



MASSACHUSETTS CLEAN WATER TRUST

A Component Unit of the Commonwealth of Massachusetts



Comprehensive Annual Financial Report



as of and for the Years Ended June 30, 2014 and June 30, 2013
and Independent Auditors' Report

Prepared by the Management of the
Massachusetts Clean Water Trust

Springfield Water and Sewer Commission – South Water Transmission Main Replacement

This \$22.6 million project replaces the existing 83 year old steel finished water transmission main which provides water to the city of Springfield and the towns of Agawam, Longmeadow and East Longmeadow. This project is critical for improving the integrity and reliability of this transmission main since it is near the end of its useful life and recent inspections have uncovered significant internal and external pipeline corrosion. This project received \$942,000 in principal forgiveness.



Ruptured Water Transmission Main





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Massachusetts Clean Water Trust
*Comprehensive Annual Financial Report as of and for the Years Ended
June 30, 2014 and June 30, 2013 and Independent Auditors' Report*

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Acton Water Supply District – New Water Treatment Plant

This \$13.5 million project includes the construction of a new water treatment facility and water mains at the Christofferson, Lawsbrook, and Scribner wells in accordance with an Administrative Consent Order (ACO). The new water treatment facility will include a membrane filtration system, aeration tower, an additional building, new emergency back-up power, and replacement of existing well pumps. The completed project will improve drinking water quality by reducing high manganese and iron concentrations and eliminate microbiological contaminations.



Acton Water Treatment Facility



MWRA Spot Pond Storage Facility

MWRA – Low Service Storage

This project is for the construction of a 20 million gallon potable water storage tank in the Town of Stoneham at its terminal reservoir at the northeastern extremity of the MWRA water service to metropolitan Boston. The project will provide not only improved storage but will also provide surge relief, protecting MWRA and community mains; allow more efficient use of the existing MWRA distribution system; and, provide emergency backup to 21 communities in the Northern Intermediate High and Northern High systems. The total project cost is \$67.9 million. The Trust has provided \$7.5 million in project financing over the last two years.



I - INTRODUCTORY SECTION

**Comprehensive Annual Financial Report
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MASSACHUSETTS
CLEAN WATER TRUST

Fitchburg – Combined Sewer Separation

The City of Fitchburg is under an Administrative Order with the MassDEP and EPA to reduce the amount of combined sewer overflows (CSOs) into the Nashua River. The Nashua River is currently being studied for excessive nutrient levels and is also a tributary for both the Lowell and Lawrence drinking water supplies. Therefore, the City has undertaken a series of projects to separate its sanitary sewers from its storm drainage system. The general scope of work for this \$13.5 million project consists of separating approximately 24,000 linear feet of combined sewers by installing new drainage pipe (or sanitary sewer pipe), connecting existing catch basins to the separate storm sewer, replacing existing catch basins, and rehabilitating existing combined sewers and manholes as necessary. This will reduce the frequency and duration of CSOs thereby improving the water quality of the Nashua River. The City will receive over \$326,000 in principal forgiveness for this project.



MESSAGE FROM THE CHAIRMAN

December 31, 2014

I am pleased to submit to you the Comprehensive Annual Finance Report (CAFR) of the Massachusetts Clean Water Trust (the "Trust") for the state fiscal year ending June 30, 2014. 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.

As our water infrastructure continues to age, there is no better time for municipalities to invest in protecting the health of their citizens, the environment and allow for economic development of their communities. In order to be able to achieve these goals, easy access to financing is essential, and the Trust continues to do its part by providing subsidized loans backed by its AAA credit. In fiscal 2014 the Trust provided approximately \$294 million in commitments for low interest rate loans to cities and towns all over the Commonwealth. This commitment amount will support an estimated 1,750 construction and engineering jobs. This financing provides vast benefits 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 continues to operate as a national model for state revolving funds and demonstrated this through the sale of their Series 2014 Refunding Bonds. By identifying favorable market conditions and refunding opportunities in previous bond series, the Trust successfully sold \$565 million in refunding bonds, locking in a total interest cost of 2.13% and generating \$73.3 million in future debt service savings that will help provide future loans to borrowers.

On behalf of our partners at MassDEP and the staff at the Trust, I would like to take this opportunity to thank the staff of Environmental Protection Agency Region 1 for all of their efforts during 2014. I would also like to thank the staff of the Trust and at MassDEP for a job well done. 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 demonstrating their strong commitment to water infrastructure by passing Senate Bill 2342, An Act Improving Drinking Water and Wastewater Infrastructure. The bill now allows the Trust to provide additional subsidies beyond the low 2% interest rate. This crucial change will help to convince municipalities that now is the time to move forward with water infrastructure improvements to keep Massachusetts a great place to live and work.

Sincerely,



Steven Grossman
Chairman
Massachusetts Clean Water Trust
www.mass.gov/treasury



December 31, 2014

To the Board of Trustees of the Massachusetts Clean Water Trust:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Massachusetts Clean Water Trust (the "Trust") for the fiscal year ended June 30, 2014. This year's CAFR is presented on a comparative basis with the fiscal year ended June 30, 2013, 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 principles ("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 (DEP), David W. Cash, 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 follows this transmittal letter.

Profile of the Massachusetts Clean Water Trust

The Trust formerly known as the Massachusetts Water Pollution Abatement Trust, is a public instrumentality of the Commonwealth of Massachusetts which 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 DEP.

Information Useful in Assessing the Economic Condition of the Massachusetts Clean Water 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 and continues to perform outreach activities to help borrowers identify the focus on and eligibility of energy efficiency/alternative energy projects. 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. Currently, the standard loan offer is for a term of 20 years at a subsidized loan rate of 2%. The Trust may also provide an extended term for up to 30 years.

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.

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 projects 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 2014, accruing only on drawn funds, was 0.13%.

FY 2014 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	\$124,091,583	83	\$44,343,676	27	\$168,435,259	110
Pool Program Project Funds	44,024,128	47	22,130,322	29	66,154,450	76
Total	\$168,115,711	130	\$66,473,998	56	\$234,589,709	186

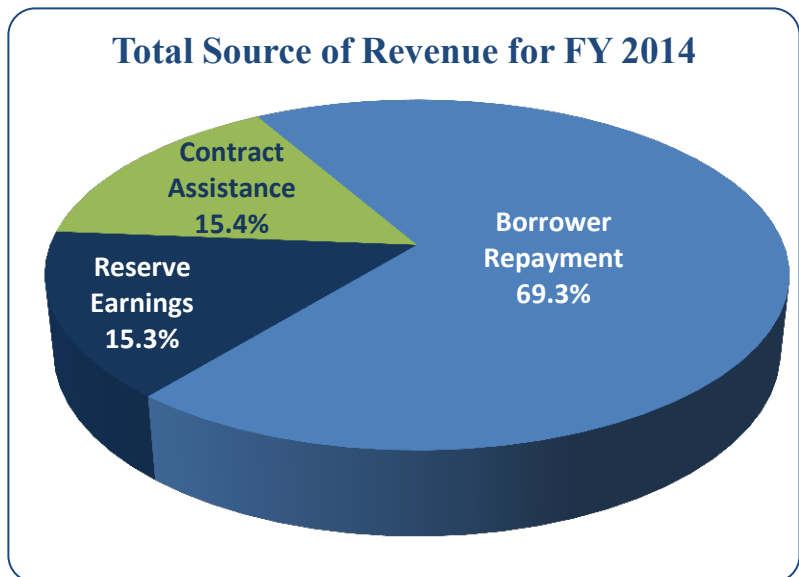
Trust's Financing Model

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. 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.



Pledged Direct Loans

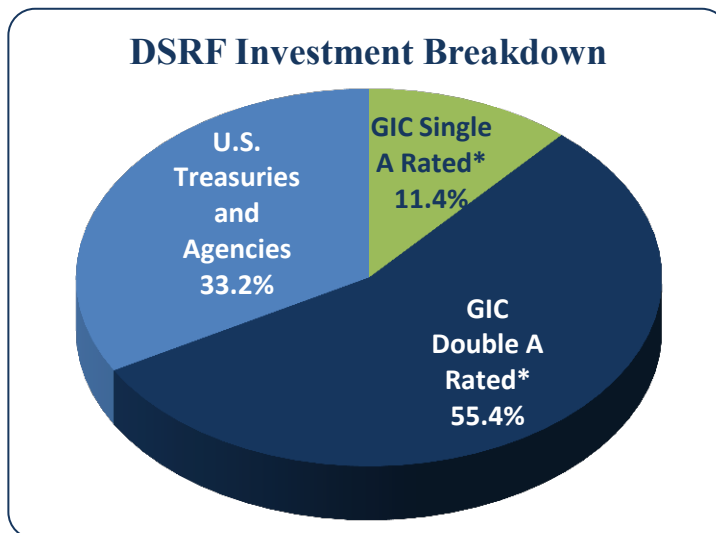
Under the pledged direct loan approach, the Trust pledges as additional security for a series of its SRF Bonds, direct loans (“Pledged Direct Loans”) that it has made or making concurrently with the issuance of such SRF Bonds from its SRF Program Funds to eligible borrowers for water pollution abatement and drinking water projects. The Trust applies the interest payments on such Pledged Direct Loans to pay a portion of the debt service on the related series of SRF Bonds, thereby supplementing the loan repayment obligations of the borrowers of the Leveraged Loans funded by such 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, 2014, the Trust has \$210.2 million in Pledged Direct Loans.

