amounts required to finance the capital program. The state legislature increased the debt limit to \$6,450,000.

On June 2, 2010, the Authority executed Bond Anticipation Notes with the Massachusetts Water Pollution Abatement Trust (MWPAT) for funding under the American Reinvestment and Recovery Act of 2009 (ARRA). The principal on these notes, totaling \$33,036, will be forgiven upon issuance of a Project Completion Certificate and the Authority's compliance with the requirements of ARRA. The Authority has

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drawn down \$32,945 to date, including \$6,443 during fiscal year 2011 and an additional \$2,836 during fiscal year 2012, which is presented as long-term debt on the Authority's balance sheet.

On April 19, 2012, the Authority issued General Revenue Bonds, 2012 Series A and General Revenue Refunding Bonds, 2012 Series B, for \$150,000 and \$86,775, respectively. The 2012 Series A bonds were used to fund on-going capital projects and the 2012 Series B bonds were used to refund certain of the Authority's outstanding secured bonds. The interest rate on the 2012 Series A bonds is 2% to 5%.

The proceeds from the Series B bonds were used to refund \$53,355 of General Revenue Bonds 2003 Series D, \$47,120 of General Revenue Bonds 2004 Series A, \$440 of General Revenue Refunding Bonds 2004 Series B and \$2,000 of General Revenue Bonds 2007 Series A. The interest rate on these bonds is 4.25% to 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$15,884 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding is \$5,243.

On December 8, 2011, the Authority issued General Revenue Refunding Bonds, 2011 Series C for \$327,160. The proceeds from these bonds were used to refund \$35,455 of General Revenue Refunding Bonds 2002 Series C, \$199,000 of General Revenue Bonds 2002 Series J, \$59,985 of General Revenue Bonds 2003 Series D and \$57,750 of General Revenue Bonds 2004 Series A. The interest rate on these bonds is 3.125% to 5.25%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$51,355 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding is \$25,262.

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

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Synthetic Fixed Rate Swap Transactions

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

Item	Objective	Effective date	Current notional amount	Termination date	Fixed payable swap rate	Variable receivable swap rate	Fair value at June 30, 2012	Fair value at June 30, 2011
A	Hedge changes in cash flows on the 2008 Series A Bonds	April 4, 2011	\$ 133,300	August 1, 2030	4.120%	67% LIBOR PLUS 0.13% SIFMA	\$ (18,089)	(2,462)
B	Hedge changes in cash flows on the 2008 Series E Bonds	October 28, 2008	133,300	August 1, 2030	4.470	SIFMA	(27,791)	(10,022)
C	Hedge changes in cash flows on the 2008 Series A and E Bonds	August 1, 2030	70,400	August 1, 2037	6.585	67% LIBOR PLUS 0.13% SIFMA	(2,533)	(67)
D	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	108,715	November 1, 2026	3.994	SIFMA	(16,840)	(8,800)
E	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	72,480	November 1, 2026	4.032	SIFMA	(15,228)	(10,520)
F	Hedge changes in cash flows on the 2002 Series D, 2008 Series A and E Bonds	August 15, 2002	190,145	August 1, 2015	4.127	67% LIBOR	(11,900)	(16,752)
Total							\$ (92,381)	(48,623)

All of the above are pay-fixed interest rate swap agreements. Under these interest rate swap agreements, the Authority incurred net interest expense of \$25,494 and \$27,508 in fiscal 2012 and fiscal 2011, respectively.

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

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

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

The aggregate fair value balance of the derivative instruments at June 30, 2012 and 2011 is \$(92,381) and \$(48,623), respectively, and is reflected on the Authority's balance sheets as liability for derivative instruments. This liability is offset by deferred outflows from derivative instruments. The original notional amounts of the interest rate swaps totaled \$885,895.

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

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

Risk Disclosure

Credit Risk – Because all of the Authority’s swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. The Authority monitors swap counterparties’ credit ratings by the three rating agencies (FitchRatings, Moody’s Investors Service, and Standard and Poor’s). Collateral is obtained from any counterparty that does not maintain a set credit rating. Since all derivatives are in a liability position, there is no amount exposed to credit risk.

