

Massachusetts Water Pollution Abatement Trust

A Component Unit of the Commonwealth of Massachusetts



Comprehensive Annual Financial Report as of and for the Years Ended
June 30, 2013 and June 30, 2012 and Independent Auditors' Report

Prepared by the Management of the Massachusetts
Water Pollution Abatement Trust



Cambridge – Park Drive Area Drainage Project

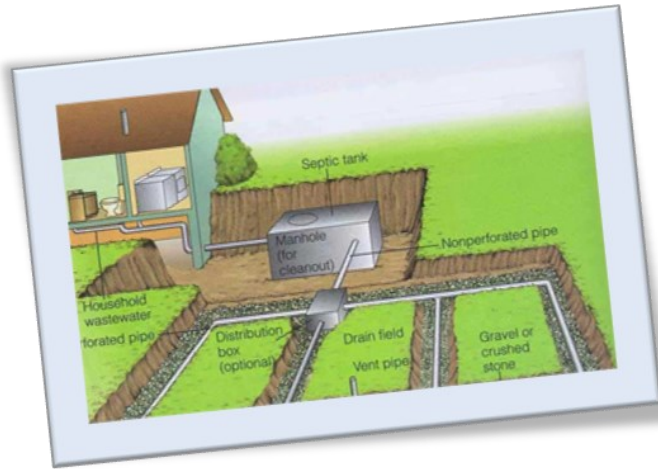
The project work consists of the construction of approximately 3000 linear feet of 8-ft x 4-ft box culverts with associated catch basins, manholes, laterals, and special drainage structures. The work also includes the construction of a stormwater wetland treatment area in the Alewife Reservation with new boardwalk, bicycle/pedestrian path, signage, and planting. This project will remove combined sewers and improve the water quality of Alewife Brook. The SRF Program provided nearly \$13 million towards the \$20 million project cost. The Massachusetts Water Resource Authority (MWRA) and the City of Cambridge funded the remaining costs of the projects.

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Community Septic Management Program

The Community Septic Management Program (CSMP) provides loans to Massachusetts' communities to assist homeowners in repairing failed septic systems. The Trust makes low interest rate loans to communities and the communities, in turn, loan the funds directly to homeowners for up to 20 years. Loans to homeowners are secured through a betterment on the property. This program allows municipalities to provide access to capital for home repair at a subsidized interest rate.

The Trust has been able to finance over \$93 million in loans since the program's inception, resulting in more than 7,000 septic systems repairs. To date, 145 Massachusetts communities have participated in this program.

During FY 2013, loans to the CSMP communities resulted in the repair or replacement of over 500 septic systems at an average cost of \$13,000.

Charles River Pollution Control District - Wastewater Treatment Facility Upgrade

This \$3.5 million project consists of upgrades to the existing wastewater treatment plant including: installation of additional phosphorus removal, modification of disinfection equipment, improvements to septage receiving facilities and energy efficiency upgrades.

Energy efficiency upgrades include installing premium motors and variable frequency drives, all new lighting fixtures, and high efficiency Heating-Ventilation-Air-Conditioning systems.

The wastewater treatment plant discharges into the Charles River. The Charles River Watershed has a documented eutrophication problem. The project will realize environmental and health benefits from reduced contaminant discharges to the Charles River and reduced power plant emissions pollution from reduced electricity usage.



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Massachusetts Water Resource Authority (MWRA) - Northern High Service Revere and Malden

The project work includes the water main improvements in Revere and Malden. Undersized pipelines and numerous leaks due to pipe wall corrosion have been a continued problem in the Northern High Service Area, particularly in the eastern most portion of the service area. To correct these problems the MWRA has instituted a series of pipeline rehabilitation and/or replacement contracts and other system improvements to ensure increased hydraulic pressure and improved water quality to these communities. The improvements include the construction of

approximately 5,600 linear feet of 30-inch to 72-inch diameter water mains and the slip lining of another 4,800 feet of existing water main. The Trust has provided \$2.9 million in financing for this \$10.4 million project.

Cherry Valley and Rochdale Water District (CVRWD) - Modification to Water Treatment Plant

This \$570,000 project consists of the construction of modifications to the existing WTF including: a system for total organic carbon (TOC) removal, a continuous monitoring system to comply with the Groundwater rule, re-piping of the backwash system, spillway modifications, and replacement of high lift pumps in the existing clearwell. The completion of this project will significantly improve the quality of water supplied to the CVRWD including the chief goal of removal of TOC's.

CVRWD is a small system with a service population of 3,675, which assists Massachusetts in meeting the small system financing requirements of the Drinking Water Grant.



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Fairhaven - Boston Hill Tank Rehab and Main Replacement

The project is for the painting, cleaning, and rehabilitation of the Boston Hill Water Storage Tank. Installation of a new mixing system in the tank will enhance water quality and minimize the formation of sediment at the bottom of the tank. The addition of security measures will reduce unauthorized access to the tank and potential contamination. The Drinking Water SRF is financing the entire \$1.4 million project cost.

Westfield – Water Main Replacement

This \$2.9 million project replaces an undersized deteriorated 14-inch raw water transmission main installed in 1895. The pipeline's hydraulic capacity has declined to less than 3 MGD, which prevents the City of Westfield from utilizing the full capacity of 4 MGD from the Sackett Water Treatment Plant. The new transmission main will restore long-term system reliability and full use of the treatment plant. The project also incorporates on-site energy generation using a 37 kW in-line turbine to capture excess hydraulic head to generate much of the energy needed to run the plant.



MESSAGE FROM THE CHAIRMAN

December 31, 2013

To the Stakeholders of the Massachusetts Water Pollution Abatement Trust:

I am pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Massachusetts Water Pollution Abatement Trust (the "Trust") for the fiscal year ending June 30, 2013. The Trust plays an important role assisting the Commonwealth's cities and towns in protecting the environment and public health, and I am proud to serve as its chair.

The Trust is a collaborative effort between the Office of the State Treasurer, the Executive Office for Administration and Finance, and the Massachusetts Department of Environmental Protection (MassDEP). Through our leveraged financing program we are able to maximize the impact of our efforts throughout the Commonwealth. To date, the Trust has used just over \$2.0 billion in federal grants and state matching funds to finance nearly \$6.0 billion in clean water and drinking water construction projects throughout the Commonwealth.

Even in these difficult economic times, communities continue to recognize the value of investing in the water and wastewater infrastructure that protects our public health and our environment and supports our economy. The need for cost savings at the local and statewide level is as important as ever, and the Trust continues to do its part. In 2013 the Trust provided approximately \$226 million in commitments for low interest rate loans to cities and towns all over the Commonwealth. This commitment amount will provide an estimated 1,400 construction and engineering jobs. This financing provides vast benefit to the quality of the state's waterways and the protection of public health through such projects as combined sewer overflow removal, wastewater treatment plant upgrades, sewer system construction and rehabilitation, septic system repairs, drinking water treatment facilities, treated water storage and water main replacement and rehabilitation.

The Trust is honored to serve as a national model and to stand out in the Commonwealth as an AAA rated municipal issuer by all three rating agencies. By receiving ratings higher than the average underlying ratings of the participating local communities, the Trust consistently delivers lower borrowing costs to the Commonwealth and its communities. In FY 2013 the Trust sold over \$202 million of revenue bonds that will mature annually over 30 years and provide subsidized funding for \$324 million in water infrastructure projects to 79 communities throughout the Commonwealth. The subsidized interest rate of 2 percent to the communities saved the average borrower an estimated \$355,000 in debt service over the life of the loan based on the average loan of just over \$3 million financed through this bond sale.

I would like to take this opportunity to thank the staff of the Trust and at MassDEP for all of their efforts during 2013. Without the combined efforts of these organizations, the great things we are doing in the Commonwealth would not be possible. Finally, I would like to thank the Governor and Legislature for their continued support of the State Revolving Fund program in fiscal year 2013, providing \$53 million to subsidize Clean Water borrowers and \$9.8 million to subsidize Drinking Water borrowers through the Commonwealth's contract assistance payments.

Sincerely,



Steven Grossman
Chairman
Massachusetts Water Pollution Abatement Trust
www.mass.gov/mwpat



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Steven Grossman, Chair

December 31, 2013

To the Board of Trustees of the Massachusetts Water Pollution Abatement Trust:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Massachusetts Water Pollution Abatement Trust (the “Trust”) for the fiscal year ended June 30, 2013. This year’s CAFR is presented on a comparative basis with the fiscal year ended June 30, 2012, and is submitted under Article VII, Section 2 of the by-laws of the Trust. This report has been prepared in conformity with generally accepted accounting principals (“GAAP”), thereby satisfying applicable federal and state laws, program regulations, and other Trust agreements.

This data presented is accurate in all material aspects and is reported in a manner that presents fairly the financial position and results of operations of the Trust. All disclosures necessary to enable the reader to gain an understanding of the Trust’s activities have been included. The information contained within this report is the responsibility of management.

The CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management’s Discussion and Analysis (MD&A) section and the Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. The Trust’s MD&A can be found immediately following the independent auditors’ report. The **Statistical Section**, which is unaudited, contains selected financial and demographic information.

Reporting Entity

The Trust is reported as a component unit in the Commonwealth’s Combined Annual Financial Report. Pursuant to its enabling statute, the Trust also submits its independently audited financial statements to the Commonwealth’s Senate and House of Representatives, the Office of the Comptroller, and other interested parties. Also, as an entity receiving federal funding, the Trust is required to undergo an annual single audit to conform with the requirements of the Single Audit Act of 1984, as amended, and the US Office of Management and Budget’s Circular A-133, *Audits of State and Local Governments*.

The Trust is governed by a three-member board of trustees chaired by State Treasurer and Receiver General, Steven Grossman. The Secretary of Administration and Finance, Glen Shor, and Commissioner of the Department of Environmental Protection, Kenneth Kimmell, serve as members of the Board. The Trust operates under the direction of the Executive Director, Susan Perez, and is administered by employees of the State Treasurer. A list of Trust management and an organization chart for the Trust follow this transmittal letter.

Profile of the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust is a public instrumentality of the Commonwealth of Massachusetts. It was established in 1989 to administer the Massachusetts Water Pollution Abatement Revolving Fund, pursuant to Title VI of the Federal Clean Water Act. Its enabling statute, Chapter 29C of the Massachusetts General Laws, was amended in 1998 to provide that the Trust would also administer the provisions of Title XIV of the Federal Safe Drinking Water Act establishing the Drinking Water State Revolving Fund. We estimate that 97% of the population of the Commonwealth is served by one of approximately 300 entities that have borrowed funds through the Trust.

The Trust administers loan programs that provide funding to cities, towns, other governmental units and certain eligible private entities to finance improvements to drinking water and wastewater infrastructure. To qualify for a loan, the project must be approved by the Department of Environmental Protection (DEP).

Information Useful in Assessing the Economic Condition of the Massachusetts Water Pollution Abatement Trust

The Financial Section of this report provides information on the economic condition of the Trust. Please see Management's Discussion and Analysis in the Financial Section for a presentation of the Trust's financial condition. To assess the Trust's financial condition, it is essential to understand the Trust's loan programs.

Loan Programs of the Trust

The Trust administers two loan programs. The Clean Water State Revolving Fund (CWSRF), primarily finances wastewater infrastructure projects, including the Community Septic Management Program (CSMP), which finances improvements to private homeowner septic systems. The Drinking Water State Revolving Fund (DWSRF), primarily finances drinking water infrastructure projects. The Trust lends to cities, towns, other governmental units such as water and sewer authorities, and private water system operators. Since its inception the SRF loan program has provided approximately \$6 billion in loans to nearly 300 borrowers to improve and maintain the quality of water in the Commonwealth. To fund its operations, the Trust charges an administrative fee of 0.15% of principal outstanding per year on Clean Water and Drinking Water loans.

Clean Water Program

The Trust finances projects that focus on rehabilitation of wastewater infrastructure that promotes sustainability and smart growth principles. The program provides additional subsidy to designated low income Environmental Justice Communities. Primary recipients of CWSRF loans have been combined sewer overflow, wastewater treatment and wastewater collection projects. Although other projects such as drainage improvements, landfill closures, brownfields remediation, renewable energy projects, and other non-point source projects are eligible for funding. Additionally, the CWSRF program provides additional subsidies to nutrient enrichment prevention projects.

The Community Septic Management Program (CSMP) provides loans to Massachusetts' communities to assist homeowners in repairing failed septic systems. The Trust makes low interest rate loans to communities and the communities, in turn, loan the funds directly to homeowners for up to 20 years. Loans to homeowners are secured through a betterment on the property. This program allows municipalities to provide access to capital for home repair at a subsidized interest rate.

Currently, the standard loan offer is for a term of 20 years at a subsidized loan rate of 2%. The Trust also provided an extended term for 30 years at a subsidized loan rate of 2.4% during FY 2013.

Drinking Water Program

The Trust supports protection of public health by ensuring that all Massachusetts Public Water Suppliers have the necessary technical, financing and managerial capacity to maintain compliance with the current and foreseeable Safe Drinking Water Act requirements. The DWSRF projects typically involve construction and, or, rehabilitation of drinking water treatment plans, replacement of aging water mains and the construction of drinking water storage facilities. The program promotes the completion of cost-effective projects that maximize protection of public health.

Currently, the standard loan offer is for a term of 20 years at a subsidized loan rate of 2%.

Interim Loan Program

The Trust makes funds available to eligible projects on both the CWSRF and DWSRF Intended Use Plans (IUPs) through its Interim Loan Program year round. Borrowers can enter into a short term loan to enable projects to proceed prior to the Trust's bond sale. The Trust is capable of funding a project from 60 days to 1 year prior to a bond sale by extending the use of program equity funds as a source of capital. The interest is accrued monthly on the basis of the balance drawn on the construction account. The interest rate is set at one-half of the Massachusetts Municipal Depository Trust (MMDT) rate. The average interest rate charged in FY 2013, accruing only on drawn funds, was 0.13%.

FY 2013 Program Disbursements						
	CWSRF Dollar Amount	CWSRF Number of Loans	DWSRF Dollar Amount	DWSRF Number of Loans	Total Dollar Amount	Total Number of Loans
Interim Loans	\$118,028,541	79	\$46,617,051	35	\$164,645,592	114
Pool Program Project Funds	83,852,319	60	37,962,551	34	121,814,870	94
Direct Loans	112,926	1	2,489,962	4	2,602,888	5
Total	\$201,993,787	140	\$87,069,564	73	\$289,063,350	213

Trust's Financing Model

Leveraged Financing Model

The Trust's SRF loan program receives funding from the EPA in the form of an annual grant, supplemented by state matching funds and the repayment of funds from previous borrowers ("SRF Program Funds"). The Trust's SRF Program utilizes a "leveraged" financing model, under which federal grants and state matching grants are used as a source of security for revenue bonds ("SRF Bonds") issued by the Trust. The proceeds from the SRF bonds are used to fund loans to local governmental units for eligible project costs. The leveraged structure of the Trust's program permits the Commonwealth to substantially increase the amounts available to fund eligible project costs. Each federal grant and associated state matching grant dollar contributed to the program results in at least two to three dollars of project cost financing while assuring the perpetual nature of the revolving fund.

The Trust's lending and bond issuance programs are structured in such a way as to ensure adequate cash flows to fund its loans and to repay its bonds to maturity. The Trust's bonds are secured by a combination of pledged sources which include borrower loan repayments, Commonwealth contract assistance, and interest earnings on pledged SRF Program Funds.

Since loan repayments are the primary source of revenue for the Trust's debt service payments, the credit quality of the loan portfolio is important. A majority of the loans are secured by a general obligation pledge of the borrowers, with others secured by revenue obligations payable from water and wastewater revenues of the related borrowers. The Trust has a large, diverse pool of borrowers with a sound credit quality. Based on the loan principal outstanding, 95% of the program borrowers are rated "A3/A-" or better and 67% are rated "Aa3/AA-" or better.

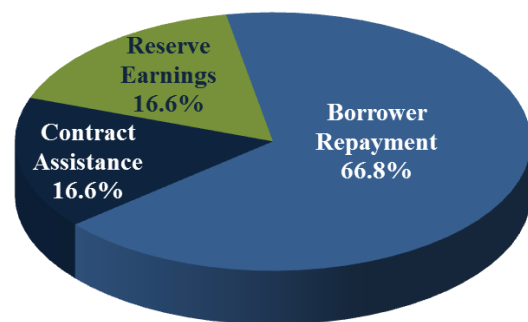
Depending on the type of projects being financed, the terms of the loans to borrowers, and the subsidy levels to which the borrowers are entitled, the Trust applies its SRF Program Funds to fund either direct loans to local governmental units or, invest in reserve funds, or a combination of both, which are then pledged as a source of payment and security for the SRF Bonds.

Under the pledged direct loan approach, the Trust pledges direct loans ("Pledged Direct Loans") that it has made from its SRF Program Funds to eligible borrowers for water pollution abatement and drinking water projects. The Trust applies the interest payments on these Pledged Direct Loans to pay a portion of the debt service on the related series of SRF Bonds. Principal payments on the Pledged Direct Loans are pledged as further security for the related series of SRF Bonds. The Trust used the Pledged Direct Loan approach for its two most recent series of SRF Bonds. As of June 30, 2013, the Trust has \$218.4 million in Pledged Direct Loans.

In the past, the Trust has applied a portion of its SRF Program Funds to establish reserve funds to secure a series of its SRF Bonds. Those investment earnings are then applied to pay a portion of the debt service on the related SRF Bonds, thereby supplementing the loan repayment obligations of the borrowers of the Leveraged Loans funded by such SRF Bonds. As of June 30, 2013, the Trust has \$1.3 billion in SRF reserve funds invested in guaranteed investment contracts (GIC) and US Treasury and Agency Obligations.

As a result of the diversity of its loan portfolio, the size of its debt service reserve funds, and its support from the Commonwealth, the Trust's bonds are rated AAA/Aaa/AAA by Fitch, Moody's Investor Service, and Standard and Poor's, respectively.

Total Source of Revenue for FY 2013



The 2013 CWSRF Intended Use Plan offers \$391 million to finance clean water projects. It is estimated to create 2,350 construction and engineering jobs.