Reserve Funds

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 obligation of the borrowers of the Leveraged Loans funded by such SRF Bonds. As of June 30, 2014, the Trust has \$1.0 billion in DSRF reserve funds invested in guaranteed investment contracts (GIC) and US Treasury and Agency Obligations.

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.

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.



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 \$2.1 billion to date which has provided funding for over \$6.0 billion in clean water and drinking water construction projects.

Federal Capitalization Grant and State Matching Funds			
	Clean Water Grant Awards	Drinking Water Grant Awards	Total Awards
FY 2014			
Federal Grant	\$45,328,000	\$15,699,000	\$61,027,000
State Grant	9,065,600	3,139,800	12,205,400
Total	\$54,393,600	\$18,838,800	73,232,400
Program to Date			
Federal Grant	\$1,325,647,761	\$462,245,100	\$1,787,892,861
State Grant	238,518,092	82,005,820	320,523,912
Total	\$1,564,165,853	\$544,250,920	\$2,108,416,773

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 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. The table below provides the details of subsidization provided to date by grant.

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
2014 Grant	2.6	3.3	5.9
Total Subsidization	\$150.1	\$72.6	\$222.7

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, primarily municipalities, the project loans financed and related pledged loan repayments 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 municipality. 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 2014, the DEP received applications for almost \$600 million in Clean Water projects and approved \$415.6 million. DEP also received applications for over \$200 million of Drinking Water projects and approved \$88.5 million. Demand is expected to remain strong as communities work to meet tightening environmental standards and maintain an aging infrastructure. The current record low interest rate environment has somewhat 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.



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.

Clean Water State Revolving Fund Performance Indicators*, Ranked by State for Fiscal Years 2012-2014

2012			2013			2014		
Total Loan Assistance Provided (Millions of dollars)								
1 New York	\$	12,237	1 New York	\$	12,442	1 New York	\$	13,366
2 California		6,283	2 California		6,511	2 California		6,911
3 Texas		5,934	3 Ohio		6,230	3 Ohio		6,587
4 Ohio		5,897	4 Texas		6,186	4 Texas		6,401
5 Massachusetts		5,189	5 Massachusetts		5,394	5 Massachusetts		5,569
National average:		1,871	National average:		1,960	National average:		2,066
Assistance Provided as a Percent of Federal Capitalization Grants								
1 Rhode Island		620%	1 Rhode Island		607%	1 Rhode Island		604%
2 Arizona		612%	2 Arizona		592%	2 Arizona		562%
3 Minnesota		431%	3 Massachusetts		421%	3 Massachusetts		420%
4 Massachusetts		421%	4 Minnesota		418%	4 Minnesota		410%
5 Connecticut		393%	5 Connecticut		384%	5 Connecticut		385%
National average:		273%	National average:		276%	National average:		280%
SRF Project Disbursements (Millions of dollars)								
1 New York	\$	11,478	1 New York	\$	11,949	1 New York	\$	12,591
2 Texas		5,880	2 Texas		6,182	2 Texas		6,401
3 California		5,203	3 California		5,533	3 California		5,940
4 Massachusetts		4,512	4 Ohio		4,822	4 Ohio		5,194
5 Ohio		4,423	5 Massachusetts		4,714	5 Massachusetts		4,882
National average:		1,618	National average:		1,719	National average:		1,810
Total Loan Assistance Provided for Combined Sewer Overflow Projects (Millions of dollars)								
1 Michigan	\$	1,823	1 Michigan	\$	1,832	1 Michigan	\$	1,834
2 New York		1,300	2 New York		1,481	2 New York		1,527
3 Ohio		1,134	3 Ohio		1,253	3 Ohio		1,326
4 Massachusetts		1,126	4 Massachusetts		1,159	4 Massachusetts		1,228
5 Illinois		784	5 Illinois		796	5 Illinois		814
National average:		189	National average:		202	National average:		211
Total Loan Assistance Provided for Secondary Treatment Projects (Millions of dollars)								
1 New York	\$	6,869	1 New York	\$	7,393	1 New York	\$	7,997
2 California		3,131	2 California		3,204	2 California		3,288
3 Massachusetts		1,882	3 Ohio		1,937	3 Ohio		2,073
4 Ohio		1,809	4 Massachusetts		1,927	4 Massachusetts		1,956
5 Illinois		1,548	5 Illinois		1,652	5 Illinois		1,869
National average:		668	National average:		697	National average:		735
Total Loan Assistance Provided for New Collector System Projects (Millions of dollars)								
1 Massachusetts	\$	854	1 Massachusetts	\$	882	1 Massachusetts	\$	882
2 Florida		674	2 Florida		753	2 Florida		834
3 Pennsylvania		658	3 Pennsylvania		688	3 Pennsylvania		694
4 New York		413	4 New York		471	4 New York		532
5 Arizona		377	5 Arizona		378	5 Arizona		364
National average:		129	National average:		135	National average:		141
Total Loan Assistance Provided for Storm Sewer Projects (Millions of dollars)								
1 New Jersey	\$	182	1 New Jersey	\$	183	1 New Jersey	\$	193
2 Florida		147	2 Florida		158	2 Florida		180
3 Massachusetts		124	3 Massachusetts		139	3 Massachusetts		146
4 South Dakota		67	4 South Dakota		68	4 South Dakota		69
5 California		38	5 California		31	5 California		40
National average:		14	National average:		16	National average:		18

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, 2014. 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 herein. 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

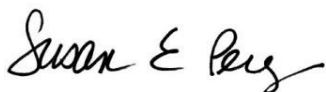
The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Trust for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. The award is the Trust's eighteenth consecutive citation. In order 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 Clean Water 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 Clean Water 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,



Susan E. Perez
Executive Director

Board of Trustees

Mr. Steve Grossman	<i>Treasurer and Receiver General of the Commonwealth of Massachusetts</i>
Mr. Glen Shor	Secretary of the Executive Office for Administration and Finance of the Commonwealth of Massachusetts
Mr. David Cash	Commissioner of the Department of Environmental Protection of the Commonwealth of Massachusetts



Senior Management

Ms. Susan E. Perez	<i>Executive Director of the Massachusetts Clean Water Trust</i>
Ms. My Tran	Treasurer of the Massachusetts Clean Water 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



Government Finance Officers Association

**Certificate of
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Presented to

**Massachusetts Water Pollution
Abatement Trust**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Taunton – Pump Station and Water Main Replacement

This project involves the replacement of approximately 10,000 linear feet of water main throughout the City of Taunton water distribution system. It also involves the construction of a new pumping station on Harris Street to replace the original station constructed in 1876. These improvements will result in improved water quality and system reliability. This \$1.4 million project received over \$260,000 in principal forgiveness.





II - FINANCIAL SECTION

**Comprehensive Annual Financial Report
as of and for the Years Ended June 30, 2014 and June 30, 2013
and Independent Auditors' Report**



**MASSACHUSETTS
CLEAN WATER TRUST**



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

Independent Auditors' Report

The Board of Trustees
Massachusetts Clean Water Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Clean Water Trust (formerly known as 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, 2014 and 2013, 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 our 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 Clean Water Trust as of June 30, 2014 and 2013, 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.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.



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 Introductory, Combining Financial Statements and Schedules and the 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, based on our audit 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, 2014

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

(Unaudited)

June 30, 2014 and 2013

Introduction

The Massachusetts Clean Water Trust, (formerly known as 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 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 bonds is higher than the 2% loan rate, the borrowers receive a subsidy equal to the difference between those 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.