The following represents the credit ratings of the counterparties as of June 30, 2012:

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

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

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

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

Swap Payments and Associated Bonds Outstanding

Bonds outstanding include certain variable rate bonds where the Authority pays a fixed interest rate and receives interest at a variable rate from the counterparty. The table below presents the debt service

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requirements and related net swap payments for these bonds. As rates vary, variable rate interest payments will vary.

Using rates as of June 30, 2012, debt service requirements of the hedged variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows:

	<u>Variable-rate</u>		<u>Interest rate swaps, net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
Fiscal year ending June 30:				
2013	\$ 50,655	1,039	23,856	75,550
2014	52,845	944	22,774	76,563
2015	55,235	845	21,219	77,299
2016	57,710	742	17,752	76,204
2017	7,197	722	14,927	22,846
2018 – 2022	180,603	2,751	57,541	240,895
2023 – 2027	155,495	1,103	27,100	183,698
2028 – 2032	7,800	571	15,139	23,510
2033 – 2037	55,600	326	10,523	66,449
2038	14,800	2	334	15,136
Total	<u>\$ 637,940</u>	<u>9,045</u>	<u>211,165</u>	<u>858,150</u>

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At June 30, 2012, the following bonds outstanding are considered defeased in-substance:

Description	Redemption date	Redemption price	Outstanding principal amount
1992 Series A	2013 – 2019	100	\$ 277,585
1993 Series C	2012 – 2015	100	67,005
1995 Series B	2012 – 2013	100	16,610
1997 Series D	2013 – 2014	100	14,210
1998 Series A	2012 – 2014	100	16,355
1998 Series B	2012– 2016	100	19,765
2002 Series J	2012 – 2013, 2015	100	264,930
2003 Series D	2012 – 2013	100	149,645
2004 Series A	2012 – 2014	100	121,250
2004 Series B	2014	100	16,305
2005 Series A	2012 – 2014	100	24,850
2006 Series B	2015 – 2018	100	22,380
2007 Series A	2017	100	2,000
2009 Series A	2014	100	3,995
2009 Series B	2014	100	2,640
2010 Series A	2015	100	1,105
2011 Series B	2014	100	2,665

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

In June 2012, the Authority used funds on hand to defease \$9,075 of the 2002 Series J, \$1,105 of the 2010 Series A and \$2,665 of the 2011 Series B General Revenue bonds outstanding and \$7,310 of the 1997 Series D and \$19,330 of the 1998 Series B General Revenue Refunding bonds outstanding.

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

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At June 30, 2012, outstanding bonds that are redeemable before their scheduled due dates are as follows:

Description	Redemption date	Redemption price	Outstanding principal amount
2002 Series J	August 2012	100	\$ 1,000
2004 Series B	December 2014	100	48,950
2005 Series A	August 2017	100	284,990
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	19,385
2006 Series A	August 2016	100	180,615
2006 Series B	August 2018	100	123,335
2006 Series B	August 2016	100	138,440
2007 Series A	August 2017	100	198,000
2009 Series A	August 2019	100	76,445
2009 Series B	August 2019	100	181,885
2010 Series A	August 2020	100	92,545
2010 Series B	August 2020	100	114,565
2011 Series B	August 2021	100	120,385
2011 Series C	August 2016	100	6,000
2011 Series C	August 2021	100	291,160
2012 Series A	August 2016	100	6,440
2012 Series A	August 2022	100	118,760
2012 Series B	August 2022	100	86,775

The variable rate General Revenue Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part, on any interest payment date for bond Series 1999B and 2002C and D and on any business day for bond Series 2008A through F, respectively.

During fiscal 2012, the Authority executed loan agreements with the MWPAT providing for 2012 Series C Sewer and Water loans in the principal amounts of \$8,053 and \$3,942 respectively and 2012 Series D Sewer and Water loans in the principal amounts of \$44,049 and \$8,589, respectively. All proceeds for these loans were received by June 30, 2012.