Federal Capitalization Grant and State Matching Funds			
	Clean Water Grant Awards	Drinking Water Grant Awards	Total Awards
FY 2013			
Federal Grant	\$47,985,000	\$17,012,000	\$64,997,000
State Grant	9,597,000	3,402,400	12,999,400
Total	\$57,582,000	\$20,414,400	\$77,996,400
Program to Date			
Federal Grant	\$1,280,319,761	\$446,546,100	\$1,726,865,861
State Grant	229,453,092	78,866,020	308,319,112
Total	\$1,509,772,583	\$525,412,120	\$2,035,184,703

Federal Capitalization Grants and State Matching Funds

In order to provide security to its bonds, the Trust pledges federal and state capitalization grant funds.

As can be seen in the chart, the Trust has received significant federal and Commonwealth support. The Trust has received total combined support of over \$2 billion to date which has provided funding for nearly \$6 billion in clean water and drinking water construction projects.

The Trust's recent federal capitalization grant awards have included requirements to provide defined levels of subsidization (i.e., money not required to be repaid). The table below provides the details of subsidization provided to date by grant.

The additional subsidy is dedicated to communities that would not otherwise be able to afford the project. Massachusetts chose to apply these funds to communities that meet the Environmental Justice (EJ) income threshold of below 65% of the state's median household income and for renewable energy projects. Massachusetts provides the subsidy to the communities in the form of principal forgiveness.

Subsidization Provided			
<i>Dollars in Millions</i>	Clean Water	Drinking Water	Total
2009 ARRA Grant	\$127.7	\$50.1	\$177.8
2010 Grant	10.4	7.6	18.0
2011 Grant	4.6	5.2	9.8
2012 Grant	2.7	3.3	6.0
2013 Grant	2.1	3.1	5.2
Total Subsidization	\$147.5	\$69.3	\$216.8

Long Term Financial Planning

Relative to its long-term financial position, one of the most important issues facing the Trust is the status of future federal support for the CWSRF and DWSRF.

It is the policy of the Trust to allow DEP to approve projects only to the Trust's lending capacity. If federal funding declines, the Trust's ability to maintain or increase its lending activities will be limited without additional state support or increased contribution from the borrowers. While this does not affect the financial health of the Trust, it will affect the programs administered by the Trust. The Trust's financial capacity is adequate to fund those projects currently approved by DEP, however, future growth in capacity of the Trust is dependent on federal appropriations to the State Revolving Fund programs, shown on the Trust's Financial Statements, footnote (4), as "Capitalization Grants."

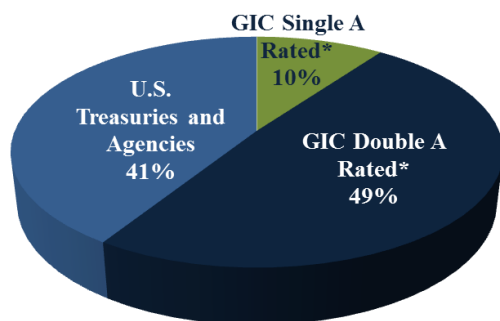
Additionally, because DEP's program administration is funded in part through a 4% administrative charge on federal grants, a reduction in federal grants would result in decreased funding for DEP. For the Trust's programs to continue, funding would need to be provided to DEP either by the Commonwealth or additional funding from the Trust's administrative fees.

Economic Factors Affecting the Trust

As a result of the Trust's highly-structured approach to lending and bonding, the finances of the Trust have not been dramatically affected by recent national economic stress. Although there are many current credit pressures affecting our borrowers, municipalities in the Commonwealth, the project loans financed and related loan repayments they pledge are oriented to water supply and wastewater treatment which are primarily supported by water and sewer enterprise systems and their own user-fee or rate-based revenue. As such, they are somewhat removed from the general fiscal and expenditure pressures that can face a municipal government. Furthermore, the Trust benefits from a sizeable and diversified pool of borrowers which makes it less affected by significant deterioration of any single borrower.

Demand for Trust loans is dependent on the Commonwealth's need for drinking water and wastewater infrastructure, which remains strong. For 2013, the DEP received applications for \$659,461,500 in Clean Water projects and approved \$391,400,500. DEP also received applications for \$323,338,660 of Drinking Water projects and approved \$101,625,000. Demand for the Trust's lending programs is expected to remain

DSRF Investment Breakdown



*based on highest rating

strong as communities work to meet tightening environmental standards and maintain an aging infrastructure.

The current record low interest rate environment has greatly reduced the value of the subsidization resulting from the below market rate being provided to the Trust's borrowers. However, the Trust expects to continue to award additional subsidization in the form of principal forgiveness to its eligible borrowers.

While economic factors have not affected the Trust's current financial position, macroeconomic stresses pose risks to the Trust's long-term investment portfolio. Over the past few years, a number of institutions providing guaranteed investment contracts (GICs) to the Trust have experienced downgrades by various rating agencies. These actions did not result in a downgrade to the Trust as the Trust has multiple providers which reduce concentration risk and contract provisions for collateralization upon credit downgrades. At this time, these factors have had no real effect on the Trust, as the overall credit quality of the Trust's investment portfolio remains strong as shown in the table.

The Trust has been actively managing its GIC portfolio and will continue to take steps to mitigate risks as necessary while preserving the overall cash flows of the program. The Trust has employed a number of mitigation strategies during recent fiscal years such as terminating GICs at market value and using the cash to redeem bonds and terminating GICs and receiving portfolios comprised of U.S. agencies securities that replace the cash flows of the original GIC. Additionally, the Trust shifted its program model from a reserve model structure to a hybrid model structure which uses the federal grant and state matching funds that would have been pledged as reserves to originate loans that are pledged to the bonds, as well as utilization of the reserve model as needed.



The 2013 DWSRF Intended Use Plan offers \$121 million to finance drinking water projects. It is estimated to create 725 construction and engineering jobs.

Performance Indicator

The Trust continues to be a national leader among State Revolving Fund administrators. The following is a three-year ranking of program indicator data compiled by EPA. This data reveals that our State Revolving Fund programs have consistently ranked among the top programs in the nation in several key performance indicators.

**Clean Water State Revolving Fund Performance Indicators*, Ranked by State
for Fiscal Years 2011-2013**

2011			2012			2013		
Total Loan Assistance Provided (Millions of dollars)								
1 New York	\$	11,854	1 New York	\$	12,237	1 New York	\$	12,442
2 Texas		5,640	2 California		6,283	2 California		6,511
3 California		5,633	3 Texas		5,934	3 Ohio		6,230
4 Ohio		5,388	4 Ohio		5,897	4 Texas		6,186
5 Massachusetts		5,005	5 Massachusetts		5,189	5 Massachusetts		5,394
National average:		1,755	National average:		1,871	National average:		1,960
Assistance Provided as a Percent of Federal Capitalization Grants								
1 Arizona		638%	1 Rhode Island		620%	1 Rhode Island		607%
2 Rhode Island		534%	2 Arizona		612%	2 Arizona		592%
3 Minnesota		426%	3 Minnesota		431%	3 Massachusetts		421%
4 Massachusetts		423%	4 Massachusetts		421%	4 Minnesota		418%
5 Connecticut		397%	5 Connecticut		393%	5 Connecticut		384%
National average:		267%	National average:		273%	National average:		276%
SRF Project Disbursements (Millions of dollars)								
1 New York	\$	11,091	1 New York	\$	11,478	1 New York	\$	11,949
2 Texas		5,551	2 Texas		5,880	2 Texas		6,182
3 California		4,841	3 California		5,203	3 California		5,533
4 Massachusetts		4,249	4 Massachusetts		4,512	4 Ohio		4,822
5 Ohio		4,040	5 Ohio		4,423	5 Massachusetts		4,714
National average:		1,515	National average:		1,618	National average:		1,719
Total Loan Assistance Provided for Combined Sewer Overflow Projects (Millions of dollars)								
1 Michigan	\$	1,799	1 Michigan	\$	1,823	1 Michigan	\$	1,832
2 New York		1,217	2 New York		1,300	2 New York		1,481
3 Massachusetts		1,092	3 Ohio		1,134	3 Ohio		1,253
4 Ohio		855	4 Massachusetts		1,126	4 Massachusetts		1,159
5 Illinois		739	5 Illinois		784	5 Illinois		796
National average:		172	National average:		189	National average:		202
Total Loan Assistance Provided for Secondary Treatment Projects (Millions of dollars)								
1 New York	\$	6,736	1 New York	\$	6,869	1 New York	\$	7,393
2 California		2,946	2 California		3,131	2 California		3,204
3 Massachusetts		1,819	3 Massachusetts		1,882	3 Ohio		1,937
4 Ohio		1,750	4 Ohio		1,809	4 Massachusetts		1,927
5 New Jersey		1,463	5 Illinois		1,548	5 Illinois		1,652
National average:		636	National average:		668	National average:		697
Total Loan Assistance Provided for New Collector System Projects (Millions of dollars)								
1 Massachusetts	\$	836	1 Massachusetts	\$	854	1 Massachusetts	\$	882
2 Pennsylvania		653	2 Florida		674	2 Florida		753
3 Florida		608	3 Pennsylvania		658	3 Pennsylvania		688
4 New York		391	4 New York		413	4 New York		471
5 Arizona		378	5 Arizona		377	5 Arizona		378
National average:		125	National average:		129	National average:		135
Total Loan Assistance Provided for Storm Sewer Projects (Millions of dollars)								
1 New Jersey	\$	161	1 New Jersey	\$	182	1 New Jersey	\$	183
2 Florida		136	2 Florida		147	2 Florida		158
3 Massachusetts		121	3 Massachusetts		124	3 Massachusetts		139
4 South Dakota		64	4 South Dakota		67	4 South Dakota		68
5 California		38	5 California		38	5 California		31
National average:		13	National average:		14	National average:		16

Source: Environmental Protection Agency, National Information Management System

* All amounts in table are cumulative from July 1, 1987.

Independent Audit

The Trust's independent auditors, KPMG LLP, have performed an independent audit of the Trust for the fiscal year ended June 30, 2013 and 2012. The independent auditors' report is located at the front of the Financial Section of this report.

The Trust prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Trust has established an internal control framework that is designed to protect the Trust's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the Trust's financial statements in conformity with GAAP. The Trust's framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements.

Awards and Acknowledgments

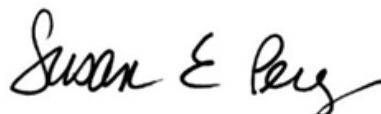
The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Trust for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. The award is the Trust's seventeenth consecutive citation. In order to be awarded a Certificate of Achievement, the Trust must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another citation.

The Massachusetts Water Pollution Abatement Trust is a collaborative effort of the Massachusetts State Treasury, the Department of Environmental Protection, the Executive Office for Administration and Finance, and the U. S. Environmental Protection Agency. Without the hard work and strong support of the people in each of these agencies, the work of the Trust could not be accomplished. To them, we extend our deepest gratitude.

The preparation of this report would not have been possible without the hard work of the entire staff of the Massachusetts Water Pollution Abatement Trust. We must also acknowledge the Chairman and the Board of Trustees for the confidence they have put in us, the Governor and the Legislature, and the people of the Commonwealth of Massachusetts for their continued support.

Respectfully submitted,

A handwritten signature in black ink, reading "Susan E. Perez". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Susan E. Perez

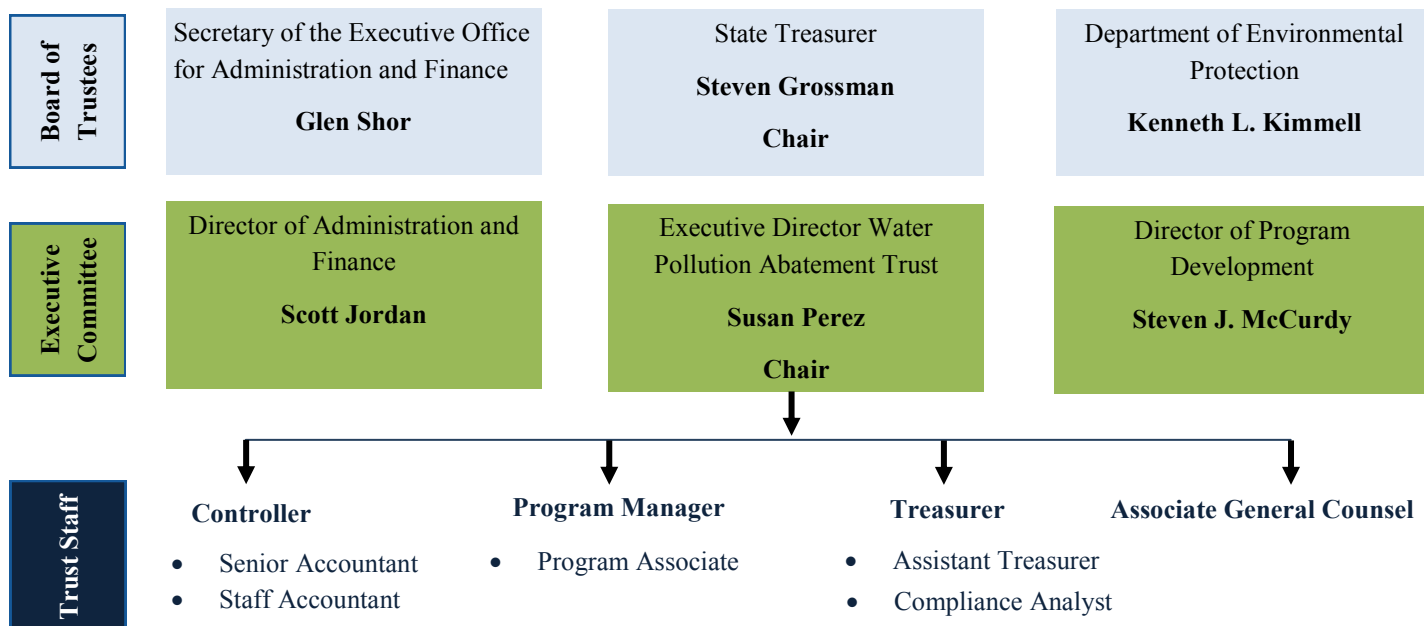
Executive Director

BOARD OF TRUSTEES

Mr. Steven Grossman	Treasurer and Receiver General of the Commonwealth of Massachusetts
Mr. Glen Shor	Secretary of the Executive Office for Administration and Finance of the Commonwealth of Massachusetts
Mr. Kenneth Kimmell	Commissioner of the Department of Environmental Protection of the Commonwealth of Massachusetts

SENIOR MANAGEMENT

Ms. Susan E. Perez	Executive Director of the Massachusetts Water Pollution Abatement Trust
Ms. My Tran	Treasurer of the Massachusetts Water Pollution Abatement Trust
Mr. Scott Jordan	Assistant Secretary for Capital Finance and Intergovernmental Affairs of the Executive Office for Administration and Finance of the Commonwealth of Massachusetts
Mr. Steven J. McCurdy	Director of Municipal Services for the Department of Environmental Protection of the Commonwealth of Massachusetts





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**Massachusetts Water Pollution
Abatement Trust**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

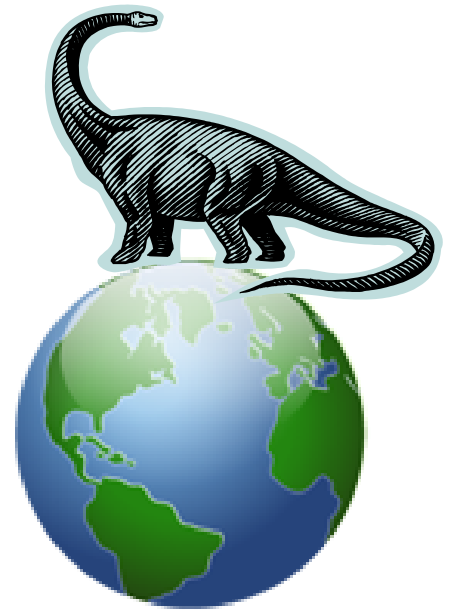
Executive Director/CEO

WATER'S WORTH IT

BE AS GOOD TO WATER AS WATER'S BEEN TO YOU

For more water facts visit www.WatersWorthIt.org

There is no “new” water.
It just gets recycled and
reused. Think about
it...we drink the same
water that the dinosaurs
did some 240 million
years ago!



Massachusetts Water Pollution Abatement Trust

*Comprehensive Annual Financial Report as of and for the Years Ended
June 30, 2013 and June 30, 2012 and Independent Auditors' Report*



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Massachusetts Water Pollution Abatement Trust:

We have audited the accompanying financial statements of the Massachusetts Water Pollution Abatement Trust (the Trust), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Water Pollution Abatement Trust as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Trust's basic financial statements. The Combining Financial Statements and Schedules and the Introductory and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements and Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements and Schedules, as listed in the table of contents, are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

October 24, 2013

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Introduction

The Massachusetts Water Pollution Abatement Trust (the Trust) is a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth). It was established in 1989 to administer the Massachusetts Water Pollution Abatement Revolving Fund pursuant to Title VI of the Federal Clean Water Act. Its enabling statute, Chapter 29C of the Massachusetts General Laws, was amended in 1998 to provide that the Trust would also administer the provisions of Title XIV of the Federal Safe Drinking Water Act establishing the Drinking Water State Revolving Fund.

The Trust's Clean Water State Revolving Fund (SRF) and the Drinking Water State Revolving Fund programs were established to accept federal grants and required Commonwealth matching funds in an amount equal to approximately 20% of the federal grants. The Trust's program is leveraged by issuing bonds to provide construction proceeds for loans. Federal and state grants and other monies available to the Trust are pledged to secure the bonds by either financing reserve funds or pledged loans or a combination of both. Earnings on these pledged assets are used to pay a portion of the debt service on the related bonds, thereby reducing the borrowers' loan repayment obligation. Since 2002, the Trust has provided loans to communities at 2% interest rate. As the effective market interest rate on the bonds is higher than the 2% loan rate, borrowers receive a subsidy equal to the difference between these rates.

Subsidized financing has been an important incentive for many communities to undertake water and sewer infrastructure improvement projects. Since the enactment of Chapter 95 of the Acts of 1995 of the Commonwealth, the Trust has been the Commonwealth's primary program to finance such improvements. The rate for Trust loans is set by statute at 2%, although projects approved prior to 2002 may qualify for a lower rate.

The Clean Water SRF provides low cost financing to eligible borrowers for projects that reduce, eliminate, or prevent water pollution. Examples of Clean Water SRF projects include construction of new wastewater treatment facilities, upgrades to existing facilities, infiltration/inflow correction, wastewater collection systems, and nonpoint source pollution abatement projects such as landfill capping, community programs for upgrading septic systems (Title 5), brownfield remediation, pollution prevention, and stormwater remediation.