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

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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 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 2014

- At the close of fiscal year 2014, assets and deferred outflows exceed liabilities by \$2.13 billion compared to \$2.07 billion for fiscal year 2013. Included in this number are total loans receivable, which decreased to \$3.91 billion from \$3.99 billion, total debt (bonds payable), which decreased to \$3.39 billion from \$3.77 billion was offset by a decrease in long-term investments (primarily reserve fund investments) to \$1.03 billion from \$1.26 billion.
- Total assets and deferred outflow of resources of \$5.62 billion decreased \$407 million from \$6.02 billion the year before. Total liabilities of \$3.49 billion decreased \$463 million from \$3.95 billion the year before.
- On June 12, 2014, the Trust issued \$565,610,000 State Revolving Fund Refunding Bonds (at a true interest cost of 2.13%) to refund, \$2,760,000 of the Trust's Pool Program Series 4 bonds; \$12,050,000 of the Trust's Series 9 bonds; \$33,540,000 of the Trust's Pool Program Series 10 bonds; \$105,575,000 of the Trust's 2004B Refunding bonds; and \$2,800,000 of the Trust's MWRA Loan Program 1998A bonds. These bonds also advance refunded \$162,385,000 of the Trust's Pool Program Series 12 bonds; \$283,220,000 of the Trust's Pool Program Series 13 bonds; and \$137,595,000 of the Trust's Pool Program Series 14 bonds.
- On January 13, 2014, the Trust used \$20,737,000 of proceeds received from terminating certain GIC investments with Portigon and program funds in the amount of \$16,500,000 to pay off the Trust's Subordinate Revenue Refunding Bonds under the New Bedford Loan Program Series 1998A. The total debt defeased was \$36,460,000.
- For FY 2014, the Trust recorded operating income of \$3.2 million as compared to an operating loss of \$11.7 million in FY 2013. The \$14.9 million change in the Trust's operating income in FY 2014 was primarily attributed to the \$15.3 million decrease in interest expense which exceeded the \$8.6 million decrease in interest income and contract assistance by \$6.7 million, primarily due to the Trust's recent refundings that replaced higher yielding bonds with bonds at all-time low interest rates. Also attributing to this increase in operating income was a \$4.8 million decrease in principal forgiveness expense resulting from the final expenditures of the ARRA capitalization grants. Although the Trust's current capitalization grants continue to provide for principal forgiveness, it is not at the levels experienced with the ARRA grants.
- The statement of cash flows indicates and decrease in cash for the year of \$86.8 million.
- In FY 2014, 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 \$46.0 million from the Clean Water Program and received \$16.0 million in the Drinking Water Program. The Commonwealth provided a match of \$12.2 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.

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June 30, 2014 and 2013

- 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.

Financial Highlights – Fiscal Year 2013

- At the close of fiscal year 2013, assets and deferred outflows exceed liabilities by \$2.07 billion compared to \$2.00 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 outflow 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. The 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 FY 2012 operating income including a one-time \$57.7 million gain realized on the termination of certain GICs offset by a \$21.4 million decrease in principal forgiveness, (\$33.7 million in FY 2012 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 statements 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 funding to all qualified borrowers.

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.

MASSACHUSETTS CLEAN WATER TRUST
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(Unaudited)
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The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles as applied to a special purpose entity engaged solely in business-type activities. 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 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 net 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.

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(Unaudited)

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Condensed Financial Information and Financial Analysis

Massachusetts Clean Water Trust's Net Position
(In thousands)

	2014	2013	2012	Percentage change	
				2014–2013	2013–2012
Current assets	\$ 1,005,129	918,563	732,229	9.4%	25.4%
Loans receivable, long term	3,469,108	3,711,065	3,674,409	(6.5)	1.0
Investments, long term	1,029,899	1,262,224	1,336,254	(18.4)	(5.5)
Project fund investments	—	58,992	92,441	(100.0)	(36.2)
Deferred outflows	113,216	72,071	75,400	57.1	(4.4)
Other	42	1,469	2,264	(97.1)	(35.1)
Total assets and deferred outflows	\$ 5,617,394	6,024,384	5,912,997	(6.8)%	1.9%
Current liabilities	\$ 304,331	335,822	271,719	(9.4)%	23.6%
Loan commitments and project funds payable	—	58,979	92,415	(100.0)	(36.2)
Liability for derivative instruments	2,206	3,435	2,067	(35.8)	66.2
Long-term debt	3,183,470	3,555,255	3,542,898	(10.5)	0.3
Total liabilities	3,490,007	3,953,491	3,909,099	(11.7)%	1.1%
Net position:					
Restricted	\$ 1,718,052	1,658,888	1,600,042	3.6%	3.7%
Unrestricted	409,335	412,005	403,856	(0.6)	2.0
Total net position	\$ 2,127,387	2,070,893	2,003,898	2.7%	3.3%

Net position

The Trust's net position at June 30, 2014 and 2013 was \$2.13 billion and \$2.07 billion, respectively. Total assets and deferred outflow of \$5.62 billion decreased \$407 million from \$6.02 billion at June 30. Total loans receivable, long term decreased \$242 million to \$3.47 billion as the Trust did not finance any loans in FY 2014 as part of a new bond financing, rather the Trust's interim loan portfolio and loan commitments increased \$161 million and \$122 million, respectively. The Trust's total long-term investments decreased \$232 million to \$1.03 billion. The decrease was primarily attributed to the termination of a \$19.2 million GIC with Portigon and the liquidation of the \$141.8 million Series 13 debt service reserve fund as part of the 2014 Refunding, in addition to scheduled maturities. Total liabilities decreased \$463 million to \$3.49 billion primarily due to the Series 2014 refunding bonds that refunded \$739.9 million while issuing only \$565.6 million of refunding bonds. In addition, the Trust did not finance new loans with a new bond issue in FY 2014, which results in a reduction of outstanding debt by scheduled maturities.

The Trust's net position at June 30, 2013 and 2012 was approximately \$2.07 billion and \$2.00 billion, respectively. Total assets and deferred outflows increased \$111 million to \$6.02 billion, while total liabilities remained relatively consistent at approximately \$3.9 billion. Total loans receivable, long-term remained constant at \$3.7 billion, similarly long-term 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.

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(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis – Required Supplementary Information

(Unaudited)

June 30, 2014 and 2013

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, or a combination thereof, both of which are funded by the SRF program funds. 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.

The following is a summary of bonds payable at June 30, 2014, 2013 and 2012 (in thousands). More detailed information can be found in note 6 to the financial statements.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water Pollution Abatement Revenue Bonds:			
MWRA Loan Program	\$ 11,365	16,410	22,370
South Essex Sewage District Loan Program	1,855	2,765	3,780
New Bedford Loan Program	785	1,515	2,405
Pool Loan Program	1,328,845	2,078,738	1,989,878
Subtotal revenue bonds	<u>1,342,850</u>	<u>2,099,428</u>	<u>2,018,433</u>
Subordinated Revenue Refunding Bonds:			
MWRA Loan Program	63,620	63,775	63,775
New Bedford Loan Program	—	36,460	40,850
Pool Loan Program	1,678,245	1,311,580	1,358,240
Subtotal revenue refunding bonds	<u>1,741,865</u>	<u>1,411,815</u>	<u>1,462,865</u>
Total bonds	3,084,715	3,511,243	3,481,298
Add: unamortized bond premium	<u>304,295</u>	<u>259,765</u>	<u>233,905</u>
Total bonds payable, net	<u>\$ 3,389,010</u>	<u>3,771,008</u>	<u>3,715,203</u>

MASSACHUSETTS CLEAN WATER TRUST
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Management's Discussion and Analysis – Required Supplementary Information

(Unaudited)

June 30, 2014 and 2013

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	
	2014	2013	2012	2014–2013	2013–2012
Loan servicing fees	\$ 5,137	5,288	5,270	(2.9)%	0.3%
Loan origination fees	19	1,698	2,243	(98.9)	(24.3)
Interest income	142,934	150,066	216,039	(4.8)	(30.5)
Contract assistance from Commonwealth of Massachusetts	32,388	33,895	36,700	(4.4)	(7.6)
Total operating revenues	180,478	190,947	260,252	(5.5)	(26.6)
Department of Environmental Protection programmatic support costs	\$ 7,418	8,921	11,369	(16.8)	(21.5)
Principal forgiveness	7,567	12,335	33,693	(38.7)	(63.4)
General and administrative	7,860	5,046	8,440	55.8	(40.2)
Arbitrage rebate payments	166	6,725	10,487	(97.5)	(35.9)
Interest expense	154,316	169,595	173,869	(9.0)	(2.5)
Total operating expenses	177,327	202,622	237,858	(12.5)	(14.8)
Operating income (loss)	3,151	(11,675)	22,394	127.0	152.1
U.S. Environmental Protection Agency capitalization grants	61,950	65,671	74,181	(5.7)	(11.5)
Commonwealth of Massachusetts matching grants	12,205	12,999	8,896	(6.1)	46.1
Total nonoperating revenues	74,155	78,670	83,077	(5.7)	(5.3)
Return of Commonwealth initial investment	20,812	—	—	100.0	—
Total nonoperating expenses	20,812	—	—	100.0	—
Increase in net position	56,494	66,995	105,471	(15.7)	(36.5)
Net position, beginning of year	2,070,893	2,003,898	1,898,427	3.3	5.6
Net position, end of year	\$ 2,127,387	2,070,893	2,003,898	2.7%	3.3%

MASSACHUSETTS CLEAN WATER TRUST
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Management's Discussion and Analysis – Required Supplementary Information

(Unaudited)

June 30, 2014 and 2013

Results of Operations

For FY 2014, the Trust recorded operating income of \$3.2 million as compared to an operating loss of \$11.7 million in FY 2013. The \$14.9 million change in the Trust's operating income in FY 2014 was primarily attributed to the \$15.3 million decrease in interest expense, which exceeded the \$8.6 million decrease in interest income and contract assistance by \$6.7 million, primarily due to the Trust's recent refundings that replaced higher yielding bonds with bonds at all-time low interest rates. Also attributing to this increase in operating income was a \$4.8 million decrease in principal forgiveness expense resulting from the final expenditures of the ARRA capitalization grants. Although the Trust's current capitalization grants continue to provide for principal forgiveness, it is not at the levels experienced with the ARRA grants.