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

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$80,699 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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2013	\$ 103,771	243,863	347,634
2014	121,143	242,773	363,916
2015	139,872	237,516	377,388
2016	170,622	231,099	401,721
2017	199,887	224,264	424,151
2018 – 2022	1,326,061	969,408	2,295,469
2023 – 2027	1,407,940	668,026	2,075,966
2028 – 2032	1,044,431	394,697	1,439,128
2033 – 2037	679,849	209,698	889,547
2038 – 2042	419,318	76,510	495,828
2043 – 2047	152,735	14,872	167,607
Total	\$ <u>5,765,629</u>	<u>3,512,726</u>	<u>9,278,355</u>

The Authority issued commercial paper notes of \$144,000 to finance capital expenditures, which are secured by \$100,000 and \$250,000 irrevocable direct-pay letters of credit which expire on September 8, 2012, and November 30, 2015, respectively. These letters of credit carry a fee of 0.90% and 0.30% per annum, respectively, on the amount available. The maximum aggregate principal amount of commercial paper which may be outstanding at any one time is \$350,000.

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Commercial paper at June 30, 2012 and 2011 consisted of the following:

	2012 Beginning balance	Additions	Reductions	2012 Ending balance
0.32% commercial paper	\$ —	34,000	—	34,000
0.35% commercial paper	—	87,000	—	87,000
0.29% commercial paper	—	23,000	—	23,000
0.31% commercial paper	34,000	—	34,000	—
0.40% commercial paper	87,000	—	87,000	—
0.34% commercial paper	23,000	—	23,000	—
	<u>\$ 144,000</u>	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>
	2011 Beginning balance	Additions	Reductions	2011 Ending balance
0.31% commercial paper	\$ —	34,000	—	34,000
0.40% commercial paper	—	87,000	—	87,000
0.34% commercial paper	—	23,000	—	23,000
0.79% commercial paper	84,000	—	84,000	—
0.47% commercial paper	87,000	—	87,000	—
0.52% commercial paper	23,000	—	23,000	—
	<u>\$ 194,000</u>	<u>144,000</u>	<u>194,000</u>	<u>144,000</u>

(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 \$30,404 and \$24,222 in fiscal 2012 and 2011, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2012 and 2011, is \$103,591 and \$99,669, respectively, and is included in other assets. The loans due within one year total \$26,263 and \$26,758 at June 30, 2012 and 2011, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

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(8) Capital Assets

Capital assets at June 30, 2012 and 2011 consisted of the following:

	<u>2011</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2012</u>
Capital assets – not being depreciated:				
Land	\$ 23,497	758	—	24,255
Construction in progress	<u>177,070</u>	<u>127,473</u>	<u>(144,665)</u>	<u>159,878</u>
Total capital assets – not being depreciated	<u>200,567</u>	<u>128,231</u>	<u>(144,665)</u>	<u>184,133</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,767,460	143,554	(28,202)	8,882,812
Furniture and fixtures	17,109	27	—	17,136
Leasehold improvements	2,423	—	—	2,423
Motor vehicles and equipment	<u>2,013</u>	<u>326</u>	<u>—</u>	<u>2,339</u>
Total capital assets – being depreciated	<u>8,789,005</u>	<u>143,907</u>	<u>(28,202)</u>	<u>8,904,710</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,666,868	175,281	(4,480)	2,837,669
Furniture and fixtures	15,785	318	—	16,103
Leasehold improvements	2,061	11	—	2,072
Motor vehicles and equipment	<u>481</u>	<u>124</u>	<u>—</u>	<u>605</u>
Total accumulated depreciation	<u>2,685,195</u>	<u>175,734</u>	<u>(4,480)</u>	<u>2,856,449</u>
Total capital assets – being depreciated – net	<u>6,103,810</u>	<u>(31,827)</u>	<u>(23,722)</u>	<u>6,048,261</u>
Capital assets – net	\$ <u><u>6,304,377</u></u>	<u><u>96,404</u></u>	<u><u>(168,387)</u></u>	<u><u>6,232,394</u></u>

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

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

Depreciation and amortization for fiscal 2012 and 2011 was \$191,124 and \$180,734, respectively.