The Drinking Water SRF provides low cost financing to publicly and privately owned community water system projects that provide safe, affordable drinking water. Examples of Drinking Water SRF projects include new and upgraded drinking water treatment facilities; projects to replace contaminated sources, new water treatment, or storage facilities; consolidation or restructuring of water systems; projects and system activities that provide treatment, or effective alternatives to treatment for compliance with regulated health standards such as the Surface Water Treatment Rule; and installation or replacement of transmission or distribution systems.

The Clean Water and Drinking Water SRF programs are administered by the Trust in partnership with the Massachusetts Department of Environmental Protection (DEP). DEP manages project development and approval while the Trust manages the flow of funds to the communities. As the loans are repaid, the funds "revolve" and become available for new projects.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' construction projects under the Clean Water and Drinking Water programs. The SRF Bonds are secured by either reserve funds or loans to borrowers that are pledged as a source of payment and security both of which are funded by the SRF program funds, or a combination thereof. The SRF Bonds are payable from borrower loan repayments, reserve fund earnings and payments made by the Commonwealth to the Trust on behalf of the borrowers.

Financial Highlights – Fiscal Year 2013

- At the close of fiscal year 2013, assets and deferred outflows exceed liabilities by \$2.1 billion compared to \$2.0 billion for fiscal year 2012. Included in this number are total loans receivable, which increased to \$3.99 billion from \$3.92 billion, cash, which increased to \$0.45 billion from \$0.36 billion, offset by a decrease in investments (primarily reserve fund investments) to \$1.39 billion from \$1.43 billion and an increase in total debt (bonds payable), which increased to \$3.77 billion from \$3.72 billion.
- Total assets and deferred outflows of resources increased to \$6.02 billion from \$5.91 billion.
- On May 8, 2013, the Trust issued Series 17 bonds in the amount of \$202,250,000 consisting of \$185,605,000 State Revolving Fund Bonds, Subseries 17A and \$16,645,000 State Revolving Fund Bonds, Subseries 17B. These monies were used to finance water pollution abatement and drinking water projects in 79 communities. The Trust pledged \$70.7 million of direct loans for projects under the clean water SRF and \$27.1 million of direct loans for projects under the drinking water SRF. The interest payments on the Series 17 pledged direct loans will be used to pay a portion of the debt service due on the Series 17 bonds.
- For FY 2013, the Trust recorded an operating loss of \$11.7 million as compared to operating income of \$22.4 million in FY 2012. The \$34.1 million decrease in the Trust's operating income in FY 2013 was primarily attributed to FY2012 operating income including a one-time \$57.7 million gain realized on the terminations of certain GICs offset by a \$21.4 million decrease in principal forgiveness, (\$33.7 million in FY2012 to \$12.3 million in FY 2013). The principal forgiveness is primarily associated with the disbursement of ARRA capitalization grant funds received in 2011. These ARRA grants required that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants or negative interest loans. The Trust committed all of its ARRA project funds to additional subsidization in the form of principal forgiveness.
- The statement of cash flows indicates an increase in cash for the year of \$97.3 million.
- In FY 2013, the Trust continued to receive Capitalization Grants from the Environmental Protection Agency (EPA) for both the Clean Water and Drinking Water programs. The Trust received \$48.0 million from the Clean Water Program and received \$17.0 million in the Drinking Water Program. The Commonwealth provided a match of \$13.0 million for these federally funded programs. The continued capitalization of the Trust, combined with the Trust's access to the bond market, has allowed the Trust to provide financing to all qualified borrowers.
- The Trust maintains the highest ratings of "Aaa," "AAA," and "AAA" from Moody's S&P, and Fitch rating agencies, respectively, on its recently issued bonds, allowing the Trust to continue to provide low cost financing to communities in the Commonwealth.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Financial Highlights – Fiscal Year 2012

- At the close of fiscal year 2012, assets and deferred outflows exceed liabilities by \$2.0 billion compared to \$1.9 billion for fiscal year 2011. Included in this number are total loans receivable, which increased to \$3.9 billion from \$3.8 billion, total debt (bonds payable), which decreased to \$3.72 billion from \$3.77 billion offset by a decrease in investments (primarily reserve fund investments) to \$1.43 billion from \$1.56 billion.
- Total assets and deferred outflows of resources remained consistent with last year at \$5.9 billion.
- On June 13, 2012, the Trust issued Series 16 bonds in the amount of \$240,585,000 consisting of \$80,185,000 State Revolving Fund Bonds, Subseries 16A and \$160,400,000 State Revolving Fund Bonds, Subseries B. These monies were used to finance water pollution abatement and drinking water projects in 58 communities. Concurrently with the issuance of the Series 16 bonds, the Trust financed \$121.2 million of Series 16 Direct Loans. The interest payments on the Series 16 Direct Loans will be used to pay a portion of the debt service due on the Series 16 bonds.
- The Trust issued \$130,835,000 State Revolving Fund Refunding Bonds (at a true interest cost of 2.61%) to refund \$261.8 million of the Trust's bonds. The Trust used bond proceeds from the refunding bonds in addition to \$120.6 million of proceeds received from terminating certain guaranteed investment contracts (GICs) with Trinity, for a savings of \$21.6 million, resulting in an economic gain (net present value) of \$17.3 million.
- For FY 2012, the Trust recorded operating income of \$22.4 million as compared to an operating loss of \$72.3 million in FY 2011. The \$74.7 million increase in the Trust's operating income in FY 2012 was primarily attributed to the \$57.7 million in gains realized on the terminations of certain GICs combined with a \$37.3 million decrease in principal forgiveness, from \$71.0 million in FY2011 to \$33.7 million in FY 2012. The principal forgiveness is primarily associated with the disbursement of ARRA capitalization grant funds received in 2010. These ARRA grants required that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants or negative interest loans. The Trust committed all of its ARRA project funds to additional subsidization in the form of principal forgiveness.
- The statement of cash flows indicates an increase in cash for the year of \$108.5 million.
- In FY 2012, the Trust continued to receive Capitalization Grants from the Environmental Protection Agency (EPA) for both the Clean Water and Drinking Water programs. The Trust received \$50.1 million from the Clean Water Program and received \$17.3 million in the Drinking Water Program. The Commonwealth provided a match of \$13.5 million for these federally funded programs. The continued capitalization of the Trust, combined with the Trust's access to the bond market, has allowed the Trust to provide funding to all qualified borrowers.
- The Trust maintains the highest ratings of "Aaa," "AAA," and "AAA" from Moody's S&P, and Fitch rating agencies, respectively, on its recently issued bonds, allowing the Trust to continue to provide low cost funding to communities in the Commonwealth.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Overview of Financial Statements

The financial section of this report consists of the following parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements.

The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles as applied to government enterprise funds. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting are used. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. This report also includes notes accompanying the financial statements to fully explain the activities reported in them.

The statements of net position present information on the total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources of the Trust. The difference between the two totals is the Trust's net position. Over time, increases and decreases in net position may be an indicator of the strength or deterioration of the financial health of the Trust.

The statements of revenues, expenses, and changes in net position report the operating revenues and expenses and the nonoperating revenues and expenses of the Trust for the fiscal year. The difference – increase or decrease in net position – then determines the change in net position for the fiscal year. This change in net position added to last year's net position will reconcile to the total net position for this fiscal year.

The statements of cash flows report activity of cash and cash equivalents during the fiscal year resulting from operating activities, noncapital financing activities, and investing activities. The net result of these activities is reconciled to the cash and cash equivalent balances reported at the end of the fiscal year. These statements are prepared using the direct method of presentation, which allows the reader to easily discern the amount of cash received from grantors, borrowers, and financial institutions, and how much cash was disbursed to borrowers, vendors, and bondholders.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Condensed Financial Information and Financial Analysis

Massachusetts Water Pollution Abatement Trust's Net Position

(In thousands)

		2013	2012	2011	Percentage change	
					2013 – 2012	2012 – 2011
Current assets	\$	918,563	732,229	740,656	25.4%	(1.1)%
Loans receivable, long term		3,711,065	3,674,409	3,449,256	1.0	6.5
Investments, long-term		1,262,224	1,336,254	1,504,028	(5.5)	(11.2)
Project fund investments		58,992	92,441	56,721	(36.2)	63.0
Deferred outflows		72,071	75,400	78,608	(4.4)	(4.1)
Other		1,469	2,264	2,578	(35.1)	(12.2)
Total assets and deferred outflows	\$	6,024,384	5,912,997	5,831,847	1.9%	1.4%
Current liabilities		335,822	271,719	287,449	23.6%	(5.5)%
Loan commitments and project funds payable		58,979	92,415	56,249	(36.2)	64.3
Liability for derivative instruments		3,435	2,067	2,456	66.2	(15.8)
Long-term debt		3,555,255	3,542,898	3,583,515	0.3	(1.1)
Other		—	—	3,751	—	(100.0)
Total liabilities	\$	3,953,491	3,909,099	3,933,420	1.1%	(0.6)%
Net position:						
Restricted	\$	1,658,888	1,600,042	1,553,835	3.7%	3.0%
Unrestricted		412,005	403,856	344,592	2.0	17.2
Total net position	\$	2,070,893	2,003,898	1,898,427	3.3%	5.6%

Net position

The Trust's net position at June 30, 2013 and 2012 were approximately \$2.1 billion and \$2.0 billion, respectively. Total assets and deferred outflows increased \$111.4 million to \$6.0 billion, while total liabilities remained relatively consistent at approximately \$3.9 billion. Total loans receivable, long-term remained constant at \$3.7 billion, similarly, investments remained relatively constant at \$1.3 billion. Total liabilities remained relatively consistent year over year as the new bond issuances of \$202.3 million for Series 17 were offset by scheduled maturities.

The Trust's net position at June 30, 2012 and 2011 were approximately \$2.0 billion and \$1.9 billion, respectively. Total assets and deferred outflows remained consistent at \$5.9 billion, and total liabilities also remained consistent at \$3.9 billion. Total loans receivable, long-term increased \$225.2 million to \$3.7 billion while investments decreased \$167.8 million to \$1.3 billion. This reflects the Trust's use of direct loans to provide additional security for its Series 16 bond issuance rather than its traditional use of an investment reserve fund; as well as the termination of \$119.1 million of GICs. Total liabilities and deferred inflow remained consistent year over year as the new bond issuances of \$240.6 million for Series 16 and \$130.8 million for Series 2012 Refunding bonds were offset by scheduled maturities and bonds refunded with cash proceeds from the GIC termination.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Bonds Payable

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' construction projects under the Clean Water and Drinking Water programs. The SRF Bonds are secured by either reserve funds or loans to borrowers that are pledged as a source of payment and security, both of which are funded by the SRF program funds, or a combination thereof. The SRF Bonds are payable from borrower loan repayments, reserve fund earnings and contract assistance payments made by the Commonwealth to the Trust on behalf of the borrowers.

The following is a summary of bonds payable at June 30, 2013, 2012 and 2011 (in thousands). More detailed information can be found in note 6 to the financial statements.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Water Pollution Abatement Revenue Bonds:			
MWRA Loan Program	\$ 16,410	22,370	48,200
South Essex Sewage District Loan Program	2,765	3,780	5,015
New Bedford Loan Program	1,515	2,405	3,440
Pool Loan Program	<u>2,078,738</u>	<u>1,989,878</u>	<u>2,125,200</u>
Subtotal revenue bonds	<u>2,099,428</u>	<u>2,018,433</u>	<u>2,181,855</u>
Subordinated Revenue Refunding Bonds:			
MWRA Loan Program	63,775	63,775	63,775
New Bedford Loan Program	36,460	40,850	44,935
Pool Loan Program	<u>1,311,580</u>	<u>1,358,240</u>	<u>1,264,190</u>
Subtotal revenue refunding bonds	<u>1,411,815</u>	<u>1,462,865</u>	<u>1,372,900</u>
Total bonds	3,511,243	3,481,298	3,554,755
Add (deduct) unamortized amounts:			
Bond premium	<u>259,765</u>	<u>233,905</u>	<u>211,862</u>
Total bonds payable, net	<u><u>\$ 3,771,008</u></u>	<u><u>3,715,203</u></u>	<u><u>3,766,617</u></u>

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

A summary of the Trust's statements of revenues, expenses, and changes in net position is as follows:

Summary of Changes in Net Position

(In thousands)

	June 30			Percentage change	
	2013	2012	2011	2013 – 2012	2012 – 2011
Loan servicing fees	\$ 5,288	5,270	5,209	0.3%	1.2%
Loan origination fees	1,698	2,243	129	(24.3)	1,638.8
Interest income	150,066	216,039	159,922	(30.5)	35.1
Contract assistance from Commonwealth of Massachusetts	33,895	36,700	35,886	(7.6)	2.3
Total operating revenues	190,947	260,252	201,146	(26.6)	29.4
Department of Environmental Protection programmatic support costs	8,921	11,369	10,482	(21.5)	8.5
Principal forgiveness	12,335	33,693	71,018	(63.4)	(52.6)
General and administrative	5,046	8,440	8,842	(40.2)	(4.5)
Arbitrage rebate payments	6,725	10,487	1,122	(35.9)	834.7
Interest expense	169,595	173,869	182,035	(2.5)	(4.5)
Total operating expenses	202,622	237,858	273,499	(14.8)	(13.0)
Operating (loss) income	(11,675)	22,394	(72,353)	(152.1)	131.0
U.S. Environmental Protection Agency capitalization grants	65,671	74,181	82,089	(11.5)	(9.6)
Commonwealth of Massachusetts matching grants	12,999	8,896	5,961	46.1	49.2
Total nonoperating revenues	78,670	83,077	88,050	(5.3)	(5.6)
Increase in net position	66,995	105,471	15,697	(36.5)	571.9
Net position, beginning of year	2,003,898	1,898,427	1,882,730	5.6	0.8
Net position, end of year	\$ 2,070,893	2,003,898	1,898,427	3.3%	5.6%

Results of Operations

For FY 2013, the Trust recorded an operating loss of \$11.7 million as compared to operating income of \$22.4 million in FY 2012. The \$34.1 million decrease in the Trust's operating income in FY 2013 was primarily attributed to FY2012 operating income including a one-time \$57.7 million gain realized on the terminations of certain GICs offset by a \$21.4 million decrease in principal forgiveness, (\$33.7 million in FY2012 to \$12.3 million in FY 2013). The principal forgiveness is primarily associated with the disbursement of ARRA capitalization grant funds received in 2011. These ARRA grants required that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants or negative interest loans. The Trust committed all of its ARRA project funds to additional subsidization in the form of principal forgiveness.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2013 and 2012

Excluding the \$57.7 million gain realized on the termination of GICs, the Trust would have recorded a \$35.3 million operating loss in FY 2012 compared to an operating loss of \$72.4 million in FY 2011. The operating losses are primarily the result of principal forgiveness of \$33.7 million and \$71.0 million in FY 2012 and FY 2011, respectively.

Other significant factors contributing to the operating losses are DEP programmatic support costs of \$8.9 million, \$11.4 million and \$10.5 million, for FY 2013, 2012 and 2011, respectively, which are program administrative costs funded by 4.0% of the capitalization grant. The capitalization grant revenues funding both the principal forgiveness and the programmatic support costs are classified as nonoperating revenue.

Additionally, the Trust adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in FY 2013 which resulted in reporting bond issue costs as general and administrative expenses rather than capitalized as an asset and amortized over the life of the bonds issued. This resulted in \$0.8 million, \$4.9 million and \$6.7 million increase to general and administrative costs in FY 2013, FY 2012 and FY 2011, respectively.

The \$4.4 million, or 5.3%, decrease in nonoperating revenue in FY 2013 reflects a decrease in the annual Clean Water and Drinking Water federal capitalization grants revenue and the related state matching grant. Revenue is recognized based on the funding availability schedule contained in the grant. For more information on grant revenue, refer to note 4.

The \$5.0 million, or 5.6%, decrease in nonoperating revenue in FY 2012 reflects a decrease in the annual Clean Water and Drinking Water federal capitalization grants revenue and the related state matching grant. Revenue is recognized based on the funding availability schedule contained in the grant. For more information on grant revenue, refer to note 4.

Future Economic Factors

In August 2008, the Commonwealth enacted Chapter 312 of the Acts of 2008 of the Commonwealth, which provided for \$75 million in matching capitalization funds to the Clean Water (CW) and Drinking Water (DW) programs. The Trust estimates this amount to be sufficient to meet its Clean Water matching needs through FY2015 and Drinking Water matching needs through FY2014, assuming current federal funding levels are maintained. The Trust has submitted a request to the Legislature for an additional appropriation of \$57.0 million which would allow the Trust to continue to receive Federal Clean Water and Drinking Water grants through FY2017. The Trust expects the request to be submitted and acted upon during the 2014 legislative session.

Requests for Information

This financial report is intended to provide an overview of the financial picture of the Massachusetts Water Pollution Abatement Trust. Any further questions regarding any of the information contained within this report may be directed to the Executive Director or the Controller at 3 Center Plaza, Suite 430, Boston, MA 02108.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 454,452	357,127
Short-term investments (note 3)	43,248	3,039
Project fund investments (note 3)	23,747	545
Grants receivable:		
U.S. Environmental Protection Agency	61,408	56,960
Commonwealth of Massachusetts	—	2,313
Loans receivable, net (note 5)	274,421	249,177
Accrued interest receivable	61,287	63,068
Total current assets	<u>918,563</u>	<u>732,229</u>
Noncurrent assets:		
Project fund investments (note 3)	58,992	92,441
Loans receivable, long-term (note 5)	3,711,065	3,674,409
Long-term investments (note 3)	1,262,224	1,336,254
Other assets	1,469	2,264
Total noncurrent assets	<u>5,033,750</u>	<u>5,105,368</u>
Deferred outflows of resources (note 10)	72,071	75,400
Total assets and deferred outflows of resources	<u>6,024,384</u>	<u>5,912,997</u>
Liabilities:		
Current liabilities:		
Accrued expenses and interest payable	68,061	69,617
Unearned revenue	28,385	29,797
Loan commitments and project funds payable	23,623	—
Long-term debt (note 6)	215,753	172,305
Total current liabilities	<u>335,822</u>	<u>271,719</u>
Noncurrent liabilities:		
Loan commitments and project funds payable	58,979	92,415
Liability for derivative instruments (note 9)	3,435	2,067
Long-term debt, net (note 6)	3,555,255	3,542,898
Total noncurrent liabilities	<u>3,617,669</u>	<u>3,637,380</u>
Total liabilities	<u>3,953,491</u>	<u>3,909,099</u>
Net position:		
Restricted for program purposes (note 7)	1,658,888	1,600,042
Unrestricted (note 7)	412,005	403,856
Total net position	<u>\$ 2,070,893</u>	<u>2,003,898</u>

See accompanying notes to financial statements.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2013 and 2012
(In thousands)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Loan servicing fees	\$ 5,288	5,270
Loan origination fees	1,698	2,243
Interest income	150,066	216,039
Contract assistance from Commonwealth of Massachusetts	33,895	36,700
Total operating revenues	<u>190,947</u>	<u>260,252</u>
Operating expenses:		
Commonwealth of Massachusetts:		
Department of Environmental Protection – programmatic support costs	8,921	11,369
Principal forgiveness	12,335	33,693
General and administrative	5,046	8,440
Arbitrage rebate payments	6,725	10,487
Interest expense	169,595	173,869
Total operating expenses	<u>202,622</u>	<u>237,858</u>
Operating (loss) income	<u>(11,675)</u>	<u>22,394</u>
Nonoperating revenue:		
Capitalization grant revenue:		
U.S. Environmental Protection Agency capitalization grants (note 4)	65,671	74,181
Commonwealth of Massachusetts matching grants (note 4)	12,999	8,896
Total nonoperating revenue	<u>78,670</u>	<u>83,077</u>
Increase in net position	66,995	105,471
Net position – beginning of year, as restated	<u>2,003,898</u>	<u>1,898,427</u>
Net position – end of year	<u>\$ 2,070,893</u>	<u>2,003,898</u>

See accompanying notes to financial statements.