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 change in the Trust's operating income in FY 2013 was primarily attributed to FY 2012 operating income including a one-time \$57.7 million gain realized on the terminations of certain GICs offset by the \$21.4 million decrease in principal forgiveness, (\$33.7 million in FY 2012 to \$12.3 million in FY 2013). 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. The primary reason for the operating losses in both FY 2013 and FY 2012 was principal forgiveness, \$12.3 million in FY 2013 and \$33.7 million in FY 2012. The principal forgiveness was 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.

Contributing to the Trust's low operating income and or operating losses are the inclusion of expenses such as DEP programmatic support costs of \$7.4 million, \$8.9 million, and \$11.4 million for FY 2014, FY 2013 and FY 2012, respectively, and principal forgiveness, which are funded by the capitalization grant revenue that is classified as nonoperating revenue.

The \$4.5 million, or 5.7%, decrease in nonoperating revenue in FY 2014 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 \$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.

FY 2014 includes nonoperating expense of \$20.8 million, which represents the return to the Commonwealth of its investment in the Commonwealth Program that provided funding for eight projects that were ineligible for funding pursuant to the Clean Water Act when the SRF program was initially established.

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(Unaudited)
June 30, 2014 and 2013

Future Economic Factors

In August 2014, the Commonwealth enacted Chapter 286 of the Acts of 2014 of the Commonwealth, which provided for \$57 million in matching capitalization funds to the Clean Water and Drinking Water programs. The Trust estimates this amount in addition to the amounts remaining from the authorization provided for in Chapter 312 of the Acts of 2008 of the Commonwealth, to be sufficient to meet its Clean Water and Drinking Water matching needs through FY 2019, assuming current federal funding levels are maintained.

Requests for Information

This financial report is intended to provide an overview of the financial picture of the Massachusetts Clean Water 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 CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Assets and deferred outflows:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 367,669	454,452
Short-term investments (note 3)	43,576	43,248
Project fund investments (note 3)	16,540	23,747
Grants receivable:		
U.S. Environmental Protection Agency	81,507	61,408
Loans receivable, net (note 5)	437,317	274,421
Accrued interest receivable	58,520	61,287
Total current assets	<u>1,005,129</u>	<u>918,563</u>
Noncurrent assets:		
Project fund investments (note 3)	—	58,992
Loans receivable, long-term (note 5)	3,469,108	3,711,065
Long-term investments (note 3)	1,029,899	1,262,224
Other assets	42	1,469
Total noncurrent assets	<u>4,499,049</u>	<u>5,033,750</u>
Deferred outflow of resources (note 10)	<u>113,216</u>	<u>72,071</u>
Total assets and deferred outflow of resources	<u>5,617,394</u>	<u>6,024,384</u>
Liabilities:		
Current liabilities:		
Accrued expenses and interest payable	54,326	68,061
Unearned revenue	28,065	28,385
Loan commitments and project funds payable	16,400	23,623
Long-term debt (note 6)	205,540	215,753
Total current liabilities	<u>304,331</u>	<u>335,822</u>
Noncurrent liabilities:		
Loan commitments and project funds payable	—	58,979
Liability for derivative instruments (note 9)	2,206	3,435
Long-term debt, net (note 6)	3,183,470	3,555,255
Total noncurrent liabilities	<u>3,185,676</u>	<u>3,617,669</u>
Total liabilities	<u>3,490,007</u>	<u>3,953,491</u>
Net position:		
Restricted for program purposes (note 7)	1,718,052	1,658,888
Unrestricted (note 7)	409,335	412,005
Total net position	<u>\$ 2,127,387</u>	<u>2,070,893</u>

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2014 and 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Loan servicing fees	\$ 5,137	5,288
Loan origination fees	19	1,698
Interest income	142,934	150,066
Contract assistance from Commonwealth of Massachusetts	32,388	33,895
Total operating revenues	<u>180,478</u>	<u>190,947</u>
Operating expenses:		
Commonwealth of Massachusetts:		
Department of Environmental Protection – programmatic support costs	7,418	8,921
Principal forgiveness	7,567	12,335
General and administrative	7,860	5,046
Arbitrage rebate payments	166	6,725
Interest expense	154,316	169,595
Total operating expenses	<u>177,327</u>	<u>202,622</u>
Operating income (loss)	<u>3,151</u>	<u>(11,675)</u>
Nonoperating revenue:		
Capitalization grant revenue:		
U.S. Environmental Protection Agency capitalization grants (note 4)	61,950	65,671
Commonwealth of Massachusetts matching grants (note 4)	12,205	12,999
Total nonoperating revenue	<u>74,155</u>	<u>78,670</u>
Nonoperating expense:		
Return of Commonwealth initial investment (note 2(f))	20,812	—
Total nonoperating expense	<u>20,812</u>	<u>—</u>
Increase in net position	56,494	66,995
Net position – beginning of year	2,070,893	2,003,898
Net position – end of year	<u>\$ 2,127,387</u>	<u>2,070,893</u>

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
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Statements of Cash Flows
Years ended June 30, 2014 and 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Other cash received from borrowers	\$ 6,556	7,754
Cash paid to vendors	(14,906)	(21,958)
Net cash used in operating activities	<u>(8,350)</u>	<u>(14,204)</u>
Cash flows from noncapital financing activities:		
Bonds proceeds	—	242,657
Cash used in debt refunding	(197,738)	—
Repayment of bonds	(215,753)	(172,306)
Interest paid	(163,928)	(165,171)
Return of Commonwealth initial investment	(20,812)	—
Proceeds from U.S. Environmental Protection Agency capitalization grants	40,929	60,547
Proceeds from Commonwealth matching capitalization grants	12,809	14,574
Net cash provided used in noncapital financing activities	<u>(544,493)</u>	<u>(19,699)</u>
Cash flows from investing activities:		
Loans disbursed to recipients	(168,511)	(278,674)
Cash received from borrowers	210,697	177,917
Contract assistance received – principal	29,612	26,970
Interest received	121,834	127,208
Contract assistance received – interest	32,879	35,841
Purchases of investments	(13,726)	(60,790)
Cash received from termination of guaranteed investment contracts	160,102	—
Sales/maturities of investments	93,173	102,756
Net cash provided by investing activities	<u>466,060</u>	<u>131,228</u>
Net (decrease) increase in cash and cash equivalents	<u>(86,783)</u>	<u>97,325</u>
Cash and cash equivalents, beginning of year	454,452	357,127
Cash and cash equivalents, end of year	\$ <u><u>367,669</u></u>	<u><u>454,452</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 3,151	(11,675)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Reclassification of:		
Interest income	(142,934)	(150,066)
Contract assistance	(32,388)	(33,895)
Interest expense	154,316	169,595
Principal forgiveness	7,567	12,335
Changes in operating assets and liabilities:		
Other assets and liabilities, net	1,938	(498)
Net cash used in operating activities	\$ <u><u>(8,350)</u></u>	<u><u>(14,204)</u></u>

During fiscal year 2014, the Trust issued bonds to partially refund various series of bonds. The \$668,200 of bond proceeds combined with \$160,500 of cash were deposited immediately into irrevocable trust funds for the defeasance of \$739,900 of outstanding bond principal.

See accompanying notes to financial statements.

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June 30, 2014 and 2013

(Dollars in thousands, unless noted)

(1) General

(a) Organization

The Massachusetts Clean Water Trust (formerly known as 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.

(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 applies such grants and state matching funds and other monies available to the Trust to reduce financing costs by establishing reserve funds to secure the Trust's bonds issued to fund such projects, and by applying investment earnings on such reserve funds to pay a portion of the debt service on the related bonds.

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

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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 assets.

(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-type activities. The more significant account policies are described below.

(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) 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.

(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.

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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 primarily 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.

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.

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(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. Cost of issuance related to the bonds is 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 issuance 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 being paid by certain borrowers with their respective loans receivable.

(f) *Nonoperating Expenses*

FY 2014 includes nonoperating expense of \$20,812, which represents the return to the Commonwealth of its investment in the Commonwealth Program that provided funding for eight projects that were ineligible for funding pursuant to the Clean Water Act when the SRF program was initially established.

(g) *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.

(h) *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.

(i) *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.

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(j) 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 may be reported in the statement of revenues, expenses, and changes in net position, depending on whether the derivative instrument qualifies for hedge accounting.

(k) Deferred Inflows and Outflows of Resources

The Trust accounts for certain transactions that result in the consumption or acquisition in 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 years 2014 and 2013, the Trust has reported deferred outflows of resources pertaining to its hedging derivative instruments and to the deferred losses on its debt refunding transactions.

(l) Reclassifications

Certain reclassifications had been made to the FY 2013 balances to conform to the presentation used in FY 2014.

(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 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. The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Portfolio. The Cash Portfolio is a money market like investment pool; its investments are carried at amortized cost, which approximates fair value. The fair value of the Trust's position in MMDT is at unit value. The Short Term Bond Portfolio investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management section of the Office of the State Treasurer's Web site at www.mass.gov/treasury. For purposes of risk

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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, 2014 and 2013.