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(9) Leases

(a) Operating

The Authority leases electrical power assets, office space in Boston, and other property under long-term operating leases. Future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year at June 30, 2012 are as follows:

Year ending June 30:			
2013		\$	5,284
2014			5,495
2015			5,141
2016			2,766
2017			904
2018 – 2022			<u>10,943</u>
	Total	\$	<u><u>30,533</u></u>

Rental expense was \$7,107 and \$7,228 in fiscal years 2012 and 2011, respectively.

(b) Capital

In fiscal 2003, the Authority entered into a 30-year capital lease agreement for the new maintenance facility. The interest rate for the capital lease is 7.83%. Future minimum lease payments for the capital lease at June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2013	\$ 705	2,512	3,217
2014	762	2,455	3,217
2015	824	2,393	3,217
2016	891	2,326	3,217
2017	963	2,254	3,217
2018 – 2022	6,122	9,963	16,085
2023 – 2027	9,044	7,041	16,085
2028 – 2032	<u>13,093</u>	<u>2,724</u>	<u>15,817</u>
Total	\$ <u><u>32,404</u></u>	<u><u>31,668</u></u>	<u><u>64,072</u></u>

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

The associated capital asset is reported in plant and equipment – water and sewage system at a cost of \$37,134 with \$12,379 of accumulated depreciation as of June 30, 2012.

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(10) Retirement Benefits

(a) Plan Description

The Enabling Act provided for the establishment of the Massachusetts Water Resources Authority Employees' Retirement System (the Plan), a contributory single-employer retirement system that is separate from the State Employees Retirement System. The Plan is a defined benefit pension plan covering those employees not employed by the MDC prior to July 1, 1985. Covered payroll for all Authority employees in the Plan was \$82,870 at the actuarial valuation date, January 1, 2011.

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

(b) Funding Policy

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

The Authority's 2012 and 2011 contributions to the plan were based on an amount approved by the Retirement Board and the Authority's board of directors, which is based on an actuarially determined amount. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(c) Annual Pension Cost and Net Pension Obligation

The annual required contribution for the year ended June 30, 2012, determined by the January 1, 2011 actuarial valuation, was as follows:

Annual required contribution	\$	5,489
Contributions made		<u>(5,489)</u>
Increase (decrease) in net pension obligation		—
Net pension obligation, beginning of year		<u>—</u>
Net pension obligation, end of year	\$	<u><u>—</u></u>

(d) Three-Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>Percentage of ARC contributed</u>	<u>Net pension asset (obligation)</u>
Fiscal year ending:			
2012	\$ 5,489	100%	\$ —
2011	5,343	100	—
2010	5,587	101	34

(e) Funded Status and Funding Progress

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

Actuarial accrued liability	\$	341,521
Actuarial value of assets		<u>299,331</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>42,190</u></u>
Funded ratio		87.6%
Covered payroll	\$	82,870
UAAL as percentage of covered payroll		50.9%

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(f) Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2011, actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$42,190 was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five year period. As of January 1, 2011 the unfunded actuarially accrued liability is being amortized over 13 years using an open group method which assumes a 4.5% per year increase in payroll.

(g) Other Benefits

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

(11) Other Postemployment Benefits (OPEB)

(a) Plan Description

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

(b) Benefits Provided

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(c) Funding Policy

Retirees who retired on or before July 1, 1994 contribute 10% of the cost of the health plans, as determined by the GIC. Those who retired after July 1, 1994 contribute 15% of the cost of the health plan and those who retired after October 1, 2009 contribute 20% of the cost of the health plan, as determined by the GIC. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's fiscal 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Authority's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of January 1, 2010:

Annual Required Contribution (ARC)	\$	19,151
Interest on net OPEB obligation		2,560
Adjustment to ARC		<u>(2,607)</u>
Annual OPEB cost		19,104
Contributions made		<u>(3,985)</u>
Increase in net OPEB obligation		15,119
Net OPEB obligation – beginning of year		<u>60,241</u>
Net OPEB obligation – end of year	\$	<u><u>75,360</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2012	\$ 19,104	21%	\$ 75,360
2011	17,462	19	60,241
2010	18,989	11	46,072

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(e) *Funded Status and Funding Progress*

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

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

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

(f) *Actuarial Methods and Assumptions*

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

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(12) Commitments and Contingencies

(a) *General*

The Authority's capital improvement program continues to proceed. As part of this program, the Authority has entered into a number of contracts for the design and construction of infrastructure and improvements to its facilities. Commitments under these contracts aggregated approximately \$439,570 at June 30, 2012.

The Authority's operating and construction plans are designed to comply with the Federal District Court's schedule of actions. The Authority has incurred capital expenditures of approximately \$8,270,000 from fiscal 1986 through fiscal 2012, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$1,944,000 on these projects through fiscal 2021. These capital expenditures have been forecasted based upon certain preliminary assumptions and estimates, which may change significantly as design and construction of the necessary facilities proceed. Funding is expected to come from various federal and state grants, as available and approved, and from the Authority's debt proceeds. To date, federal appropriations for the Boston Harbor Project have aggregated \$810,000.

(b) *Boston Harbor Case*

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

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

As part of the agreement, DEP agreed to reissue and EPA agreed to approve five (5) consecutive variances of no more than three years duration each, through the year 2020, for the Charles River and Alewife Brook/Upper Mystic River that are consistent with and limited to the requirements in the Authority's revised Long Term CSO Control Plan. Variances have most recently been issued by DEP in September and October 2010. The variances will respectively remain in place for the Charles River until October 1, 2013 and for the Alewife/Upper Mystic until September 1, 2013. In addition, the United States and the Authority agreed to withdraw the February 27, 1987 Stipulation of the United States and the Massachusetts Water Resources Authority on Responsibility and Legal Liability for Combined Sewer Overflows and replace it with a Second Stipulation that requires the Authority to implement the CSO requirements set forth in the Court Schedule and to meet the levels

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

of control described in the Authority's long term CSO control plan. Upon completion of the long term CSO control plan and with results that demonstrate performance parameters are as predicted, the stipulation makes the Authority responsible for only those CSO outfalls which it owns and operates. As a result of the agreement, the Authority now has 35 CSO projects, of which, 29 are complete, four are under construction and two are in the design phase.

December 2015 is the scheduled completion date for the last of the CSO projects. The federal court schedule requires MWRA to commence a three-year performance assessment of the completed projects starting in January 2018 and to submit a report to the Court assessing attainment of the long term control levels by December 2020.

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

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

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

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(c) *Deer Island Submarine Power Cable*

In 2004, the United States Army Corps of Engineers (Corps) asserted that Boston Edison Co. (NStar), its subsidiary Harbor Energy Electric Company (HEEC), and the Authority were in violation of a permit (MA BOSS 198900530, dated August 31, 1989) which authorized the installation of a submarine electric power cable. The cable runs under the channel bed of Boston Harbor and extends from South Boston to Deer Island and is used to provide electric power for Deer Island operations. The Corps alleges that the power cable, in places, has been installed at depths less than those required by the permit. The Corps has demanded that the permittees develop plans and an implementation schedule for bringing the cable's depth and location into compliance with the permit. The demand has been made in connection with proposed dredging operations intended to deepen the harbor channel so as to make it navigable by deep-draft vessels. The Authority has responded to the Corps stating that it had become a co-permittee only to facilitate issuance of the permit, that it did not install and has never owned the cable, and therefore, it has neither any right nor financial responsibility, nor the ability, to move or alter the position of the cable. In May 2005, the Department of Justice (DOJ) advised the permittees that the matter had been referred to DOJ by the Corps for the purpose of either commencing a lawsuit to compel the relocation of the cable or negotiating an amicable resolution that would bring the permittees into compliance with the permit's conditions. The Authority has informed the Court in the Boston Harbor Case of its position in its Compliance and Progress report filed on June 15, 2005. The last substantive meeting and communication among the Corps, DOJ and permittees occurred in May, 2011. Discussions involved the potential for use of a so-called "mechanical option" which involves protecting the cable from dredging operations by covering it with concrete mats. The Authority has advised NStar and HEEC that it has no financial responsibility whatsoever for the costs of either protecting or relocating the cable.