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Other cash received from borrowers	\$ 7,754	5,345
Cash paid to vendors	(21,958)	(24,256)
Net cash used in operating activities	<u>(14,204)</u>	<u>(18,911)</u>
Cash flows from noncapital financing activities:		
Bonds proceeds	242,657	268,422
Repayment of bonds	(172,306)	(303,668)
Interest paid	(165,171)	(172,561)
Proceeds from U.S. Environmental Protection Agency capitalization grants	60,547	110,991
Proceeds from Commonwealth matching capitalization grants	14,574	12,943
Net cash used in noncapital financing activities	<u>(19,699)</u>	<u>(83,873)</u>
Cash flows from investing activities:		
Loans disbursed to recipients	(278,674)	(398,004)
Cash received from borrowers	177,917	173,739
Contract assistance received – principal	26,970	29,722
Interest received	127,208	164,434
Contract assistance received – interest	35,841	35,264
Purchases of investments	(60,790)	(171,793)
Cash received from termination of guaranteed investment contracts	—	150,437
Sales/maturities of investments	102,756	227,510
Net cash provided by investing activities	<u>131,228</u>	<u>211,309</u>
Net increase in cash and cash equivalents	97,325	108,525
Cash and cash equivalents, beginning of year	<u>357,127</u>	<u>248,602</u>
Cash and cash equivalents, end of year	<u>\$ 454,452</u>	<u>357,127</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income/(loss)	\$ (11,675)	22,394
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Reclassification of:		
Interest income	(150,066)	(216,039)
Contract assistance	(33,895)	(36,700)
Interest expense	169,595	173,869
Principal forgiveness	12,335	33,693
Changes in operating assets and liabilities:		
Other assets and liabilities, net	(498)	3,872
Net cash used in operating activities	<u>\$ (14,204)</u>	<u>(18,911)</u>

During fiscal year 2012, the Trust issued bonds to partially refund various series of bonds. The \$154,832 bond proceeds combined with \$120,566 of cash were deposited immediately into irrevocable trust funds for the defeasance of \$261,775 of outstanding bond principal.

See accompanying notes to financial statements.

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POLLUTION ABATEMENT TRUST**
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June 30, 2013 and 2012

(Dollars in thousands, unless noted)

(1) General

(a) Organization

The Massachusetts Water Pollution Abatement Trust (the Trust), is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The Trust was created by Chapter 275 of the Acts of 1989, and is governed by Chapter 29C of the Massachusetts General Laws. Pursuant to an Operating Agreement between the United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (DEP), and the Trust, executed in 1993 and subsequently amended, the Trust administers the Commonwealth's Clean Water and Drinking Water State Revolving Fund (SRF) programs.

Financial and management activities of the Trust are administered by employees of the Trust who fall under the Office of the State Treasurer. Project evaluation, selection, and oversight are provided by DEP employees.

The Trust is governed by a three-member board of trustees chaired by the State Treasurer and composed of the Secretary for Administration and Finance and the Commissioner of DEP. The Trust is reported as a component unit of the Commonwealth of Massachusetts.

(b) Description of Business

The SRF programs, which were authorized by federal legislation – the Water Quality Act of 1987 for the Clean Water SRF and the Safe Drinking Water Act of 1996 for the Drinking Water SRF – provide low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. The Trust's SRF program's primary activities include providing low-cost financing for eligible projects funded by the issuance of debt in the capital markets, providing low cost interim financing for its borrowers, the investment of program funds, and the management and coordination of the programs.

SRF program capitalization grants are issued from the EPA to the Trust, for which the Commonwealth is required to provide 20% in matching funds. The Trust's program is leveraged by issuing bonds to provide construction proceeds for loans. Federal and state grants and other monies available to the Trust are pledged to secure the bonds by either financing reserve funds or pledged loans or a combination of both. Earnings on these pledged assets are used to pay a portion of the debt service on the related bonds, thereby reducing the borrowers' loan repayment obligation. Since 2002, the Trust has provided loans to communities at 2% interest rate. As the effective market interest rate on the bonds is higher than the 2% loan rate, borrowers receive a subsidy equal to the difference between these rates.

The SRF programs are called the State Revolving Fund programs because as borrowers pay down the principal balances of their loans and as the Trust pays principal on its SRF bonds, proportional amounts are released from the reserves and/or loans pledged to secure the related SRF bonds. These funds come back to the Trust and "revolve" or are used to establish new reserve funds or loans to

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borrowers that are pledged as a source of payment and security, for new SRF bonds or for other eligible purposes.

Funds pertaining to the SRF programs are limited to specific uses by laws and regulations as well as Grant and Operating Agreements entered into between EPA and the Commonwealth. As a result of these limitations on uses, these funds are classified as restricted on the statements of net position.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for a special purpose entity engaged solely in business-types activities. The more significant account policies are described below.

During 2013, the Trust implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in the recognition of certain amounts as deferred inflows/outflows rather than assets/liabilities. The Trust also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the write off of bond issue costs as of July 1, 2011.

(b) Revenue Recognition

Operating revenues, including interest income, and expenses are generated through the issuance of loans to local government units within the Commonwealth. All other revenues and expenses are reported as nonoperating revenues and expenses.

Funding from federal capitalization grants and state matching grants are recorded as nonoperating revenue. Federal capitalization revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements. Revenue recognition associated with these grants is based on the standard principles of eligibility, including timing requirements.

The Trust's recent federal capitalization grants beginning with the American Recovery and Reinvestment Act of 2009 (ARRA) grant received in 2009, required that a portion of the grant funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans. The Trust provides the additional subsidization in the form of principal forgiveness, which has been recorded as an operating expense.

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(c) Cash and Cash Equivalents

The Trust's policy is to treat all highly liquid investments with original maturities of three months or less as cash and cash equivalents.

(d) Investments

The Trust's investment guidelines permit investment of funds in obligations of, or guaranteed by, the United States of America or the short-term external investment pool, the Massachusetts Municipal Depository Trust (MMDT), managed by the Commonwealth, as well as in time-deposits, guaranteed investment contracts, repurchase agreements, and other permitted investments such as qualified municipal obligations.

Investments are generally carried at fair value. The investment in MMDT is valued at share price and the investment in U.S. Treasury securities are carried at amortized cost which approximates fair value. The guaranteed investment contracts (GICs) are considered nonparticipating investment contracts and therefore are recorded at amortized cost.

Under the Massachusetts Water Pollution Abatement Trust Program Resolutions and bond resolutions entered into in connection with the issuance of bonds by the Trust (the Resolutions), the Trust must maintain certain investment funds in the SRF programs. The types of funds held by the Trustees are in the following accounts:

Equity Accounts – The equity accounts consist of cash and cash equivalents that are currently invested in MMDT. The equity accounts comprise both a federal program account and a state account and can be used for programmatic costs and operating expenses within the SRF programs. These funds are derived from: (1) funds drawn by the Trust from federal capitalization grants and Commonwealth matching funds; (2) other amounts paid to the Trust representing financial assistance provided pursuant to the Act for purposes of deposit in the SRF programs; (3) other amounts appropriated to the Trust by the Commonwealth for purposes of the SRF programs; (4) direct loan repayments; (5) interest earnings on investments or deposits of amounts held in the equity accounts; and (6) amounts transferred from the Debt Service Reserve Fund as a result of loan repayments in accordance with the provisions specified in the Resolutions.

Interim Loan Accounts – The interim loan accounts have been established to fund temporary loans in anticipation of permanent leveraged borrowings. The source of funds is the equity accounts.

Project Accounts – The project accounts disburse bond proceeds to borrowers as needed. These funds are restricted by the bond resolutions and are to be applied solely to the payment or refinancing of costs associated with the applicable project. When all costs have been paid, any amounts remaining unexpended in the project accounts will normally be applied to the repayment of the applicable borrower's principal.

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Debt Service Reserve Accounts – Debt service reserve accounts consist of reserves established as security to bonds issued by the Trust. The amount deposited in each debt service reserve account is determined at the time of the issuance of the bonds, and has varied from 33% to 50% of the par amount of the bonds issued. Debt Service Reserve Funds are funded from cash, and deposits are transferred from the equity accounts. Interest earnings on the debt service reserve accounts are used for debt service payments.

Debt Service Accounts – Debt service accounts are used as a pass-through of principal and interest to the bondholders. The debt service accounts are also used to hold accrued interest on the bonds to be applied to pay a portion of the interest due on the bonds.

(e) *Loan Origination Fees and Costs of Issuance*

The Trust requires payment of loan origination fees at the time of the first debt service payment. This origination fee revenue is recorded at the time of the bond closing which is when these fees are earned. Costs of issuance related to the bonds are recorded to general and administrative expenses when incurred.

The Trust previously reported bond issuance costs in other assets to the extent they were not offset by origination fees charged to the borrowers. These remaining costs were then amortized over the life of the bonds. The implementation of GASB Statement No 65 resulted in the write-off of bond issue costs as of July 1, 2011.

Prior to FY 2007, fees received and certain direct costs incurred, relating to the origination of loans, have been deferred and are being paid by certain borrowers with their respective loans receivable.

(f) *Risk Financing*

The Trust is not insured for casualty, theft, tort claims, or other losses. No amounts have been accrued for such losses as they are not considered material. As discussed in note 1, all financial, management, and project oversight activities are provided by employees of the State Treasurer's Office, DEP, and the Executive Office for Administration and Finance. These employees are covered under the Commonwealth's existing employee benefit programs. The cost of these programs is allocated to the Trust, through a fringe benefit allocation. Costs in excess of this amount are borne by the Commonwealth. As a result, no liabilities for employee-related activities have been recorded by the Trust.

(g) *Bond Premium*

Bond premium, included in long-term debt, is amortized on a straight-line basis, which approximates the effective interest basis, over the life of the associated bond issue.

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(h) Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

(i) Derivatives

The Trust complies with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires that derivative instruments be reported as assets or liabilities at fair value on the statement of net position. Changes in fair value are reported in the statement of revenues, expenses, and changes in net position, depending on whether the derivative instrument qualifies for hedge accounting.

(j) Deferred Inflows and Outflows of Resources

The Trust accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows of resources, respectively, to distinguish them from assets and liabilities. For fiscal 2013 and 2012, the Trust has reported deferred outflows of resources pertaining to its hedging derivative instrument and to the deferred losses on its debt refunding transactions.

(k) Reclassifications

During 2013, the Trust implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in the recognition of certain amounts as deferred inflows/outflows rather than assets/liabilities. The Trust also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the write off of bond issue costs as of July 1, 2011.

Certain reclassifications have been made to the FY 2012 balances to conform to the presentation used in FY 2013.

(l) Restatement

As a result of implementing GASB Statement Nos. 63 and 65, the Trust restated its net position at July 1, 2011 of \$1.905 billion to \$1.898 billion as a result of writing off previously capitalized bond issue costs.

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(3) Deposits and Investments

The Trust complies with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Cash, cash equivalents, and investments are separately held by several of the Trust's funds.

(a) Cash and Cash Equivalents

The Trust's cash and cash equivalents consist of the equity accounts previously discussed in note 2 as well as project funds that have not yet been disbursed. The project funds are held by the Bond Trustees and disbursed in accordance with executed loan agreements. A small portion of the cash and cash equivalents is held to pay the administrative costs of the Trust.

Cash and cash equivalents include investments in the MMDT. For purposes of risk categorization, MMDT shares are not categorized. The fair value of the Trust's position in MMDT is at unit value.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. The Trust had no significant amount of cash on deposit with banks at June 30, 2013 and 2012.

(b) Investments

Custodial Credit Risk – Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Trust will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Trust requires that all investment agreements be collateralized either upon execution of such agreement or upon the happening of certain events, and at all times thereafter, by securities or other obligations issued or guaranteed by the United States, by certain federal agencies or corporations or, in some cases, by corporate or municipal issuers rated "AAA" by Standard & Poor's and "Aaa" by Moody's, having a market value of not less than 102% of the amount currently on deposit or in accordance with their respective agreement.

Credit Risk – The majority of the Trust's investments are in Guaranteed Investment Contracts (GICs) or in Treasury or agency securities. The Treasury and agency securities are all backed by the federal government. The GICs either have collateral requirements in place upon execution of the investment agreement, or have triggered collateral requirements under which, upon a rating downgrade below a specified level, the counterparty is typically required to do one of three actions: 1) post collateral to a level sufficient to maintain an AA rating, 2) assign the investment contract to a new counterparty that has at least a AA rating, or 3) provide credit enhancement to maintain a rating on the investment contract of at least AA. MMDT and the GICs are not rated.

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Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Trust’s investments. The Trust limits its exposure to interest rate risk by entering into guaranteed investment contracts and federally guaranteed fixed income securities for all of its long-term investments upon which the Trust relies to meet its obligations.

The value and maturities of the Trust’s investments are presented below:

Investment type	2013	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Guaranteed investment contracts	\$ 801,849	102,502	253,291	269,949	176,107
U.S. Treasuries – federally guaranteed	463,260	28,540	121,252	141,345	252,538
Cash equivalents:					
Massachusetts Municipal Depository Trust (MMDT)	577,554	577,554	—	—	—
Total investments	\$ 1,842,663	708,596	374,543	411,294	428,645

Investment type	2012	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Guaranteed investment contracts	\$ 856,386	94,795	254,011	283,559	224,021
U.S. Treasuries – federally guaranteed	482,907	27,791	125,252	142,821	275,601
Cash equivalents:					
Massachusetts Municipal Depository Trust (MMDT)	450,113	450,113	—	—	—
Total investments	\$ 1,789,406	572,699	379,263	426,380	499,622

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Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The issuers where investments exceeded 5% of the Trust's total investments are as follows:

	Percentage of total investments	
	2013	2012
Provider:		
Dexia Credit Local/FSA Capital Management Services, LLC	19%	19%
NATIXIS Funding Corp.	15	16
Trinity Funding Company, LLC	12	11
Citigroup	9	9

On April 30, 2012, the Trust terminated \$119.1 million of GICs with Trinity Funding Company, LLC (Trinity). The Trust received \$150.4 million in cash proceeds from Trinity which included a make-whole payment of \$29.9 million which has been recorded as interest income in the 2012 Statement of Revenues, Expenses and Changes in Net Position. The Trust used the cash proceeds to refund a portion of its outstanding bonds, refer to note 6.

(4) Capitalization Grants

The Trust is awarded Clean Water and Drinking Water grants from the U.S. Environmental Protection Agency. These grants require that the Trust enter into binding commitments with local government units within one year of the receipt of each federal grant payment to provide assistance in an amount equal to 120% (including 20% state matching grants) of each grant award. Each federal capitalization grant contains federally mandated set-asides, including a 4% administrative allowance, that result in total grant funding actually being 83.3% federal and 16.7% state.

The total grants awarded for the Trust's fiscal years ended June 30, 2013 and 2012 are as follows:

	Clean Water Program		Drinking Water Program	
	2013	2012	2013	2012
Federal capitalization	\$ 47,985	50,136	17,012	17,278
State match on federal funds	9,597	10,027	3,402	3,456
Total capitalization	57,582	60,163	20,414	20,734
Less administrative allowance and set asides	(2,303)	(2,406)	(5,187)	(5,356)
Project capitalization	\$ 55,279	57,757	15,227	15,378

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Notes to Financial Statements

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The periodic cash draws by the Trust on federal grants are based on the amount of incurred costs for certain eligible projects or activities. Federal capitalization revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements.

The following table depicts the Trust's capitalization grant revenue by grant:

	Clean Water		Drinking Water		Total Programs	
	2013	2012	2013	2012	2013	2012
Federal FY 2012 grant	\$ 35,988	—	12,549	—	48,537	—
Federal FY 2011 grant	12,534	37,602	4,600	12,959	17,134	50,561
Federal FY 2010 grant	—	17,294	—	6,326	—	23,620
Total grant revenue – EPA	<u>\$ 48,522</u>	<u>54,896</u>	<u>17,149</u>	<u>19,285</u>	<u>65,671</u>	<u>74,181</u>
State match – FY 2012 grant	\$ 9,597	—	3,346	—	12,943	—
State match – FY 2011 grant	—	5,440	56	3,456	56	8,896
Total grant revenue – state match	<u>\$ 9,597</u>	<u>5,440</u>	<u>3,402</u>	<u>3,456</u>	<u>12,999</u>	<u>8,896</u>

(5) Loans Receivable and Bonds Purchased

The Trust provides low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. These loans are provided under the Trust's Clean Water, Drinking Water, and Title V – Community Septic Management Programs.

Each loan to a borrower made with the proceeds of the Trust's SRF bonds is in the form of either a loan or the bond purchase agreement. Pursuant to an agreement with the EPA, projects financed for greater than 20 years are financed through a bond purchase agreement. Both forms of assistance are referred to as "leveraged loans" and are made pursuant to a financing agreement between the Trust and the borrower. Pursuant to the financing agreements, each borrower delivers its own general or special obligation bond to the Trust referred to as a "local bond," in order to secure its loan repayment obligations. The Trust makes loans under its Clean Water SRF program with terms up to 30 years from project completion and under its Drinking Water SRF program up to 20 years from project completion, but in no event does the Trust make a loan longer than the expected useful life of the project financed or refinanced by such loan.