(b) Investments

Custodial Credit Risk – 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.

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 Trust's U.S. Treasuries and Agencies investment portfolio was structured in its principal and interest return to support debt service on their related bonds.

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

Investment type	2014	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Guaranteed investment contracts	\$ 722,108	113,455	244,864	235,716	128,073
U.S. Treasuries – federally guaranteed	310,504	22,391	72,834	87,782	165,271
Cash equivalents:					
Massachusetts Municipal Depository Trust (MMDT)	425,072	425,072	—	—	—
Total investments	<u>\$ 1,457,684</u>	<u>560,918</u>	<u>317,698</u>	<u>323,498</u>	<u>293,344</u>

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	<u>\$ 1,842,663</u>	<u>708,596</u>	<u>374,543</u>	<u>411,294</u>	<u>428,645</u>

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	
	2014	2013
Provider:		
Dexia Credit Local/FSA Capital Management Services, LLC	22%	19%
NATIXIS Funding Corp.	17	15
Trinity Funding Company, LLC	14	12
Citigroup	10	9

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On December 4, 2013, the Trust terminated \$19,200 of GICs with Portigon (WestLB). The Trust received \$20,700 in cash proceeds from Portigon, which included a termination payment of \$1,100 which has been recorded as interest income in the 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.

On June 3, 2014, the Trust liquidated its U.S. Treasuries portfolio comprising the debt service reserve fund for Series 13 Bonds. The Trust received \$140,800 in cash proceeds, which were used 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, 2014 and 2013 are as follows:

	Clean Water Program		Drinking Water Program	
	2014	2013	2014	2013
Federal capitalization	\$ 45,328	47,985	15,699	17,012
State match on federal funds	9,065	9,597	3,140	3,402
Total capitalization	54,393	57,582	18,839	20,414
Less administrative allowance and set asides	(2,176)	(2,303)	(4,866)	(5,187)
Project capitalization	<u>\$ 52,217</u>	<u>55,279</u>	<u>13,973</u>	<u>15,227</u>

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.

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

	Clean Water		Drinking Water		Total Programs	
	2014	2013	2014	2013	2014	2013
Federal FY 2013 grant	\$ 33,996	—	11,775	—	45,771	—
Federal FY 2012 grant	11,996	35,988	4,183	12,549	16,179	48,537
Federal FY 2011 grant	—	12,534	—	4,600	—	17,134
Total grant revenue – EPA	<u>\$ 45,992</u>	<u>48,522</u>	<u>15,958</u>	<u>17,149</u>	<u>61,950</u>	<u>65,671</u>
State match – FY 2013 grant	\$ 9,065	—	3,140	—	12,205	—
State match – FY 2012 grant	—	9,597	—	3,346	—	12,943
State match – FY 2011 grant	—	—	—	56	—	56
Total grant revenue – state match	<u>\$ 9,065</u>	<u>9,597</u>	<u>3,140</u>	<u>3,402</u>	<u>12,205</u>	<u>12,999</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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Leveraged loans or bonds purchased	\$ 3,693,631	3,932,718
Direct loans	14,145	14,986
Interim loans	365,629	221,956
Principal forgiveness	<u>(166,980)</u>	<u>(184,174)</u>
Total loans receivable	3,906,425	3,985,486
Less current portion loans receivable	<u>437,317</u>	<u>274,421</u>
Long-term portion – loans receivable	<u><u>\$ 3,469,108</u></u>	<u><u>3,711,065</u></u>

The interim loan receivable balances were \$365,629 and \$221,956 as of June 30, 2014 and 2013, respectively. Additionally, the interim loan balances represent disbursements of construction funds of \$166,980 and \$184,174, 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.

Aggregate principal maturities on leveraged loans receivable or bonds purchased are as follows:

Years ending June 30:	
2015	\$ 237,872
2016	234,856
2017	239,777
2018	231,351
2019	236,794
2020–2024	1,084,454
2025–2029	793,325
2030–2034	439,178
2035–2039	159,011
2038–2043	<u>37,013</u>
Total leveraged loans or bonds purchased	<u><u>\$ 3,693,631</u></u>

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 \$496,000. This obligation of the Commonwealth to the Trust is a general obligation of the Commonwealth,

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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, 2014 and 2013:

	<u>Beginning balance, June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2014</u>	<u>Due within one year</u>
Water Pollution Abatement Revenue Bonds:					
MWRA Loan Program:					
Series 1993B, 4.3% to 5.25%, issued January 6, 1994, due 2000 to 2014	\$ 615	—	300	315	315
Series 1995A, 4.5% to 6.0%, issued November 21, 1995, due 2000 to 2015	70	—	70	—	—
Series 1998A, 4.0% to 5.375%, issued July 9, 1998, due 2000 to 2018	3,660	—	3,660	—	—
Series 2002A, 3.0% to 5.25% issued October 15, 2002, due 2003 to 2032	12,065	—	1,015	11,050	990
South Essex Sewage District Loan Program:					
Series 1994A, 5.3% to 6.375%, issued November 1, 1994, due 2001 to 2015	755	—	365	390	390
Series 1996A, 4.25% to 6.0%, issued December 5, 1996, due 2000 to 2016	2,010	—	545	1,465	575
New Bedford Loan Program:					
Series 1996A, 4.8% to 6.0%, issued July 10, 1996, due 2000 to 2016	1,515	—	730	785	515
Pool Loan Program:					
Series 1, 4.75% to 5.6%, issued July 14, 1993, due 2000 to 2013	23	—	23	—	—
Series 2, 4.9% to 6.125%, issued June 1, 1995, due 2001 to 2015	295	—	190	105	105
Series 3, 4.6% to 6.0%, issued April 29, 1997, due 2001 to 2017	85	—	85	—	—
Series 4, 4.0% to 5.125%, issued December 9, 1998, due 2000 to 2018	3,785	—	3,785	—	—
Series 6, 4.5% to 5.66% issued November 6, 2000, due 2001 to 2030	20,190	—	1,675	18,515	1,440

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	<u>Beginning balance, June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance, June 30, 2014</u>	<u>Due within one year</u>
Series 7, 3.0% to 5.25% issued July 15, 2001, due 2001 to 2031	\$ 8,630	—	560	8,070	470
Series 8, 3.0% to 5.0%, issued November 15, 2002, due 2003 to 2032	21,040	—	2,065	18,975	1,935
Series 9, 2.0% to 5.0%, issued October 10, 2003, due 2004 to 2033	72,260	—	24,420	47,840	12,825
Series 10, 2.5% to 5.25%, issued August 25, 2004, due 2005 to 2034	59,315	—	46,215	13,100	13,100
Series 11, 3.0% to 5.25%, issued October 19, 2005, due 2006 to 2035	78,995	—	11,975	67,020	12,340
Series 12, 3.0% to 5.25%, issued December 14, 2006, due 2007 to 2036	311,260	—	179,145	132,115	17,195
Series 13, 3.75% to 5.0%, issued December 18, 2007, due 2008 to 2037	295,790	—	295,790	—	—
Series 14, 1.0% to 5.0%, issued March 18, 2009, due 2009 to 2038	348,570	—	153,225	195,345	15,965
Series 15, 2.0% to 5.192%, issued July 8, 2010, due 2012 to 2040	415,665	—	16,080	399,585	16,605
Series 16A and B, 2.0% to 5.0%, issued June 13, 2012, due 2013 to 2032	240,585	—	6,500	234,085	8,955
Series 17A and B, 0.25% to 5.0%, issued May 22, 2013, due 2014 to 2043	202,250	—	8,160	194,090	7,330
Subordinated Revenue Refunding Bonds:					
New Bedford Loan Program:					
Series 1998A, 4.0% to 5.25%, issued December 23, 1998, due 2001 to 2026	36,460	—	36,460	—	—
MWRA Loan Program:					
Series 1999A, 4.2% to 6.0%, issued November 3, 1999, due 2000 to 2029	63,775	—	155	63,620	180

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2013	Additions	Reductions	Ending balance, June 30, 2014	Due within one year
Pool Program Refunding Bonds:					
Series A and B, 2.0% to 5.25%, issued August 25, 2004, due 2005 to 2028	\$ 541,680	—	167,785	373,895	63,915
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	188,860	—	13,525	175,335	13,445
Series 2010A, 3.0% to 5.0%, issued July 8, 2010 due 2014 to 2026	41,990	—	4,560	37,430	4,905
Series 2012A and B, 3.0% to 5.0%, issued June 13, 2012 due 2013 to 2032	130,835	—	13,075	117,760	12,045
Series 2014, 2.0% to 5.0%, issued June 12, 2014 due 2015 to 2028	—	565,610	—	565,610	—
Subtotal	3,511,243	565,610	992,138	3,084,715	205,540
Add: Unamortized bond premiums	259,765	102,558	58,028	304,295	—
Total bonds payable	\$ 3,771,008	668,168	1,050,166	3,389,010	205,540