(d) *Miscellaneous*

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

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(13) Risk Management

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

Buildings, plants, and equipment are fully insured on an all risk replacement basis to the extent that losses exceed \$2,500 per occurrence. The Authority maintains insurance coverage for general liability, automobile liability, marine liability, and employers' liability to the extent that losses exceed \$2,500 per occurrence, up to a limit of \$35,000. In addition to the primary liability insurance, the Authority maintains an excess liability policy with an additional limit of \$65,000. The Authority also maintains public officials' errors and omissions insurance with a limit of \$5,000 per occurrence with a \$1,000 deductible. All insurance policies are renewed on an annual basis.

REQUIRED SUPPLEMENTARY INFORMATION

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedules of Funding Progress

Required Supplementary Information

June 30, 2012

(Unaudited)

(Dollars in thousands)

Employees' retirement system

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2011	\$ 299,331	341,521	42,190	87.6%	\$ 82,870	50.9%
January 1, 2010	276,270	319,876	43,606	86.4	81,962	53.2
January 1, 2009	222,477	301,652	79,175	73.8	82,314	96.2
January 1, 2008	240,484	278,050	37,566	86.5	78,925	47.6
January 1, 2007	211,716	255,962	44,246	82.7	75,444	58.6
January 1, 2005	172,512	172,512	—	100.0	75,790	—

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

Other postemployment benefits

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

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

MASSACHUSETTS WATER RESOURCES AUTHORITY

Accounts Established by the General Revenue Bond Resolution

Year ended June 30, 2012
(comparative totals for June 30, 2011)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2011	\$ 164,456	69,342	490,238	51,553	775,589
Proceeds from:					
Revenue bonds and loans	218,035	—	38,453	—	256,488
Cash received from customers	—	602,206	—	—	602,206
Interest income	347	5,364	16,784	(463)	22,032
Debt service grant	—	—	384	—	384
Grant receipts	239	—	7,457	—	7,696
Construction payments	(145,429)	11	—	—	(145,418)
Capital lease payments	(656)	—	(2,561)	—	(3,217)
Debt service payment	(2,863)	(24,131)	(381,747)	—	(408,741)
Other commonwealth payments	—	(24,937)	—	—	(24,937)
Interfund transfers	6,847	(321,911)	315,082	(18)	—
Transfers from (to) operating account	(72)	(223,911)	2,563	—	(221,420)
Balance – June 30, 2012	\$ <u>240,904</u>	<u>82,033</u>	<u>486,653</u>	<u>51,072</u>	<u>860,662</u>
		<u>Sewer</u>	<u>Water</u>	<u>2012 total</u>	<u>2011 total</u>
Restricted cash and investments:					
Construction	\$	143,678	97,226	240,904	164,456
Debt service reserves		152,585	83,138	235,723	246,191
Debt service		141,239	55,783	197,022	189,988
Revenue redemption		5,999	27,164	33,163	33,197
Revenue		20,874	61,159	82,033	69,342
Renewal and replacement reserve		23,623	13,449	37,072	37,553
Insurance		7,000	7,000	14,000	14,000
Community obligation and revenue enhancement		17,762	2,983	20,745	20,862
Total restricted cash and investments	\$	<u>512,760</u>	<u>347,902</u>	<u>860,662</u>	<u>775,589</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2012

(Dollars in thousands)