The Trust recognizes the need for construction funds to be available to borrowers throughout the year, not simply at the time of an annual Trust bond issue. This need is addressed by making funds available to eligible projects through the interim loan program. Interim loans are temporary loans provided by the Trust to local governmental units or other eligible borrowers in accordance with a financing agreement for all or any part of the cost of a project in anticipation of a leveraged loan.

In addition, the Trust will from time to time provide direct loans. Direct loans are loans subject to repayment, provided to local governmental units or other eligible borrowers with SRF equity funds rather than bond proceeds.

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A summary of loan receivables as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Leveraged loans or bonds purchased	\$ 3,932,718	3,796,500
Direct loans	14,986	79,977
Interim loans	221,956	241,174
Principal forgiveness	<u>(184,174)</u>	<u>(194,065)</u>
Total loans receivable	3,985,486	3,923,586
Less current portion loans receivable	<u>274,421</u>	<u>249,177</u>
Long-term portion – loans receivable	<u><u>\$ 3,711,065</u></u>	<u><u>3,674,409</u></u>

The interim loan receivable balances were \$221,955 and \$241,174 as of June 30, 2013 and 2012, respectively. Additionally, the interim loan balances represent disbursements of construction funds of \$184,174 and \$194,065, respectively, to borrowers for which a subsidy was provided in the form of principal forgiveness. The interim loan amounts will be legally forgiven as the applicable projects are completed.

The Series 17 bond issue occurred in May 2013 and interim loans totaling \$161,508 and direct loans totaling \$64,321 were permanently financed as part of the Series 17 bond issue.

The Series 16 bond issue occurred in June 2012 and interim loans totaling \$221,865 and direct loans totaling \$23,463 were permanently financed as part of the Series 16 bond issue. An additional \$52,038 of interim loans were financed as direct loans in June 2012.

Aggregate principal maturities on leveraged loans receivable or bonds purchased are as follows (in thousands):

Years ending June 30:	
2014	\$ 235,846
2015	241,113
2016	234,856
2017	239,777
2018	231,351
2019 – 2023	1,118,110
2024 – 2028	864,102
2029 – 2033	523,866
2034 – 2038	187,502
2039 – 2043	<u>56,195</u>
Total leveraged loans or bonds purchased	<u><u>\$ 3,932,718</u></u>

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The Trust's loans to its borrowers are subsidized by interest earnings on Debt Service Reserve Funds and contract assistance provided to the Trust by the Commonwealth. Although borrowers are obligated to the Trust to make scheduled payments, both of these subsidies are expected to be available for the lives of the financing agreements. The Commonwealth has committed to provide contract assistance in the amount of \$496 million. This obligation of the Commonwealth to the Trust is a general obligation of the Commonwealth, for which its full faith and credit are pledged. Annual appropriations are made each year by the Commonwealth to fund the current year's obligation.

For the leveraged bond purchase program, pursuant to an agreement with the Commonwealth, contract assistance is drawn in an amount as if the financing was for a 20-year period. The amount that is not currently needed is invested at the applicable bond yield and used to fund the subsidy in years 21 to 30.

(6) Bonds Payable

The Trust issues special obligation bonds under its SRF programs to provide financial assistance to eligible borrowers. The financial assistance is provided pursuant to leveraged loans and bond purchase agreements between the Trust and each borrower as described in note 5.

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The following is a summary of bonds payable at June 30, 2013 and 2012:

	<u>Beginning balance, June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2013</u>	<u>Due within one year</u>
Water Pollution Abatement Revenue Bonds:					
MWRA Loan Program:					
Series 1993A, 4.5% to 5.45%, issued March 18, 1993, due 2000 to 2013	\$ 600	—	600	—	—
Series 1993B, 4.3% to 5.25%, issued January 6, 1994, due 2000 to 2014	1,005	—	390	615	300
Series 1995A, 4.5% to 6.0%, issued November 21, 1995, due 2000 to 2015	135	—	65	70	70
Series 1998A, 4.0% to 5.375%, issued July 9, 1998, due 2000 to 2018	4,605	—	945	3,660	860
Series 2002A, 3.0% to 5.25% issued October 15, 2002, due 2003 to 2032	16,025	—	3,960	12,065	1,015
South Essex Sewage District Loan Program:					
Series 1994A, 5.3% to 6.375%, issued November 1, 1994, due 2001 to 2015	1,240	—	485	755	365
Series 1996A, 4.25% to 6.0%, issued December 5, 1996, due 2000 to 2016	2,540	—	530	2,010	545
New Bedford Loan Program:					
Series 1996A, 4.8% to 6.0%, issued July 10, 1996, due 2000 to 2016	2,405	—	890	1,515	730

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	<u>Beginning balance, June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2013</u>	<u>Due within one year</u>
Pool Loan Program:					
Series 1, 4.75% to 5.6%, issued July 14, 1993, due 2000 to 2013	\$ 113	—	90	23	23
Series 2, 4.9% to 6.125%, issued June 1, 1995, due 2001 to 2015	565	—	270	295	190
Series 3, 4.6% to 6.0%, issued April 29, 1997, due 2001 to 2017	340	—	255	85	85
Series 4, 4.0% to 5.125%, issued December 9, 1998, due 2000 to 2018	8,520	—	4,735	3,785	1,025
Series 6, 4.5% to 5.66% issued November 6, 2000, due 2001 to 2030	20,600	—	410	20,190	1,675
Series 7, 3.0% to 5.25% issued July 15, 2001, due 2001 to 2031	9,270	—	640	8,630	560
Series 8, 3.0% to 5.0%, issued November 15, 2002, due 2003 to 2032	32,835	—	11,795	21,040	2,065
Series 9, 2.0% to 5.0%, issued October 10, 2003, due 2004 to 2033	84,205	—	11,945	72,260	12,370
Series 10, 2.5% to 5.25%, issued August 25, 2004, due 2005 to 2034	71,540	—	12,225	59,315	12,675
Series 11, 3.0% to 5.25%, issued October 19, 2005, due 2006 to 2035	90,675	—	11,680	78,995	11,975
Series 12, 3.0% to 5.25%, issued December 14, 2006, due 2007 to 2036	327,600	—	16,340	311,260	16,760

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	<u>Beginning balance, June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2013</u>	<u>Due within one year</u>
Series 13, 3.75% to 5.0%, issued December 18, 2007, due 2008 to 2037	\$ 308,000		12,210	295,790	12,570
Series 14, 1.0% to 5.0%, issued March 18, 2009, due 2009 to 2038	363,825		15,255	348,570	15,630
Series 15, 2.0% to 5.192%, issued July 8, 2010, due 2012 to 2040	431,205		15,540	415,665	16,080
Series 16A and B, 2.0% to 5.0%, issued June 13, 2012, due 2013 to 2042	240,585		—	240,585	6,500
Series 17A and B, 0.25% to 5.0%, issued May 22, 2013, due 2014 to 2043	—	202,250	—	202,250	8,160
Subordinated Revenue Refunding Bonds:					
New Bedford Loan Program:					
Series 1998A, 4.0% to 5.25%, issued December 23, 1998, due 2001 to 2026	40,850		4,390	36,460	—
MWRA Loan Program:					
Series 1999A, 4.2% to 6.0%, issued November 3, 1999, due 2000 to 2029	63,775		—	63,775	155
Pool Program Refunding Bonds:					
Series A and B, 2.0% to 5.25%, issued August 25, 2004, due 2005 to 2028	575,375		33,695	541,680	62,210
Series 2006, 3.0% to 5.25%, issued December 14, 2006 due 2007 to 2034	408,215		—	408,215	—
Series 2009A, 2.0% to 5.0%, issued July 30, 2009 due 2010 to 2029	201,825		12,965	188,860	13,525
Series 2010A, 3.0% to 5.0%, issued July 8, 2010 due 2014 to 2026	41,990		—	41,990	4,560
Series 2012A and B, 3.0% to 5.0%, issued June 13, 2012 due 2013 to 2032	130,835		—	130,835	13,075
Subtotal	3,481,298	202,250	172,305	3,511,243	215,753
Add: Unamortized bond premiums	233,905	40,407	14,547	259,765	
Total bonds payable	\$ 3,715,203	242,657	186,852	3,771,008	215,753

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The following is a summary of bonds payable at June 30, 2012 and 2011:

	<u>Beginning balance, June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2012</u>	<u>Due within one year</u>
Water Pollution Abatement Revenue Bonds:					
MWRA Loan Program:					
Series 1993A, 4.5% to 5.45%, issued March 18, 1993, due 2000 to 2013	\$ 1,165	—	565	600	600
Series 1993B, 4.3% to 5.25%, issued January 6, 1994, due 2000 to 2014	1,470	—	465	1,005	390
Series 1995A, 4.5% to 6.0%, issued November 21, 1995, due 2000 to 2015	390	—	255	135	65
Series 1998A, 4.0% to 5.375%, issued July 9, 1998, due 2000 to 2018	5,635	—	1,030	4,605	945
Series 2002A, 3.0% to 5.25% issued October 15, 2002, due 2003 to 2032	39,540	—	23,515	16,025	3,960
South Essex Sewage District Loan Program:					
Series 1994A, 5.3% to 6.375%, issued November 1, 1994, due 2001 to 2015	1,850	—	610	1,240	485
Series 1996A, 4.25% to 6.0%, issued December 5, 1996, due 2000 to 2016	3,165	—	625	2,540	530
New Bedford Loan Program:					
Series 1996A, 4.8% to 6.0%, issued July 10, 1996, due 2000 to 2016	3,440	—	1,035	2,405	890

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	<u>Beginning balance, June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2012</u>	<u>Due within one year</u>
Pool Loan Program:					
Series 1, 4.75% to 5.6%, issued July 14, 1993, due 2000 to 2013	\$ 260	—	147	113	90
Series 2, 4.9% to 6.125%, issued June 1, 1995, due 2001 to 2015	905	—	340	565	270
Series 3, 4.6% to 6.0%, issued April 29, 1997, due 2001 to 2017	770	—	430	340	255
Series 4, 4.0% to 5.125%, issued December 9, 1998, due 2000 to 2018	16,935	—	8,415	8,520	4,735
Series 5, 4.25% to 5.75%, issued October 6, 1999, due 2000 to 2029	32,695	—	32,695	—	—
Series 6, 4.5% to 5.66% issued November 6, 2000, due 2001 to 2030	46,080	—	25,480	20,600	410
Series 7, 3.0% to 5.25% issued July 15, 2001, due 2001 to 2031	127,955	—	118,685	9,270	640
Series 8, 3.0% to 5.0%, issued November 15, 2002, due 2003 to 2032	80,765	—	47,930	32,835	11,795
Series 9, 2.0% to 5.0%, issued October 10, 2003, due 2004 to 2033	95,765	—	11,560	84,205	11,945
Series 10, 2.5% to 5.25%, issued August 25, 2004, due 2005 to 2034	83,450	—	11,910	71,540	12,225
Series 11, 3.0% to 5.25%, issued October 19, 2005, due 2006 to 2035	152,910	—	62,235	90,675	11,680
Series 12, 3.0% to 5.25%, issued December 14, 2006, due 2007 to 2036	343,540	—	15,940	327,600	16,340

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	<u>Beginning balance, June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2012</u>	<u>Due within one year</u>
Series 13, 3.75% to 5.0%, issued December 18, 2007, due 2008 to 2037	\$ 319,890	—	11,890	308,000	12,210
Series 14, 1.0% to 5.0%, issued March 18, 2009, due 2009 to 2038	378,760	—	14,935	363,825	15,255
Series 15, 2.0% to 5.192%, issued July 8, 2010, due 2012 to 2040	444,520	—	13,315	431,205	15,540
Series 16A and B, 2.0% to 5.0%, issued June 13, 2012, due 2013 to 2032	—	240,585	—	240,585	—
Subordinated Revenue Refunding Bonds:					
New Bedford Loan Program:					
Series 1998A, 4.0% to 5.25%, issued December 23, 1998, due 2001 to 2026	44,935	—	4,085	40,850	4,390
MWRA Loan Program:					
Series 1999A, 4.2% to 6.0%, issued November 3, 1999, due 2000 to 2029	63,775	—	—	63,775	—
Pool Program Refunding Bonds:					
Series A and B, 2.0% to 5.25%, issued August 25, 2004, due 2005 to 2028	610,680	—	35,305	575,375	33,695
Series 2006, 3.0% to 5.25%, issued December 14, 2006 due 2007 to 2034	408,215	—	—	408,215	—
Series 2009A, 2.0% to 5.0%, issued July 30, 2009 due 2010 to 2029	203,305	—	1,480	201,825	12,965
Series 2010A, 3.0% to 5.0%, issued July 8, 2010 due 2014 to 2026	41,990	—	—	41,990	—
Series 2012A and B, 3.0% to 5.0%, issued June 13, 2012 due 2013 to 2032	—	130,835	—	130,835	—
Subtotal	3,554,755	371,420	444,877	3,481,298	172,305
Add: Unamortized bond premiums	211,862	51,834	29,791	233,905	—
Total bonds payable	\$ 3,766,617	423,254	474,668	3,715,203	172,305

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All bonds are payable from amounts pledged pursuant to the Water Pollution Abatement Project Bond Resolutions, which include payments by local governmental units of principal and interest on the loans and amounts on deposit in the Debt Service Reserve Funds. Pursuant to the Commonwealth Assistance Contract (the Contract), the Commonwealth has agreed to provide Contract Assistance payments to the Trust to reduce the payments by local government units. The Contract is not pledged as security for the bonds; however, the Contract Assistance payments, when received by the Trust, are pledged as security for the bonds.

On May 8, 2013, the Trust issued Series 17 bonds in the amount of \$202,250 consisting of \$185,605 State Revolving Fund Bonds, Subseries 17A and \$16,645 State Revolving Fund Bonds, Subseries 17B (Federally Taxable). These monies were used to finance water pollution abatement and drinking water projects in 79 communities. Proceeds in the amount of \$158.7 million were applied to fund loans for projects under the clean water SRF and \$67.4 million of proceeds were applied to fund loans for projects under the drinking water SRF. The Trust anticipates expending all of the proceeds within two years. The Trust pledged \$70.7 million of direct loans for projects under the clean water SRF and \$27.1 million of Direct Loans for projects under the drinking water SRF. The interest payments on these Series 17 pledged direct loans will be used to pay a portion of the debt service due on the Series 17 bonds.

On June 13, 2012, the Trust issued Series 16 bonds in the amount of \$240,585 consisting of \$80,185 State Revolving Fund Bonds, Subseries 16A and \$160,400 State Revolving Fund Bonds, Subseries B. These monies were used to finance water pollution abatement and drinking water projects in 58 communities. Proceeds in the amount of \$202.1 million were applied to fund loans for projects under the clean water SRF and \$65.2 million of proceeds were applied to fund loans for projects under the drinking water SRF. The Trust anticipates expending all of the proceeds within two years. Concurrently with the issuance of the Series 16 bonds, the Trust financed \$121.2 million of Series 16 Direct Loans. The interest payments on the Series 16 Direct Loans will be used to pay a portion of the debt service due on the Series 16 bonds.

On June 13, 2012, the Trust issued \$130,835 State Revolving Fund Refunding Bonds (at a true interest cost of 2.61%) to refund, \$7.5 million of the Trust's Pool Program Series 4 bonds; \$30.9 million of the Trust's Series 5 bonds; \$23.4 million of the Trust's Pool Program Series 6 bonds; \$93.1 million of the Trust's Pool Program Series 7 bonds; \$36.4 million of the Trust's Pool Program Series 8 bonds; and \$19.7 million of the Trust's MWRA Loan Program 2002A bonds. These bonds also advance refunded \$50.8 million of the Trust's Pool Program Series 11 bonds.

The Trust used bond proceeds from the refunding bonds in addition to \$120.5 million of proceeds received from terminating certain GIC investments with Trinity, refer to note 3(b). These proceeds were deposited with an escrow agent to provide resources for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The total debt defeased through this new issue was \$261.8 million, for a savings of \$21.6 million, resulting in an economic gain (net present value) of \$17.3 million. The reacquisition price exceeded the net carrying amount of the old debt by \$7.8 million.

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On March 1, 2012, the Trust issued \$100,000 State Revolving Fund Bond Anticipation Notes, Series 16. The Notes were issued by the Trust to finance water pollution abatement and drinking water projects. The Notes were scheduled to mature March 1, 2013; however, they were repaid with the proceeds from the Series 16 bonds.

At June 30, 2013, debt service requirements to maturity for principal and interest are as follows:

	<u>Total debt service</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:			
2014	\$ 377,415	215,753	161,662
2015	374,993	220,115	154,878
2016	368,973	224,155	144,818
2017	354,455	219,960	134,495
2018	343,183	219,505	123,678
2019 – 2023	1,486,921	1,028,375	458,546
2024 – 2028	992,191	755,575	236,616
2029 – 2033	520,051	422,715	97,336
2034 – 2038	188,839	160,255	28,584
2039 – 2043	48,971	44,835	4,136
Total debt service requirements	\$ <u><u>5,055,992</u></u>	<u><u>3,511,243</u></u>	<u><u>1,544,749</u></u>

In prior years, the Trust has deposited bond proceeds from refunding bonds with an escrow agent to provide resources for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability has removed from the financial statements.