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June 30, 2014 and 2013

(Dollars in thousands, unless noted)

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
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

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June 30, 2014 and 2013

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2012	Additions	Reductions	Ending balance, June 30, 2013	Due within one year
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
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 2032	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	—

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June 30, 2014 and 2013

(Dollars in thousands, unless noted)

	<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>
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	<u>130,835</u>	<u>—</u>	<u>—</u>	<u>130,835</u>	<u>13,075</u>
Subtotal	3,481,298	202,250	172,305	3,511,243	215,753
Add unamortized bond premiums	<u>233,905</u>	<u>40,407</u>	<u>14,547</u>	<u>259,765</u>	<u>—</u>
Total bonds payable	<u>\$ 3,715,203</u>	<u>242,657</u>	<u>186,852</u>	<u>3,771,008</u>	<u>215,753</u>

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 June 12, 2014, the Trust issued \$565,610 State Revolving Fund Refunding Bonds (at a true interest cost of 2.13%) to refund, \$2,760 of the Trust's Pool Program Series 4 bonds; \$12,050 of the Trust's Series 9 bonds; \$33,540 of the Trust's Pool Program Series 10 bonds; \$105,575 of the Trust's 2004B Refunding bonds; and \$2,800 of the Trust's MWRA Loan Program 1998A bonds. These bonds also advance refunded \$162,385 of the Trust's Pool Program Series 12 bonds; \$283,220 of the Trust's Pool Program Series 13 bonds; and \$137,595 of the Trust's Pool Program Series 14 bonds.

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June 30, 2014 and 2013

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The Trust used bond proceeds from the refunding bonds in addition to \$140,839 of proceeds received from liquidating its Series 13 debt service reserve fund U.S. government securities. 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 \$739,925, for a cash flow savings of \$123,115, resulting in an economic gain (net present value) of \$73,304. The reacquisition price exceeded the net carrying amount of the old debt by \$52,427. This accounting loss is being reported as deferred outflows of resources on the Statement of Net Position.

On January 13, 2014, the Trust used \$20,700 of proceeds received from terminating certain GIC investments with Portigon and program funds in the amount of \$16,500 to refund the Trust's Subordinate Revenue Refunding Bonds under the New Bedford Loan Program Series 1998A. The total debt defeased was \$36,460.

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 \$158,700 were applied to fund loans for projects under the clean water SRF and \$67,400 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 \$70,700 of direct loans for projects under the clean water SRF and \$27,100 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.

At June 30, 2014, 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:			
2015	\$ 339,999	205,540	134,459
2016	354,704	220,195	134,509
2017	337,290	212,250	125,040
2018	324,544	209,235	115,309
2019	311,909	207,045	104,864
2020–2024	1,316,306	938,985	377,321
2025–2029	819,333	638,890	180,443
2030–2034	383,659	317,745	65,914
2035–2039	125,029	106,775	18,254
2040–2043	30,448	28,055	2,393
	<u>4,343,221</u>	<u>3,084,715</u>	<u>1,258,506</u>
Total debt service requirements	\$ <u>4,343,221</u>	<u>3,084,715</u>	<u>1,258,506</u>

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In the current year and 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 been removed from the financial statements. The balances of bonds defeased “in substance” in the current year or prior years, and still outstanding as of June 30, 2014 are as follows:

Description	Redemption date	Outstanding principal amount	
		2014	2013
MWRA Loan Program:			
Series 1993B	November 3, 1999	\$ 6,145	11,975
Series 1995A	November 3, 1999	12,230	17,795
Series 1998A	November 3, 1999	39,790	46,680
Series 1998A	June 12, 2014	2,800	—
Pool Loan Program:			
Pool 9	December 14, 2006	\$ 139,560	139,560
Pool 9	June 12, 2014	12,050	—
Pool 10	December 14, 2006	168,620	168,620
Pool 10	June 12, 2014	33,540	—
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
Pool 12	June 12, 2014	162,385	—
Pool 13	June 12, 2014	283,220	—
Pool 14	June 12, 2014	137,595	—

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 acquisition price and the net carrying value of the defeased bonds are recorded in deferred outflows of resources on the Statement of Net Position.

Excess of reacquisition price over net carrying value of defeased bonds:

	2014	2013
Beginning balance	\$ 68,636	73,333
Additions	52,427	—
Reductions	(10,053)	(4,697)
Ending balance	\$ 111,010	68,636

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Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands, unless noted)

(7) Net Position

As of June 30, 2014 and 2013, the Trust has a restricted net position in the amount of \$1,718,052 and \$1,658,888, respectively, and an unrestricted net position in the amount of \$409,335 and \$412,005, 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, 2014 and 2013, the Trust has agreed to provide loans to various local government units amounting to approximately \$175,600 and \$53,200, 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 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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June 30, 2014 and 2013

(Dollars in thousands, unless noted)

Terms – Under the terms of these swaps, the Trust agrees to receive a variable rate, based on the Muni-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	2023
	Termination	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	46,605
Fair value at June 30, 2014	(865)	(1,341)
Fair value at June 30, 2013	(1,346)	(2,089)
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, 2014 and 2013, which means on the August 1, 2014 debt service payment date the Trust will make a payment to the swap counterparty. At June 30, 2014 and 2013, the fair value of these swaps is reflected as a liability for derivative instruments and deferred outflows 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, 2014 and 2013, 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 counterparty's

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Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands, unless noted)

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, 2014, the variable rate was calculated using the May 31, 2014 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 payments²	Total debt service
	Principal	Interest		
Fiscal year ending June 30:				
2015	\$ —	2,388	618	3,006
2016	—	2,388	618	3,006
2017	—	2,388	618	3,006
2018	—	2,388	618	3,006
2019	—	2,388	618	3,006
2020	—	2,388	618	3,006
2021	—	2,388	618	3,006
2022	—	2,388	618	3,006
2023	30,650	1,914	497	33,061
2024	46,605	720	188	47,513

¹ Calculated rate uses May 31, 2014 Muni-CPI rate to reflect debt service payment for August 1, 2014.

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

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Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands, unless noted)

(10) Deferred Outflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred outflows of resources:		
Derivative instruments (note 9)	\$ 2,206	3,435
Excess of reacquisition price over net carrying value of defeased bonds (note 6)	<u>111,010</u>	<u>68,636</u>
	<u>\$ 113,216</u>	<u>72,071</u>

Massachusetts Clean Water Trust

COMBINING FINANCIAL STATEMENTS AND SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2014 (With Comparative Amounts as of June 30, 2013)

NARRATIVE

Federally Capitalized State Revolving Fund – 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 also is 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 - 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 – is used to account for amounts received and expended from the Commonwealth Capitalized SRF.

General Operations Fund – is used to account for amounts received and expended for the general and administrative costs not applicable to the other three funds.

Supplemental Schedules Page

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 to provide information about the borrowers of the Trust’s lending programs. Schedules included are:

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
Schedule of SRF Loans Outstanding by Borrower (Unaudited).....	42-47

Massachusetts Clean Water Trust
Combining Schedule of Net Position (Unaudited)
June 30, 2014 (With Comparative Amounts as of June 30, 2013)
(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 6/30/2014	6/30/2013
Assets and deferred outflows:						
Current assets:						
Cash and cash equivalents	\$ 314,448	\$ 34,449	\$ 1,449	\$ 17,323	\$ 367,669	\$ 454,452
Short - term investments	22,558	575	-	20,443	43,576	43,248
Project fund investments	12,444	4,096	-	-	16,540	23,747
Grants receivable:						
U.S. Environmental Protection Agency	69,125	12,382	-	-	81,507	61,408
Loans receivable, net	328,716	108,551	-	50	437,317	274,421
Accrued interest receivable	44,492	14,028	-	-	58,520	61,287
Total current assets	791,783	174,081	1,449	37,816	1,005,129	918,563
Noncurrent assets:						
Project fund investments	-	-	-	-	-	58,992
Loans receivable, long-term	2,671,727	796,732	-	649	3,469,108	3,711,065
Long-term investments	807,605	222,294	-	-	1,029,899	1,262,224
Other assets	-	-	-	42	42	1,469
Total noncurrent assets	3,479,332	1,019,026	-	691	4,499,049	5,033,750
Deferred outflow of resources	89,146	24,070	-	-	113,216	72,071
Total assets and deferred outflow of resources	4,360,261	1,217,177	1,449	38,507	5,617,394	6,024,384
Liabilities:						
Current Liabilities:						
Accrued expenses and interest payable	41,990	11,759	-	577	54,326	68,061
Unearned revenue	20,852	7,213	-	-	28,065	28,385
Loan commitments and project funds payable	12,354	4,046	-	-	16,400	23,623
Long-term debt	156,486	49,054	-	-	205,540	215,753
Total current liabilities	231,682	72,072	-	577	304,331	335,822
Noncurrent Liabilities:						
Loan commitments and project funds payable	-	-	-	-	-	58,979
Liability for derivative instruments	1,462	744	-	-	2,206	3,435
Long-term debt, net	2,448,448	735,022	-	-	3,183,470	3,555,255
Total noncurrent liabilities	2,449,910	735,766	-	-	3,185,676	3,617,669
Total liabilities	2,681,592	807,838	-	577	3,490,007	3,953,491
Net Position:						
Restricted for program purposes	1,342,846	375,206	-	-	1,718,052	1,658,888
Unrestricted	335,823	34,133	1,449	37,930	409,335	412,005
Total Net Position	\$ 1,678,669	\$ 409,339	\$ 1,449	\$ 37,930	\$ 2,127,387	\$ 2,070,893