Assets and Deferred Outflows	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 25,995	16,242	42,237
Investments	33,189	14,638	47,827
Intergovernmental loans	7,004	19,259	26,263
Accounts receivable	143	862	1,005
Total unrestricted current assets	<u>66,331</u>	<u>51,001</u>	<u>117,332</u>
Restricted assets:			
Cash and investments	516,991	349,931	866,922
Interest receivable	1,738	1,055	2,793
Total restricted assets	<u>518,729</u>	<u>350,986</u>	<u>869,715</u>
Capital assets – not being depreciated	73,851	110,282	184,133
Capital assets – being depreciated – net	3,712,808	2,335,453	6,048,261
Deferred charges	620,472	161,922	782,394
Other assets – net	269,551	110,822	380,373
Deferred outflows from derivative instruments	84,182	8,199	92,381
Total	<u>\$ 5,345,924</u>	<u>3,128,665</u>	<u>8,474,589</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 42,863	10,234	53,097
Commercial paper notes	92,000	52,000	144,000
Current portion of long-term debt	86,640	17,131	103,771
Total current liabilities	<u>221,503</u>	<u>79,365</u>	<u>300,868</u>
Payable from restricted assets:			
Accounts payable for construction	12,264	5,163	17,427
Accrued interest on bonds payable	55,170	29,188	84,358
Reserves	68,350	32,171	100,521
Total payable from restricted assets	<u>135,784</u>	<u>66,522</u>	<u>202,306</u>
Retainage on construction in progress	5,900	4,478	10,378
Long-term debt – less current portion	3,848,756	2,030,663	5,879,419
Long-term capital leases	22,129	10,275	32,404
Other postemployment benefits	53,507	21,853	75,360
Liability for derivative instruments	84,182	8,199	92,381
Deferred credits	9,947	38,279	48,226
Total liabilities	<u>4,381,708</u>	<u>2,259,634</u>	<u>6,641,342</u>
Net assets:			
Invested in capital assets – net of related debt	247,657	598,332	845,989
Restricted	204,801	88,573	293,374
Unrestricted	511,758	182,126	693,884
Total net assets	<u>964,216</u>	<u>869,031</u>	<u>1,833,247</u>
Commitments and contingencies			
Total	<u>\$ 5,345,924</u>	<u>3,128,665</u>	<u>8,474,589</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2011

(Dollars in thousands)

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

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2012

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 408,339	191,033	599,372
Other	2,213	1,035	3,248
Total operating revenues	<u>410,552</u>	<u>192,068</u>	<u>602,620</u>
Operating expenses:			
Operations	61,212	38,590	99,802
Maintenance	20,065	6,711	26,776
Payments in lieu of taxes	—	7,311	7,311
Engineering, general, and administrative	83,894	43,727	127,621
Total operating expenses	<u>165,171</u>	<u>96,339</u>	<u>261,510</u>
Income from operations before depreciation	245,381	95,729	341,110
Depreciation	133,543	57,581	191,124
Operating income	<u>111,838</u>	<u>38,148</u>	<u>149,986</u>
Regulatory accounting provisions:	—		
Change in reserves	141	(336)	(195)
Change in deferred credits – net	9,803	12,967	22,770
Total regulatory accounting provisions	<u>9,944</u>	<u>12,631</u>	<u>22,575</u>
Nonoperating income (expense):			
Debt service grant	353	31	384
Investment income	13,396	7,506	20,902
Interest expense	(165,098)	(81,071)	(246,169)
Changes in derivative related accounts	2,528	412	2,940
Total nonoperating expense	<u>(148,821)</u>	<u>(73,122)</u>	<u>(221,943)</u>
Net loss before capital grants	(27,039)	(22,343)	(49,382)
Capital grants	6,329	1,367	7,696
Decrease in net assets	(20,710)	(20,976)	(41,686)
Total net assets – beginning of year	<u>984,926</u>	<u>890,007</u>	<u>1,874,933</u>
Total net assets – end of year	<u>\$ 964,216</u>	<u>869,031</u>	<u>1,833,247</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

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

Year ended June 30, 2011

(Dollars in thousands)

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

See accompanying independent auditors' report.