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The balances of bonds defeased “in substance” in prior years and still outstanding as of June 30 are as follows (in thousands):

Description	Redemption date	Outstanding principal amount	
		2013	2012
MWRA Loan Program:			
Series 1993A	November 3, 1999	\$ —	5,360
Series 1993B	November 3, 1999	11,975	17,405
Series 1995A	November 3, 1999	17,795	23,060
Series 1998A	November 3, 1999	46,680	53,260
Series 1999A	August 25, 2004	47,925	51,410
Series 1999A	August 11, 2009	153,240	164,680
Series 2002A	August 25, 2004	26,980	26,980
Series 2002A	December 14, 2006	30,875	30,875
Series 2002A	June 13, 2012	19,660	19,660
New Bedford Loan Program:			
Series 1996A	December 23, 1998	27,670	35,945
Series 1998A	July 8, 2010	46,195	46,195
South Essex Sewage District Loan Program:			
Series 1994A	July 15, 2001	11,865	17,110
Series 1996A	July 15, 2001	18,925	23,275
Pool Loan Program:			
Pool 1	July 15, 2001	1,275	3,675
Pool 2	July 15, 2001	7,205	10,385
Pool 3	July 15, 2001	27,515	33,510
Pool 4	August 25, 2004	41,685	41,685
Pool 4	June 13, 2012	7,505	7,505
Pool 5	August 25, 2004	92,640	106,700
Pool 5	June 13, 2012	29,370	30,940
Pool 6	August 25, 2004	132,500	143,960
Pool 6	June 13, 2012	21,905	23,390
Pool 7	August 25, 2004	54,080	59,330
Pool 7	June 13, 2012	72,550	93,055
Pool 8	August 25, 2004	105,045	105,045
Pool 8	June 13, 2012	36,445	36,445
Pool 9	December 14, 2006	139,560	139,560
Pool 10	December 14, 2006	168,620	168,620
Pool 11	December 14, 2006	87,735	87,735
Pool 11	June 13, 2012	50,780	50,780
Pool 12	August 11, 2009	31,430	31,430

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When the Trust refunds or advance refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the old debt. The resulting accounting gain or loss is then amortized over the life of the refunding bonds. The net unamortized excess of reacquisition price and the net carrying value of the defeased bonds is recorded in deferred outflows of resources on the Statement of Net Position.

Excess of reacquisition price over net carrying value of defeased bonds

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 73,333	78,608
Additions	—	6,342
Reductions	<u>(4,697)</u>	<u>(11,617)</u>
Ending Balance	<u>\$ 68,636</u>	<u>73,333</u>

(7) Net position

As of June 30, 2013 and 2012, the Trust has restricted net position in the amount of \$1.7 billion and \$1.6 billion, respectively, and unrestricted net position in the amount of \$412 million and \$404 million, respectively. Restricted net position represents capitalization grants received cumulative to date from the EPA and corresponding matching amounts received from the Commonwealth. The capitalization grants are restricted to provide financial assistance, but not grants, to local communities and interstate agencies for the construction of wastewater treatment works, drinking water infrastructure improvements, and other related projects as described in note 1.

(8) Commitment

As of June 30, 2013 and 2012, the Trust has agreed to provide loans to various local government units amounting to approximately \$53.2 million and \$90.9 million, respectively, excluding loans amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

(9) Derivative Transactions

Interest Rate Swap Agreements – \$77,255,000 dated November 21, 2006

Objective of the Interest Rate Swap – As a means to lower its borrowings costs, when compared with fixed-rate bonds at the time of their issuance in November 2006, the Trust entered into two interest rate swap agreements in connection with its Pool Program Refunding Bonds, Series 2006 bonds. The intention of the swaps was to hedge the Trust's exposure to interest rate risk by effectively changing the Trust's variable rate bonds maturing in 2022 and 2023 to a synthetic fixed rate of 3.88% and 3.90%, respectively. The Series 2006 carry an interest rate indexed to the Municipal Consumer Price Index (Muni-CPI).

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Terms – Under the terms of these swaps, the Trust agrees to receive a variable rate, based on the Consumer Price Index (CPI), equal to the amounts due on variable rate bonds issued by the Trust concurrently with the execution of the swap agreement. The Trust agrees to pay a fixed rate to the counterparty. Payments are made semiannually, due August 1 and February 1 of each year, on the same schedule as the fixed rate bonds issued in December 2006. The counterparty is JP Morgan Chase & Co. JP Morgan Chase Bank, N.A. The terms of each swap agreement are summarized below:

	2022 Termination	2023 Termination
Trade date	November 21, 2006	November 21, 2006
Effective date	December 14, 2006	December 14, 2006
Termination date	August 1, 2022	August 1, 2023
Notional amount	\$ 30,650,000	46,605,000
Fair value at June 30, 2013	(2,089,135)	(1,345,997)
Fair value at June 30, 2012	(805,070)	(1,261,527)
Variable rate bond coupon payments	Muni-CPI* rate + 0.99%	Muni-CPI* rate + 0.99%
Variable rate payment from counterparty	Muni-CPI* rate + 0.99%	Muni-CPI* rate + 0.99%
Fixed rate payment to counterparty	3.88%	3.90%
Synthetic fixed rate on bonds	3.88	3.90

* Muni-CPI rate is equal to the quotient of (1) the Reference CPI-U for the current debt service payment date minus the prior Reference CPI-U divided by (2) the prior Reference CPI-U. Reference refers to 3 months preceding the debt service payment date. Prior Reference period refers to 15 months preceding the debt service payment date.

Fair Value – The swaps had an aggregate negative fair value as of June 30, 2013 and 2012, which means on the August 1, 2013 debt service payment date the Trust will make a payment to the swap counterparty. At June 30, 2013 and 2012, the fair value of these swaps is reflected as a liability for derivative instruments and deferred outflows of resources in the accompanying financial statements. The fair value of the derivative was estimated using the zero-coupon method. This method calculates the future net settlement payments/receipts required by the swap, assuming that the current forward rates 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 of the swap.

Credit Risk – As of June 30, 2013 and 2012, the Trust is not exposed to credit risk because the swaps had a negative fair value. Prior to January 5, 2009, the swap counterparty was Bear Stearns Capital Markets, Inc. As of January 5, 2009, the counterparty is JP Morgan Chase & Co. JP Morgan Chase Bank, N.A. and is rated AA-/Aa1/AA-by Standard & Poor's, Moody's Investors Service, and Fitch Ratings, respectively. To mitigate credit risk, the Trust has the right to terminate the swap upon a ratings downgrade by the

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counterparty's credit support provider below BBB-/Baa3 by Standard & Poor's, and Moody's Investors Service, respectively.

Termination Risk – The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Trust may terminate upon a ratings downgrade by the counterparty, as described above. The Trust and the counterparty may terminate if either party fails to perform under the terms of the Contract. If at the time of termination, the swap has a negative fair value, the Trust would be liable to the counterparty for a payment equal to the swap's fair value. The source of funds for this payment is from "legally available funds." Legally available funds is defined as, "funds held in the Trust's Federal Clean Water State Revolving Fund or Drinking Water State Revolving Fund...only to the extent that Congress passes a law or EPA adopts a regulation or issues an opinion or other notice...making such amounts legally available to pay settlement amounts."

Swap Payments and Hedged Debt – In accordance with the swap agreement, the variable rate is calculated using the preceding 3 months' Muni-CPI rate with settlement payments made on the debt service payment dates of February 1 and August 1. As of June 30, 2013, the variable rate was calculated using the May 31, 2013 Muni-CPI rate. Assuming this rate remains the same, the debt service requirements of the variable rate debt and the net swap payments are presented in the table below. As the Muni-CPI rate varies, the variable rate payments on the bonds and the variable rate receipts from the swap are equal, the net debt service will remain fixed.

	Variable rate bonds¹		Net swap	Total
	Principal	Interest	payments²	debt service
Fiscal year ending June 30:				
2014	\$ —	1,802,103	1,204,712	3,006,815
2015	—	1,802,103	1,204,712	3,006,815
2016	—	1,802,103	1,204,712	3,006,815
2017	—	1,802,103	1,204,712	3,006,815
2018	—	1,802,103	1,204,712	3,006,815
2019	—	1,802,103	1,204,712	3,006,815
2020	—	1,802,103	1,204,712	3,006,815
2021	—	1,802,103	1,204,712	3,006,815
2022	—	1,802,103	1,204,712	3,006,815
2023	30,650,000	1,444,622	967,583	33,062,205
2024	46,605,000	543,570	365,227	47,513,797

¹ Calculated rate uses May 31, 2013 Muni-CPI rate to reflect debt service payment for August 1, 2013.

² A positive net swap payment requires a payment from the Trust to the counterparty.

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(10) Deferred Outflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Deferred outflows of resources		
Derivative instruments (note 9)	\$ 3,435	2,067
Excess of reacquisition price over net carrying value of defeased bonds (note 6)	<u>68,636</u>	<u>73,333</u>
Total deferred inflows	<u>\$ 72,071</u>	<u>75,400</u>

**MASSACHUSETTS WATER
POLLUTION ABATEMENT TRUST**
(A Component Unit of the Commonwealth of Massachusetts)

Combining Financial Statements and Schedule

For the Year Ended June 30, 2013

Narrative

Federally Capitalized State Revolving Fund

This is used to account for amounts received and expended from the Federally Capitalized SRF, proposed by Title VI of the Clean Water Act, along with amounts received and expended from the 20% required state matching of federal funding. The fund is also used to account for receipts and disbursements for loan and bond transactions not accounted for in the Commonwealth Capitalized SRF.

Federally Capitalized Safe Drinking Water State Revolving Fund

This is used to account for amounts received and expended from the Federally Capitalized SRF, proposed by the Safe Drinking Water Act of 1996, along with amounts received and expended from the required state matching of federal funding.

Commonwealth of Massachusetts Capitalized State Revolving Loan Fund

This is used to account for amounts received and expended from the Commonwealth Capitalized SRF.

General Operations Fund

This is used to account for amounts received and expended for the general and administrative costs not applicable to the other three funds.

Supplemental Schedules

The following schedules contain information to help the reader understand how the Trust's financial data is broken down by the funds listed above and who are the fifteen largest borrowers from the Trust's lending programs. Schedules included are:

	Page
Combining Schedule of Net Position (Unaudited).....	39
Combining Schedule of Revenues, Expenses and Changes in Net Position (Unaudited).	40
Five Year Schedule of Fifteen Largest Borrowers (Unaudited).....	41

Massachusetts Water Pollution Abatement Trust
Combining Schedule of Net Position (Unaudited)
June 30, 2013 (With Comparative Amounts as of June 30, 2012)
(in thousands)

	Federally Capitalized State Revolving Fund Loan Program	Federally Capitalized Safe Drinking Water Revolving Fund Loan Program	Commonwealth of Massachusetts Capitalized State Revolving Fund Loan Program	Program for General Operations	Combined Totals	
					6/30/2013	6/30/2012
ASSETS AND DEFERRED OUTFLOWS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 376,492	\$ 41,410	\$ 20,828	\$ 15,722	\$ 454,452	\$ 357,127
Short - term investments	23,067	-	-	20,181	43,248	3,039
Project fund investments	14,493	9,254	-	-	23,747	545
Grants receivable:						
U.S. Environmental Protection Agency	48,340	13,068	-	-	61,408	56,960
Commonwealth of Massachusetts	-	-	-	-	-	2,313
Loans receivable, net	206,071	66,871	1,431	48	274,421	249,177
Accrued interest receivable	49,148	12,139	-	-	61,287	63,068
Total current assets	717,611	142,742	22,259	35,951	918,563	732,229
NONCURRENT ASSETS:						
Project fund investments	41,096	17,896	-	-	58,992	92,441
Loans receivable, long-term	2,855,435	854,932	-	698	3,711,065	3,674,409
Long-term investments	983,909	278,315	-	-	1,262,224	1,336,254
Other assets	-	-	-	1,469	1,469	2,264
Total noncurrent assets	3,880,440	1,151,143	-	2,167	5,033,750	5,105,368
Deferred outflow of resources from derivative instruments	62,002	10,069	-	-	72,071	75,400
TOTAL ASSETS AND DEFERRED OUTFLOWS	4,660,053	1,303,954	22,259	38,118	6,024,384	5,912,997
LIABILITIES						
CURRENT LIABILITIES:						
Loan commitments and project funds payable	15,072	8,551	-	-	23,623	-
Accrued expenses and interest payable	52,653	15,371	-	37	68,061	69,617
Deferred revenue	21,062	7,323	-	-	28,385	29,797
Long-term debt	164,692	51,061	-	-	215,753	172,305
Total current liabilities	253,479	82,306	-	37	335,822	271,719
NONCURRENT LIABILITIES						
Loan commitments and project funds payable	41,306	17,673	-	-	58,979	92,415
Liability for derivative instruments	2,256	1,179	-	-	3,435	2,067
Long-term debt, net	2,740,318	814,937	-	-	3,555,255	3,542,898
Total noncurrent liabilities	2,783,880	833,789	-	-	3,617,669	3,637,380
TOTAL LIABILITIES AND DEFERRED INFLOWS	3,037,359	916,095	-	37	3,953,491	3,909,099
NET POSITION						
Restricted for program purposes	1,293,838	365,050	-	-	1,658,888	1,600,042
Unrestricted	328,856	22,809	22,259	38,081	412,005	403,856
TOTAL NET POSITION	\$ 1,622,694	\$ 387,859	\$ 22,259	\$ 38,081	\$ 2,070,893	\$ 2,003,898

Massachusetts Water Pollution Abatement Trust
Combining Schedule of Revenues, Expenses and Changes in Net Position (Unaudited)
June 30, 2013 (With Comparative Amounts as of June 30, 2012)
(in thousands)

	Federally Capitalized State Revolving Fund Loan Program	Federally Capitalized Safe Drinking Water Revolving Fund Loan Program	Commonwealth of Massachusetts Capitalized State Revolving Fund Loan Program	Program for General Operations	Combined Totals	
					6/30/2013	6/30/2012
OPERATING REVENUES:						
Loan servicing fees	\$ -	\$ -	\$ -	\$ 5,288	\$ 5,288	\$ 5,270
Loan origination fees	-	-	-	1,698	1,698	2,243
Interest income	116,126	31,234	42	2,664	150,066	216,039
Contract assistance from Commonwealth of Massachusetts	28,025	5,870	-	-	33,895	36,700
Total operating revenues	144,151	37,104	42	9,650	190,947	260,252
OPERATING EXPENSES:						
Commonwealth of Massachusetts:						
Department of Environmental Protection - programmatic support costs	2,748	6,173	-	-	8,921	11,369
Principal forgiveness	7,638	4,697	-	-	12,335	33,693
General and administrative	-	-	-	5,046	5,046	8,440
InterFund transfers	469	259	(671)	(57)	-	-
Arbitrage rebate payments	6,725	-	-	-	6,725	10,487
Interest expense	132,027	37,568	-	-	169,595	173,869
Total operating expenses	149,607	48,697	(671)	4,989	202,622	237,858
OPERATING (LOSS) INCOME	(5,456)	(11,593)	713	4,661	(11,675)	22,394
NONOPERATING REVENUE:						
Capitalization Grant Revenue:						
U.S. Environmental Protection Agency capitalization grants	48,522	17,149	-	-	65,671	74,181
Commonwealth of Massachusetts matching grants	9,597	3,402	-	-	12,999	8,896
Total nonoperating revenues	58,119	20,551	-	-	78,670	83,077
INCREASE IN NET POSITION	52,663	8,958	713	4,661	66,995	105,471
NET POSITION - BEGINNING OF YEAR	1,570,031	378,901	\$ 21,546	33,420	2,003,898	1,898,427
NET POSITION - END OF YEAR	\$ 1,622,694	\$ 387,859	\$ 22,259	\$ 38,081	\$ 2,070,893	\$ 2,003,898

MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Five Year Schedule of Fifteen Largest Borrowers (Unaudited)

For fiscal years ending June 30, 2009 through June 30, 2013
(in thousands)

BORROWER NAME	June 30, 2013		June 30, 2012		June 30, 2011		June 30, 2010		June 30, 2009	
	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans
Massachusetts Water Resources Authority	1,076,575	27.27%	1,086,783	28.04%	1,070,963	29.34%	1,055,425	31.70%	1,087,305	30.95%
Upper Blackstone WPAD	150,230	3.81%	154,667	3.99%	138,240	3.79%	112,521	3.38%	116,093	3.30%
Fall River	143,870	3.64%	141,885	3.66%	143,748	3.94%	145,141	4.36%	150,116	4.27%
New Bedford	129,260	3.27%	136,078	3.51%	130,380	3.57%	130,038	3.91%	136,206	3.88%
Brockton	97,143	2.46%	100,223	2.59%	101,514	2.78%	95,149	2.86%	100,355	2.86%
Taunton	84,558	2.14%	79,129	2.04%	66,053	1.81%	43,242	1.30%	45,792	1.30%
Lowell	82,578	2.09%	82,505	2.13%	73,044	2.00%	59,970	1.80%	62,473	1.78%
Chicopee	81,968	2.08%	61,471	1.59%	53,484	1.47%	41,941	1.26%	43,662	1.24%
Gloucester	61,761	1.56%	50,280	1.30%	52,860	1.45%	35,224	1.06%	37,796	1.08%
Springfield Water & Sewer Commission	56,100	1.42%	56,086	1.45%	42,816	1.17%	34,247	1.03%	37,146	1.06%
Nantucket	54,946	1.39%	56,681	1.46%	58,838	1.61%	57,672	1.73%	63,225	1.80%
Framingham	52,294	1.32%	52,099	1.34%	31,772	0.87%	32,378	0.97%	12,786	0.36%
Lynn Water & Sewer Commission	52,006	1.32%	55,104	1.42%	58,114	1.59%	61,075	1.83%	63,959	1.82%
Newburyport	48,385	1.23%	29,107	0.75%	15,421	0.42%	15,912	0.48%	12,268	0.35%
Westborough	48,287	1.22%	49,221	1.27%	19,465	0.53%	19,646	0.59%	1,768	0.05%
Total all others	<u>1,727,743</u>	43.78%	<u>1,685,158</u>	43.46%	<u>1,594,068</u>	43.66%	<u>1,389,555</u>	41.74%	<u>1,542,503</u>	43.90%
TOTALS AS OF FISCAL YEAR END	<u>3,947,704</u>	100%	<u>3,876,477</u>	100%	<u>3,650,780</u>	100%	<u>3,329,136</u>	100%	<u>3,513,453</u>	100%

Massachusetts Water Pollution Abatement Trust

*Comprehensive Annual Financial Report as of and for the Years Ended
June 30, 2013 and June 30, 2012 and Independent Auditors' Report*

Statistical Section—Table of Contents

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Financial Trends

These schedules contain trend information to help the reader understand how the Trust's financial performance and fiscal health have changed over time. Schedules included are:

Ten Year Schedule of Changes in Net Position.....	1
Ten Year Schedule of Net Position Components.....	2

Revenue Capacity

This schedule contains information to help the reader assess the factors affecting the Trust's ability to provide interim loans and general obligations. Schedule included is:

Ten Year Combined Schedule of Operating Revenues by Source	3
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Debt Capacity

These schedules present information to help the reader assess the affordability of the Trust's current levels of outstanding debt and Trust's ability to issue additional debt in the future. Schedules included are:

Ten Year Debt Schedule.....	4
Ten Year Schedule of Pledged Revenue Coverage.....	5
Ten Year Combined Schedule of Operating Expenses	6