Massachusetts Clean Water Trust
Combining Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2014 (With Comparative Amounts as of June 30, 2013)
(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 6/30/2014	Combined Totals 6/30/2013
Operating revenues:						
Loan servicing fees	\$ -	\$ -	\$ -	\$ 5,137	\$ 5,137	\$ 5,288
Loan origination fees	-	-	-	19	19	1,698
Interest income	108,057	34,579	2	296	142,934	150,066
Contract assistance from Commonwealth of Massachusetts	28,233	4,155	-	-	32,388	33,895
Total operating revenues	136,290	38,734	2	5,452	180,478	190,947
Operating Expenses:						
Commonwealth of Massachusetts:						
Department of Environmental Protection - programmatic support costs	2,578	4,840	-	-	7,418	8,921
Principal forgiveness	3,493	4,074	-	-	7,567	12,335
General and administrative	-	-	-	7,860	7,860	5,046
InterFund transfers	8,970	(6,713)	-	(2,257)	-	-
Arbitrage rebate payments	166	-	-	-	166	6,725
Interest expense	120,165	34,151	-	-	154,316	169,595
Total operating expenses	135,372	36,352	-	5,603	177,327	202,622
Operating income (loss)	918	2,382	2	(151)	3,151	(11,675)
Nonoperating revenue:						
Capitalization Grant Revenue:						
U.S. Environmental Protection Agency capitalization grants	45,992	15,958	-	-	61,950	65,671
Commonwealth of Massachusetts matching grants	9,065	3,140	-	-	12,205	12,999
Total nonoperating revenues	55,057	19,098	-	-	74,155	78,670
Nonoperating expense:						
Return of Commonwealth initial investment	-	-	20,812	-	20,812	-
Total nonoperating expense	-	-	20,812	-	20,812	-
Increase in net position	55,975	21,480	(20,810)	(151)	56,494	66,995
Net position - beginning of year	1,622,694	387,859	\$ 22,259	38,081	2,070,893	2,003,898
Net position - end of year	\$ 1,678,669	\$ 409,339	\$ 1,449	\$ 37,930	\$ 2,127,387	\$ 2,070,893

MASSACHUSETTS CLEAN WATER TRUST

Five Year Schedule of Fifteen Largest Borrowers (Unaudited)

For fiscal years ending June 30, 2010 through June 30, 2014
(in thousands)

BORROWER NAME	June 30, 2014		June 30, 2013		June 30, 2012		June 30, 2011		June 30, 2010	
	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	1,031,168	27.81%	1,076,575	27.27%	1,086,783	28.04%	1,070,963	29.34%	1,055,425	31.70%
Upper Blackstone WPAD	143,835	3.88%	150,230	3.81%	154,667	3.99%	138,240	3.79%	112,521	3.38%
Fall River	138,007	3.72%	143,870	3.64%	141,885	3.66%	143,748	3.94%	145,141	4.36%
New Bedford	121,929	3.29%	129,260	3.27%	136,078	3.51%	130,380	3.57%	130,038	3.91%
Lowell	94,651	2.55%	82,578	2.09%	82,505	2.13%	73,044	2.00%	59,970	1.80%
Brockton	90,276	2.43%	97,143	2.46%	100,223	2.59%	101,514	2.78%	95,149	2.86%
Chicopee	79,097	2.13%	81,968	2.08%	61,471	1.59%	53,484	1.47%	41,941	1.26%
Taunton	78,612	2.12%	84,558	2.14%	79,129	2.04%	66,053	1.81%	43,242	1.30%
Gloucester	55,798	1.50%	61,761	1.56%	50,280	1.30%	52,860	1.45%	35,224	1.06%
Springfield Water & Sewer Commission	53,150	1.43%	56,100	1.42%	56,086	1.45%	42,816	1.17%	34,247	1.03%
Nantucket	52,630	1.42%	54,946	1.39%	56,681	1.46%	58,838	1.61%	57,672	1.73%
Framingham	49,798	1.34%	52,294	1.32%	52,099	1.34%	31,772	0.87%	32,378	0.97%
Lynn Water & Sewer Commission	48,812	1.32%	52,006	1.32%	55,104	1.42%	58,114	1.59%	61,075	1.83%
Newburyport	46,289	1.25%	48,385	1.23%	29,107	0.75%	15,421	0.42%	15,912	0.48%
Westborough	45,836	1.24%	48,287	1.22%	49,221	1.27%	19,465	0.53%	19,646	0.59%
Total all others	1,577,887.20	42.57%	1,727,743	43.78%	1,685,158	43.46%	1,594,068	43.66%	1,389,555	41.74%
TOTALS AS OF FISCAL YEAR END	3,707,776	100%	3,947,704	100%	3,876,477	100%	3,650,780	100%	3,329,136	100%

MASSACHUSETTS CLEAN WATER TRUST
Schedule of SRF Loans Outstanding By Borrower
June 30, 2014

<u>Borrower Name</u>	<u>Loans Outstanding as of June 30, 2014</u>	<u>% of Total Loans Outstanding</u>
Abington	\$ 4,223,238	0.11%
Acton	16,792,282	0.45
Acushnet	3,067,093	0.08
Adams	1,867,393	0.05
Adams Fire District	1,902,836	0.05
Agawam	1,508,182	0.04
Amesbury	19,353,771	0.52
Amherst	31,355	0.00
Andover	3,743,569	0.10
Aquarion Water Company of Massachusetts	1,920,000	0.05
Ashburnham	3,162,257	0.09
Ashfield Water District	240,000	0.01
Ashland	4,655,920	0.13
Athol	6,154,166	0.17
Attleboro	28,141,237	0.76
Auburn	271,239	0.01
Auburn Water District	1,705,729	0.05
Avon	964,690	0.03
Ayer	115,815	0.00
Barnstable County	16,050,000	0.43
Barnstable	25,246,192	0.68
Barre	56,265	0.00
Belchertown	8,521,277	0.23
Bellingham	808,069	0.02
Belmont	7,852,637	0.21
Berlin	63,686	0.00
Bernardston	35,018	0.00
Beverly	417,022	0.01
Billerica	25,261,840	0.68
Blackstone	24,958	0.00
Boston	4,810,000	0.13
Bourne	301,014	0.01
Boxford	73,249	0.00
Boylston	51,895	0.00
Brewster	172,125	0.00
Bridgewater	2,031,497	0.06
Bristol County	1,055,504	0.03
Brockton	90,275,621	2.44
Brockton Sewer Enterprise System	674,991	0.02
Brookfield	51,089	0.00
Buckland	281,100	0.01
Burlington	5,646,818	0.15
Boston Water and Sewer Commission	2,974,209	0.08
Cambridge	9,589,226	0.26
Canton	3,274,755	0.09
Carver	33,301	0.00
Charlton	11,752,660	0.32
Chatham	12,341,827	0.33
Chelmsford	34,648,198	0.94
Chelmsford Water District	3,136,126	0.08
Chelsea	214,196	0.01

<u>Borrower Name</u>	Loans Outstanding as of <u>June 30, 2014</u>	% of Total Loans Outstanding
Cherry Valley Water District	\$ 607,333.50	0.02%
Chesterfield	229,887	0.01
Chicopee	79,097,104	2.14
Clarksburg	135,000	0.00
Clinton	6,170,132	0.17
Cohasset	28,636,843	0.78
Colrain	22,159	0.00
Centerville/Osterville Fire District	2,084,409	0.06
Concord	11,258,767	0.30
Conway	14,088	0.00
Charles River Pollution Control District	8,337,671	0.23
Danvers	19,730,666	0.53
Dartmouth	16,385,771	0.44
Dedham	1,113,031	0.03
Deerfield Fire District	574,387	0.02
Dennis	219,525	0.01
Dennis Water District	5,862,992	0.16
Dighton	105,562	0.00
Dighton-Rehoboth Regional School District	501,671	0.01
Dighton Water District	4,931,797	0.13
Douglas	4,084,524	0.11
Dover	72,600	0.00
Dracut	27,594,938	0.75
Dracut Water Supply District	397,566	0.01
Dudley	263,690	0.01
Duxbury	2,719,380	0.07
Eastham	192,600	0.01
Easthampton	4,414,202	0.12
Easton	5,000,099	0.14
East Bridgewater	14,340,621	0.39
East Longmeadow	432,013	0.01
Erving	3,534,420	0.10
Essex	14,534,353	0.39
Everett	3,136,042	0.08
Fairhaven	887,489	0.02
Fall River	138,007,183	3.74
Falmouth	15,810,568	0.43
Fitchburg	30,337,778	0.82
Foxborough	4,854,967	0.13
Framingham	49,797,872	1.35
Franklin	3,569,424	0.10
Gardner	5,809,262	0.16
Georgetown	1,102,444	0.03
Gill	13,637	0.00
Gloucester	55,798,099	1.51
Greater Lawrence Sanitary District	23,274,674	0.63
Grafton	25,066	0.00
Granby	60,869	0.00
Great Barrington	120,000	0.00
Greenfield	2,762,175	0.07
Groton	3,916,840	0.11
Hadley	3,754,702	0.10
Halifax	192,600	0.01
Hanover	149,340	0.00
Hanson	1,133,130	0.03
Hardwick	9,252	0.00
Harvard	2,437,621	0.07
Harwich	139,272	0.00