Operating Information

This schedule contains information to help the reader assess the factors affecting the Trust's ability to provide interim loans and general operations. Schedule included is:

Ten Year Schedule of Full Time Equivalent Employees by Program and Agency.....	7
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Demographic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Trust's financial activities take place and the aid provided by the Commonwealth to the Trust. Schedules included are:

Ten Year Schedule of Contract Assistance Provided by the Commonwealth of Massachusetts, Massachusetts Population and Per Capita Contract Assistance.....	8
Ten Year Schedule of Annual Civilian Labor Force, Unemployment and Unemployment Rates for Massachusetts and the United States.....	9
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Changes in Net Position

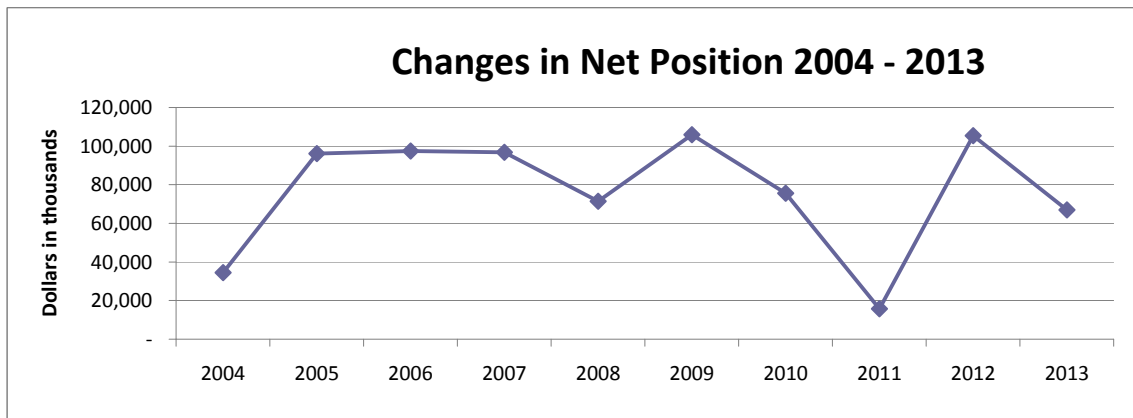
For fiscal years ending June 30, 2004 through June 30, 2013

(in thousands)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Operating Assistance	Income (Loss) before Capital Contributions	Capitalization Grant	Increase in Net Position
2004	137,755	148,958	(11,203)	7,853	(3,350)	37,815	34,465
2005	174,249	173,396	853	10,983	11,836	84,269	96,105
2006	167,065	151,565	15,500	8,507	24,007	73,524	97,531
2007	184,646	154,527	30,119	7,853	37,972	58,873	96,845
2008	195,247	186,632	8,615	-	8,615	62,782	71,397
2009	194,359	192,139	2,220	-	2,220	103,748	105,968
2010	175,720	278,199 *	(102,479)	-	(102,479)	178,096	75,617
2011 **	201,146	273,500 *	(72,354)	-	(72,354)	88,050	15,696
2012 **	260,252	237,858 *	22,394	-	22,394	83,077	105,471
2013 **	190,947	202,622 *	(11,675)	-	(11,675)	78,670	66,995

* Includes a \$12.3 million, \$33.7 million, \$71.0 million, and a \$89.6 million reserve established for the anticipated future principal forgiveness associated with the disbursement of federal capitalization grant funds, including ARRA funds for the fiscal years ended June 30, 2013, 2012, 2011 and 2010, respectively.

** Fiscal Years 2013, 2012, and 2011 impacted by the implementation of GASB 65 during Fiscal Year 2013.

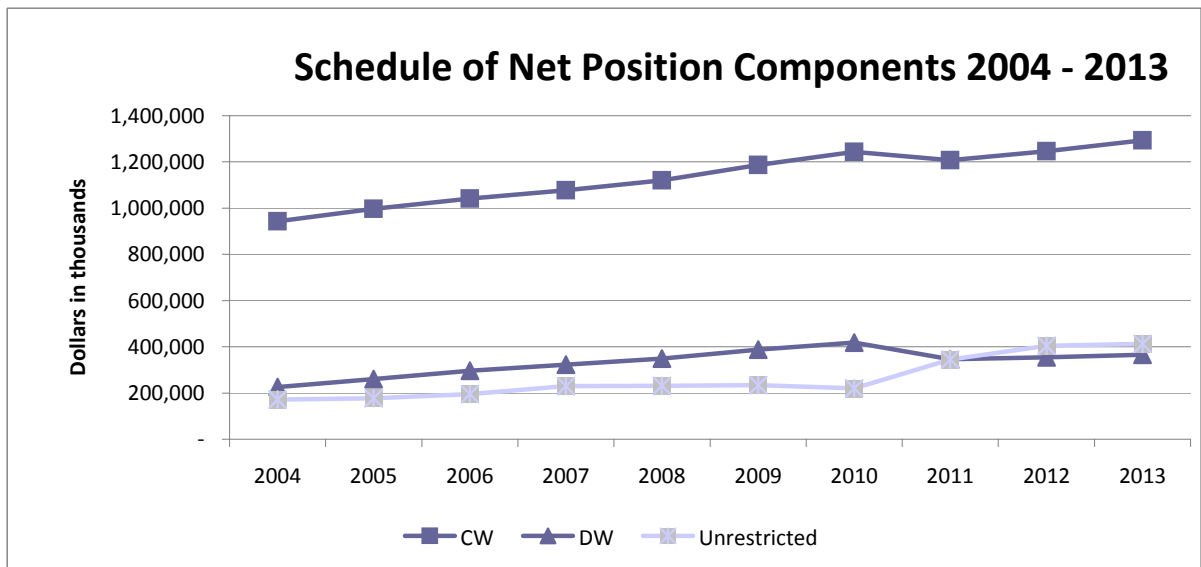


MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Net Position Components
For fiscal years ending June 30, 2004 through June 30, 2013
(in thousands)

<u>Year</u>	<u>Restricted Clean Water</u>	<u>Restricted Drinking Water</u>	<u>Total Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
2004	942,860	225,281	1,168,141	171,126	1,339,267
2005	997,321	260,902	1,258,223	177,149	1,435,372
2006	1,041,224	296,447	1,337,671	195,232	1,532,903
2007	1,076,902	322,890	1,399,792	229,956	1,629,748
2008	1,120,509	349,333	1,469,842	231,303	1,701,145
2009	1,186,119	387,472	1,573,591	233,522	1,807,113
2010	1,243,728	418,378	1,662,106	220,624	1,882,730
2011 **	1,207,423	346,412	1,553,835	344,592	1,898,427
2012 **	1,245,659	354,383	1,600,042	403,856	2,003,898
2013	1,293,838	365,050	1,658,888	412,005	2,070,893

** Fiscal Years 2011 and 2012 were restated to reflect the implementaion of GASB 65, in Fiscal Year 2013.



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Combined Schedule of Operating Revenues by Source

For fiscal years ending June 30, 2004 through June 30, 2013

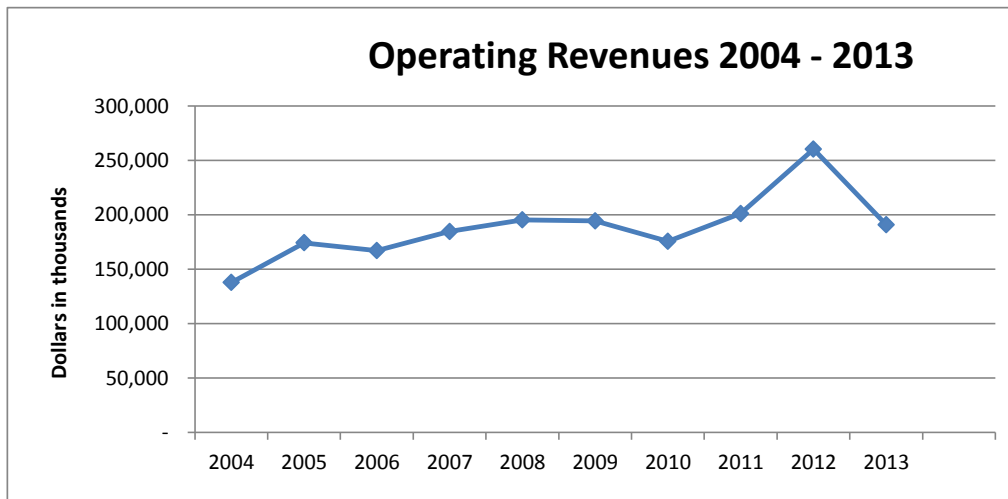
(in thousands)

OPERATING REVENUES

Fiscal Year	Loan Servicing Fees	Loan Origination Fees	Interest Income *	Total Operating Revenues
2004	1,831	209	135,715	137,755
2005	3,407	196	170,646	174,249
2006	3,646	28	163,391	167,065
2007	3,914	1,387	179,345	184,646
2008	4,320	1,760	189,167	195,247
2009	1,557	165	192,637	194,359
2010	5,092	89	170,539	175,720
2011	5,209	129	195,808	201,146
2012	5,270	2,243	252,739 **	260,252
2013	5,288	1,698	183,961	190,947

* Includes contract assistance received from the Commonwealth of Massachusetts.

** Includes \$57.7 million in gains realized on the termination of certain guaranteed investment contracts.



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Debt Schedule

For fiscal years ending June 30, 2004 through June 30, 2013
(in thousands)

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
Water Pollution Abatement Revenue Bonds:										
Massachusetts Water Resources Authority Loan Program	\$ 16,410	\$ 22,370	\$ 48,200	\$ 54,545	\$ 63,315	\$ 70,350	\$ 77,520	\$ 115,700	\$ 123,095	\$ 157,525
South Essex Sewerage District Loan Program	2,765	3,780	5,015	6,440	8,030	9,775	11,645	13,625	15,705	17,880
New Bedford Loan Program	1,515	2,405	3,440	4,605	5,890	7,280	8,770	10,340	11,985	13,690
Pool Loan Program	2,078,738	1,989,878	2,125,200	1,812,331	1,988,091	1,704,979	1,466,832	1,547,025	1,340,850	1,608,605
Subtotal Revenue Bonds	2,099,428	2,018,433	2,181,855	1,877,921	2,065,326	1,792,384	1,564,767	1,686,690	1,491,635	1,797,700
Subordinated Revenue Refunding Bonds:										
Massachusetts Water Resources Authority Loan Program	63,775	63,775	63,775	63,775	261,170	272,450	283,005	292,850	302,085	368,435
New Bedford Loan Program	36,460	40,850	44,935	94,935	98,500	101,845	104,980	107,920	110,675	113,260
Pool Loan Program	1,311,580	1,358,240	1,264,190	1,246,130	1,049,865	1,050,895	1,051,895	644,660	645,620	-
Subtotal Revenue Refunding Bonds	1,411,815	1,462,865	1,372,900	1,404,840	1,409,535	1,425,190	1,439,880	1,045,430	1,058,380	481,695
Total Bonds Payable	3,511,243	3,481,298	3,554,755	3,282,761	3,474,861	3,217,574	3,004,647	2,732,120	2,550,015	2,279,395
Add (deduct) unamortized amounts:										
Bond premium	259,765	233,905	211,862	194,122	185,723	171,664	157,254	120,749	114,860	37,792
* Net unamortized excess of reacquisition price over net carrying value of defeased bonds	-	-	-	(82,837)	(62,723)	(65,735)	(68,746)	(48,711)	(50,954)	(7,088)
Total Bonds Payable, net	\$ 3,771,008	\$ 3,715,203	\$ 3,766,617	\$ 3,394,046	\$ 3,597,861	\$ 3,323,503	\$ 3,093,155	\$ 2,804,158	\$ 2,613,921	\$ 2,310,099

* Net Bonds Payable restated after the implementation of GASB 65, Items Previously Reported as Assets and Liabilities, which resulted in the write off of bond issuance costs as of July 1, 2011.

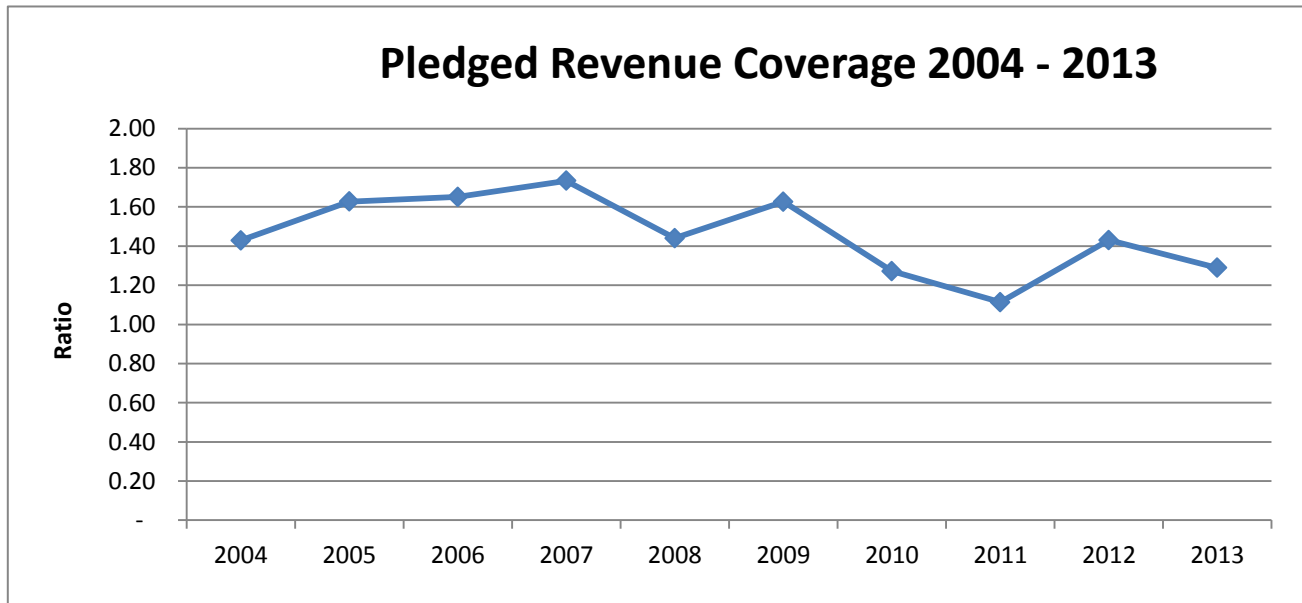
MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Pledged Revenue Coverage For fiscal years ending June 30, 2004 through June 30, 2013 (Dollar amounts in thousands)

Fiscal Year	Changes in Net Assets	Comm of MA Contract Assistance	Principal and Interest Received from Borrowers *	Total Receivable and Revenue	<u>Debt Service Requirements</u>			Coverage ratio
					Principal	Interest	Total Debt Service	
2004	\$ 34,465	\$ 58,107	\$ 188,491	\$ 281,063	\$ 87,245	\$ 109,506	\$ 196,751	1.43
2005	96,105	62,072	211,973	370,150	99,260	128,172	227,432	1.63
2006	97,531	63,979	233,625	395,135	111,655	127,699	239,354	1.65
2007	96,845	64,014	282,248	443,107	122,045	133,579	255,624	1.73
2008	71,397	67,489	287,235	426,121	139,393	156,479	295,872	1.44
2009	105,968	66,856	355,589	528,413	152,243	172,697	324,940	1.63
2010	75,617	67,262	295,797	438,676	175,090	169,777	344,867	1.27
2011 **	15,696	66,093	296,303	378,092	168,319	171,296	339,615	1.11
2012 **	105,471	64,986	338,173	508,630	183,102	172,561	355,663	1.43
2013	66,995	62,811	305,125	434,931	172,306	165,171	337,477	1.29

* Includes interest received from earnings on Debt Service Reserve Funds.

** Fiscal Years 2011 and 2012 were restated for the implementation of GASB 65, in Fiscal Year 2013.



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Combined Schedule of Operating Expenses

For fiscal years ending June 30, 2004 through June 30, 2013

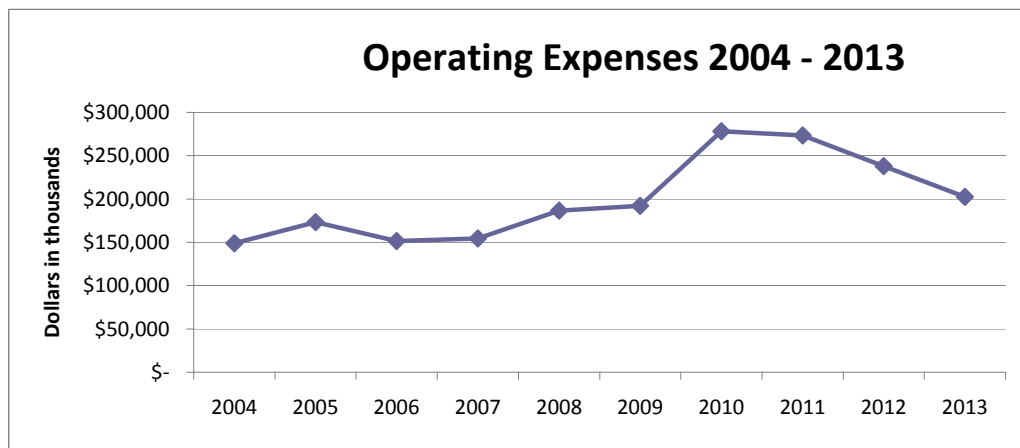
(in thousands)

OPERATING EXPENSES

Fiscal Year	DEP Programmatic Support Costs	General and Adminstrative	Arbitrage Rebate Payments	Interest Expense	Grant Disbursement	Total Operating Expenses
2004	\$ 15,394	\$ 1,373	\$ 2,093	\$ 114,676	\$ 15,422	\$ 148,958
2005	13,215	1,362	1,526	136,457	20,836	173,396
2006	15,306	1,145	1,035	134,079	-	151,565
2007	16,602	4,511	3,886	129,528	-	154,527
2008	10,834	2,493	267	173,038	-	186,632
2009	8,711	4,232	1,979	177,217	-	192,139
2010	12,168	4,754	972	170,724	89,581 *	278,199
2011	10,482	8,843 **	1,122	182,035	71,018 *	273,500
2012	11,369	8,440 **	10,487	173,869	33,693 *	237,858
2013	8,921	5,046 **	6,725	169,595	12,335 *	202,622

* Represents a reserve established for the anticipated future principal forgiveness associated with the disbursement of federal capitalization grants, including ARRA. The principal forgiveness is fully funded by the capitalization grants.

** Implemented GASB 65, Financial Reporting of Deferred Outflows, Deferred Inflows of Resources, and Net Position, resulting in the recognition of certain amounts as deferred inflow/outflow rather than assets/liabilities.



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Full Time Equivalent Employees

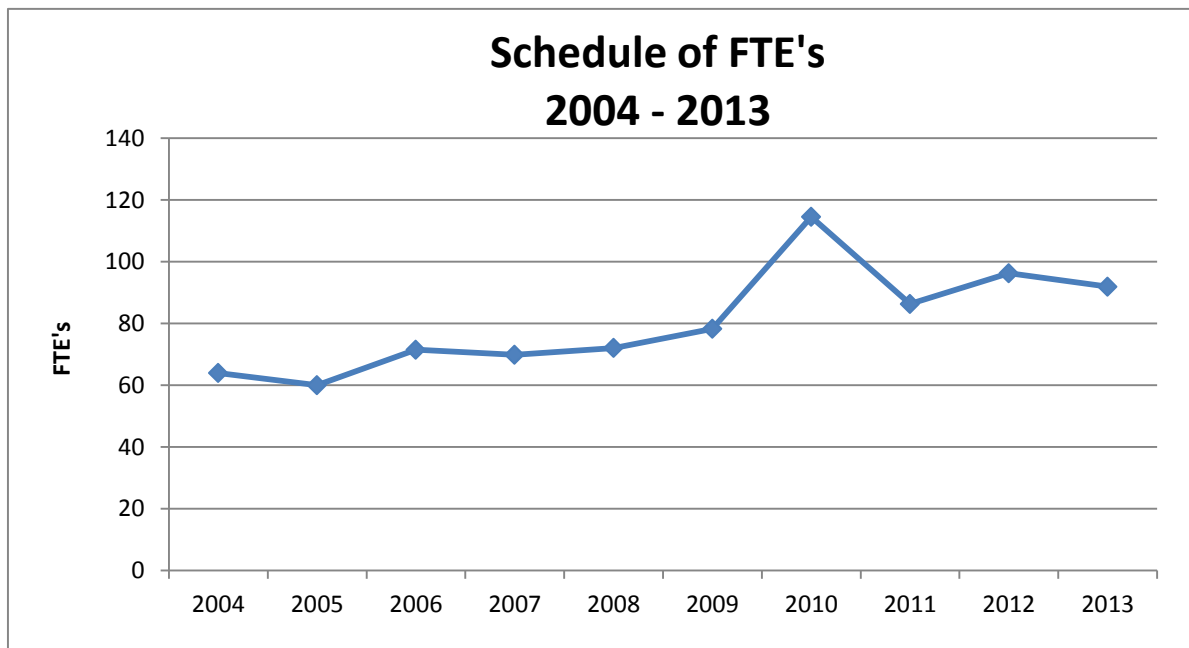
By Program and Agency

For fiscal years ending June 30, 2004 through June 30, 2013

<u>Year</u>	<u>MWPAT - Administrative</u>	<u>DEP - Clean Water Program</u>	<u>DEP - Drinking Water Program</u>	<u>DEP - Admin Expendable Trust</u>	<u>Total</u>
2004	5.00	12.44	46.52	0.00	63.96
2005	6.00	12.44	41.58	0.00	60.02
2006	5.50	17.23	48.78	0.00	71.51
2007	7.00	17.48	45.40	0.00	69.88
2008	7.00	15.10	41.62	8.34	72.06
2009	8.50	9.15	37.50	23.14	78.29
2010	9.70	29.43	68.02	7.42	114.57
2011	9.27	21.50	51.77	3.79	86.33
2012	9.78	22.00	50.19	14.27	96.24
2013	9.75	21.49	50.17	10.50	91.91

MWPAT - Mass Water Pollution Abatement Trust

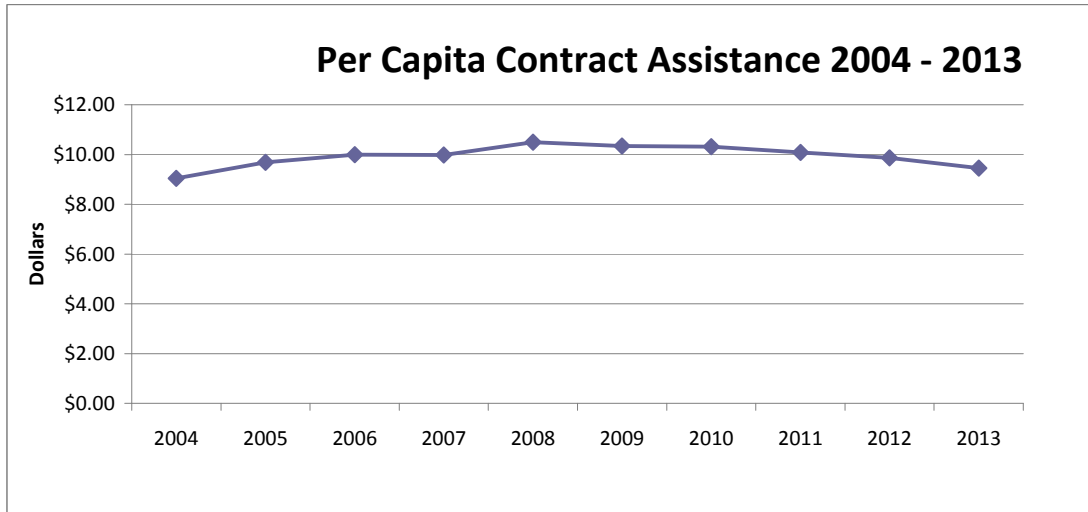
DEP - Department of Environmental Protection



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST
Ten Year Schedule of Contract Assistance Provided by the Commonwealth of Massachusetts,
Massachusetts Population, and Per Capita Contract Assistance
For fiscal years ending June 30, 2004 through June 30, 2013

Fiscal year ending June 30	Contract assistance provided (in thousands)	Population estimates ⁽¹⁾ (in thousands)	Per capita Contract assistance
2004	\$58,107	6,423	\$9.05
2005	62,072	6,412	9.68
2006	63,979	6,403	9.99
2007	64,014	6,410	9.99
2008	67,489	6,432	10.49
2009	66,856	6,469	10.33
2010	67,262	6,518	10.32
2011	66,093	6,557	10.08
2012	64,986	6,588	9.86
2013	62,811	6,646	9.45

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. Source: <http://www.fedstats.gov> (US Census Bureau).



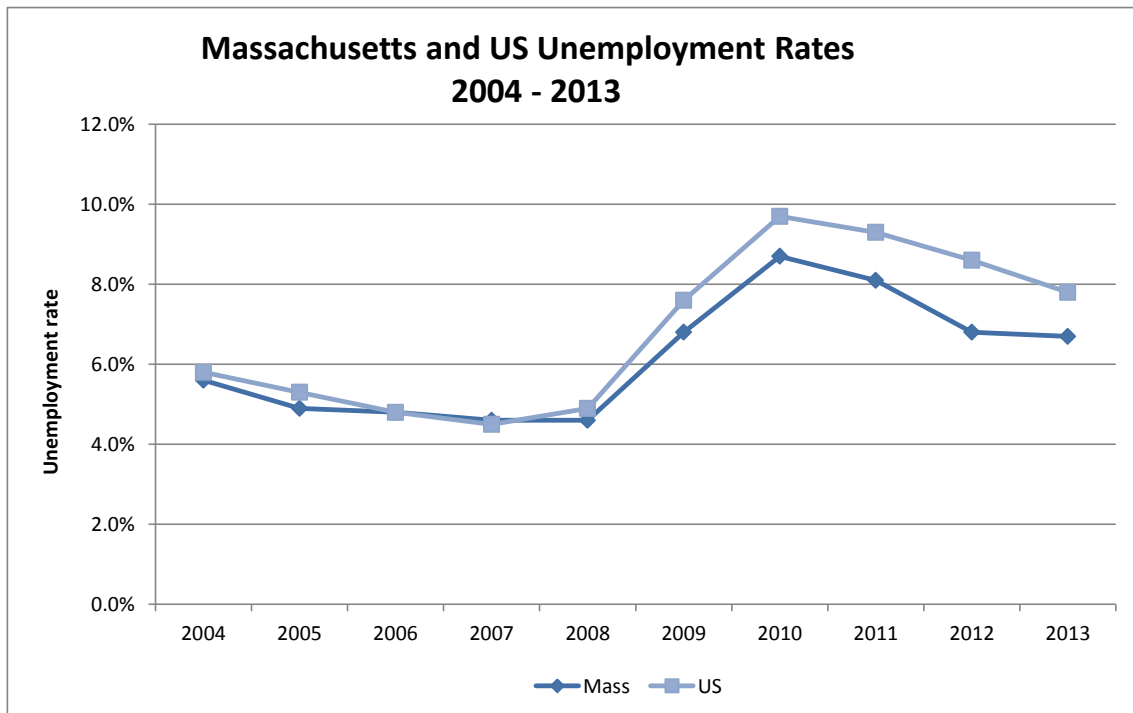
MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Annual Civilian Labor Force, Unemployment and Unemployment Rates For Massachusetts and The United States

(Amounts in thousands)

Year	<u>Massachusetts</u>			<u>United States</u>			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2004	3,396	191	5.6%	146,815	8,512	5.8%	96.7%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.4%
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.5%
2013	3,477	232	6.7%	155,337	12,092	7.8%	85.7%

Source-Federal Bureau of Labor Statistics, November 2012. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.



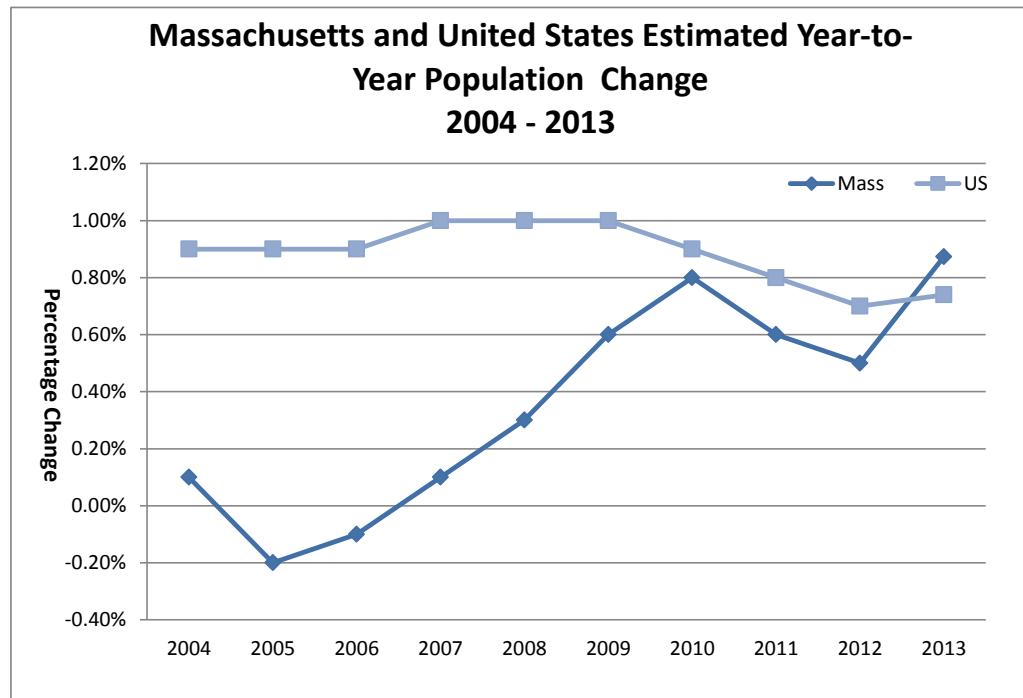
MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Massachusetts and United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2004	290,108	0.9%	6,423	0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2007	298,380	1.0%	6,410	0.1%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2012	311,592	0.7%	6,588	0.5%	2.1%
2013	313,914	0.7%	6,646	0.9%	2.1%

⁽¹⁾ Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. Source: - <http://www.fedstats.gov> (U.S. Census Bureau).

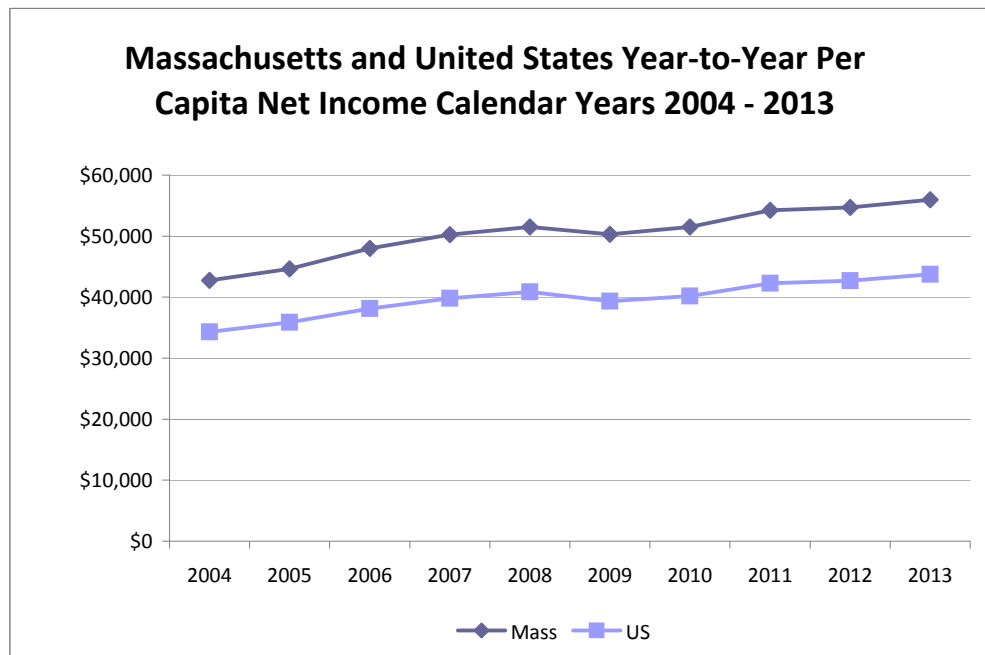


MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Ten Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States ⁽¹⁾	% Change	Massachusetts ⁽¹⁾	% Change	Massachusetts as % of U.S.
2004	\$34,300	5.0%	\$42,726	5.2%	124.6%
2005	35,888	4.6%	44,646	4.5%	124.4%
2006	38,127	6.2%	47,993	7.5%	125.9%
2007	39,804	4.4%	50,257	4.7%	126.3%
2008	40,873	2.7%	51,515	2.5%	126.0%
2009	39,357	-3.7%	50,304	-2.4%	127.8%
2010	40,163	2.0%	51,488	2.4%	128.2%
2011	42,298	5.3%	54,218	5.3%	128.2%
2012	42,693	6.3%	54,687	6.2%	128.1%
2013	43,735	3.4%	55,976	3.2%	128.0%

⁽¹⁾ Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 1990-2010 were released on September 30, 2013.

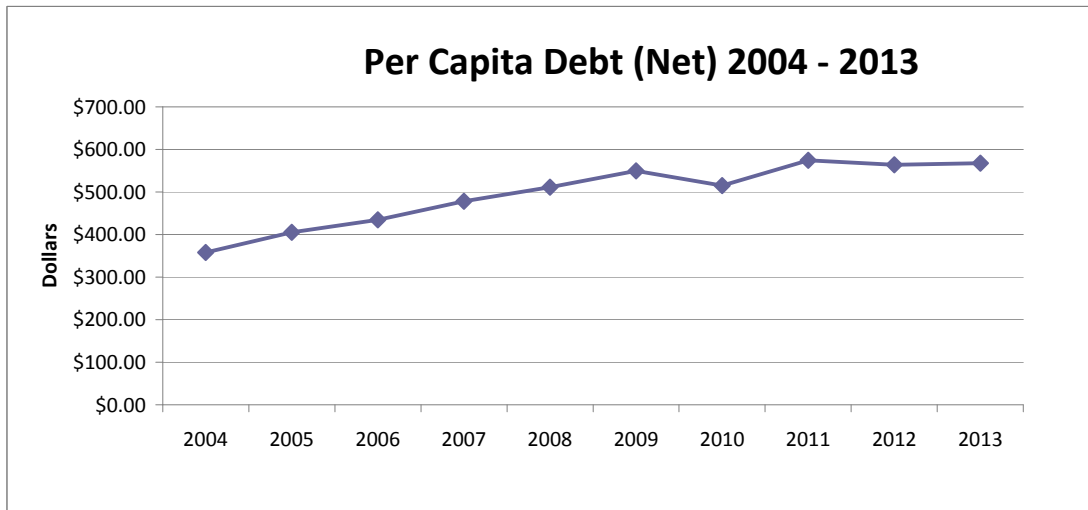


MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST
Ten Year Schedule of Total Net Debt, Massachusetts Resident Population, and Debt Per Capita
For fiscal years ending June 30, 2004 through June 30, 2013

Fiscal year ending June 30	Total Debt (Net) (in thousands)	Population estimates ⁽¹⁾ (in thousands)	Per capita Debt (Net)
2004	\$2,310,099.00	6,452	\$358.04
2005	2,613,921.00	6,451	405.20
2006	2,804,158.00	6,453	434.55
2007	3,093,155.00	6,466	478.37
2008	3,323,503.00	6,499	511.39
2009	3,597,861.00	6,544	549.80
2010	3,394,046.00	6,594	514.72
2011	3,766,617.00	6,557	574.44
2012	3,715,203.00 **	6,588	563.93
2013	3,771,008.00	6,646	567.41

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. Source: <http://www.fedstats.gov> (US Census Bureau).

** Implemented GASB 65, Financial Reporting of Deferred Outflows, Deferred Inflows of Resources, and Net Position, resulting in the recognition of certain amounts as deferred inflow/outflow rather than assets/liabilities.



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST
Largest Private Sector Massachusetts Employers 2013 and 2004
(Alphabetical Order)

2013			2004		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University		
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	Friendly Ice Cream Corporation	Wilbraham	Food Service
Harvard University	Cambridge	University	General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University	Harvard University	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
The TJX Companies, Inc.	Framingham	Department Stores	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2012 survey. In addition, Bank of America NA., Home DepotUSA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.

WATER'S WORTH IT

BE AS GOOD TO WATER AS WATER'S BEEN TO YOU

For more water facts visit www.WatersWorthIt.org

The Earth is about
70% water, but only
1% is suitable for
human consumption
and use.