<u>Borrower Name</u>	Loans Outstanding as of <u>June 30, 2014</u>	% of Total Loans Outstanding
Hatfield	\$ 428,988.00	0.01%
Haverhill	27,003,910	0.73
Hillcrest Sewer District	1,922,624	0.05
Hingham	1,344,727	0.04
Hinsdale	1,850,000	0.05
Holbrook	10,018,589	0.27
Holden	9,381,788	0.25
Holland	60,000	0.00
Holliston	90,000	0.00
Holyoke	15,796,903	0.43
Hopedale	779,397	0.02
Hopkinton	12,144,987	0.33
Hudson	14,698,630	0.40
Hull	3,124,529	0.08
Hoosac Water Quality District	5,295,144	0.14
Ipswich	3,545,680	0.10
Kingston	27,447,410	0.74
Lakeville	3,242,845	0.09
Lancaster	72,428	0.00
Lanesborough Village Fire & Water District	1,585,000	0.04
Lawrence	27,414,989	0.74
Lee	14,577,704	0.39
Leicester	176,417	0.00
Leicester Water Supply District	255,404	0.01
Lenox	583,712	0.02
Leominster	33,203,520	0.90
Lexington	16,317	0.00
Lincoln	2,105,000	0.06
Littleton	107,840	0.00
Longmeadow	2,733,969	0.07
Lowell	94,651,056	2.56
Ludlow	4,124,069	0.11
Lunenburg	5,588,462	0.15
Lunenburg Water District	3,625,427	0.10
Lynn Water and Sewer Commission	48,812,415	1.32
Lynnfield	480,819	0.01
Malden	9,764,457	0.26
Manchester	1,705,271	0.05
Mansfield	25,926,406	0.70
Marion	16,522,289	0.45
Marlborough	40,756,251	1.10
Marshfield	11,578,873	0.31
Mashpee	744,254	0.02
Mattapoisett	11,112,629	0.30
Maynard	11,363,367	0.31
Massachusetts Development Finance Agency	10,508,872	0.28
Medfield	1,378,907	0.04
Medway	70,466	0.00
Melrose	2,631,476	0.07
Mendon	33,301	0.00
Merrimac	93,301	0.00
Methuen	20,323,337	0.55
Middleboro	1,509,748	0.04
Middleton	61,613	0.00
Millbury	21,155,540	0.57
Millville	387,966	0.01
Milton	251,063	0.01

<u>Borrower Name</u>	<u>Loans Outstanding as of June 30, 2014</u>	<u>% of Total Loans Outstanding</u>
Monson	\$ 1,367,510.82	0.04%
Montague	2,578,641	0.07
Monterey	29,477	0.00
Mattapoissett River Valley Water District	10,675,448	0.29
Massachusetts Water Resources Authority	1,031,168,333	27.92
North Adams	1,017,383	0.03
North Andover	6,664,852	0.18
Nantucket	52,630,146	1.42
Natick	3,534,843	0.10
North Attleboro	22,922,820	0.62
North Brookfield	2,035,000	0.06
Needham	7,294,132	0.20
New Bedford	121,928,799	3.30
Newbury	7,941,267	0.21
Newburyport	46,289,355	1.25
Newton	6,427,400	0.17
Norfolk	443,209	0.01
Northampton	20,100,423	0.54
Northborough	394,550	0.01
Northbridge	3,914,516	0.11
Norton	2,001,994	0.05
Norwell	216,399	0.01
Norwood	4,027,297	0.11
North Raynham Water District	3,349,060	0.09
North Reading	411,979	0.01
North Sagamore Water District	1,314,235	0.04
Oak Bluffs	8,798,409	0.24
Orange	427,712	0.01
Orleans	60,000	0.00
Palmer	7,549,506	0.20
Paxton	53,733	0.00
Pembroke	3,470,300	0.09
Pepperell	3,004,139	0.08
Phillipston	53,724	0.00
Pittsfield	5,613,146	0.15
Plainville	3,261,687	0.09
Plymouth	19,822,295	0.54
Plympton	22,556	0.00
Provincetown	14,835,440	0.40
Quincy	10,194,524	0.28
Randolph	12,734,744	0.34
Raynham	6,840,498	0.19
Reading	8,133	0.00
Revere	11,318,652	0.31
Richmond	2,301,181	0.06
Rockland	3,446,639	0.09
Rowley	11,183,135	0.30
Royalston	17,160	0.00
Russell	295,000	0.01
Rutland	26,935	0.00
Salem	1,621,303	0.04
Salisbury	2,805,917	0.08
Sandwich	175,547	0.00
Saugus	10,585,243	0.29
Scituate	17,392,919	0.47
South Deerfield Water Supply District	1,565,000	0.04
Seekonk	1,365,898	0.04
Seekonk Water District	3,080,326	0.08

<u>Borrower Name</u>	Loans Outstanding as of June 30, 2014	% of Total Loans Outstanding
South Essex Sewer District	\$ 28,118,155.07	0.84%
South Grafton Water District	1,663,249	0.05
South Hadley	4,268,107	0.12
South Hadley Fire District #1	693,301	0.02
Sharon	130,362	0.00
Shirley	6,583,480	0.18
Shrewsbury	1,263,221	0.03
Shutesbury	207,312	0.01
Somerset	5,963,153	0.16
Southampton	1,352,600	0.04
Southborough	665,499	0.02
Southbridge	14,119,063	0.38
Southwick	22,290	0.00
Spencer	6,036,663	0.16
Springfield	417,046	0.01
Sterling	818,495	0.02
Stockbridge	5,735,022	0.16
Stoughton	2,155,215	0.06
Stow	559,169	0.02
Sturbridge	15,967,441	0.43
Sunderland	30,470	0.00
Sutton	5,098,662	0.14
Swampscott	268,179	0.01
Swansea	214,411	0.01
Swansea Water District	16,012,897	0.43
Springfield Water & Sewer Commission	53,150,037	1.44
Taunton	78,611,791	2.13
Templeton	5,224,044	0.14
Tewksbury	5,859,361	0.16
Tisbury	4,275,319	0.12
Townsend	1,420,725	0.04
Truro	72,600	0.00
Tyngsborough	1,630,092	0.04
Upper Blackstone Water Pollution Abatement District	143,835,213	3.89
Upton	1,542,600	0.04
Wakefield	1,455,012	0.04
Walpole	6,034,077	0.16
Waltham	2,791,525	0.08
Ware	278,900	0.01
Wareham	27,373,719	0.74
Warren Water District	160,000	0.00
Wayland	394,231	0.01
West Boylston	6,520,322	0.18
West Boylston Water District	913,813	0.02
West Bridgewater	668,244	0.02
Webster	11,366,513	0.31
Wellfleet	625,000	0.02
Westborough	46,050,057	1.25
Westfield	12,730,569	0.34
Westford	8,960,817	0.24
Westminster	74,526	0.00
Westwood	964,300	0.03
Weymouth	32,563,588	0.88
West Groton Water Supply District	1,030,907	0.03
Whitman	4,194,020	0.11
Wilbraham	3,484,507	0.09
Wilmington	225,657	0.01
Winchendon	8,637,726	0.23

<u>Borrower Name</u>	<u>Loans Outstanding as of June 30, 2014</u>	<u>% of Total Loans Outstanding</u>
Winchester	\$ 20,028.35	0.00%
Windbrook Acres	200,000	0.01
West Newbury	190,018	0.01
Woburn	13,929,587	0.38
Worcester	6,371,312	0.17
Wrentham	2,224,034	0.06
West Springfield	8,225,624	0.22
West Stockbridge	335,000	0.01
Yarmouth	1,624,501	0.04
Total	<u>\$ 3,693,631,173</u>	<u>100.00%</u>
Clean Water Program	\$ 2,843,033,352	
Drinking Water Program	\$ 850,597,821	



III - STATISTICAL SECTION

**Comprehensive Annual Financial Report
as of and for the Years Ended June 30, 2014 and June 30, 2013
and Independent Auditors' Report**



MASSACHUSETTS
CLEAN WATER TRUST

Statistical Section – Table of Contents
(Unaudited)

Page

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 operations. 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
Ten Year Schedule of Massachusetts and United States Resident Population.....	10
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Ten Year Schedule of Total Net Debt, Massachusetts Resident Population and Debt Per Capita.....	12
Largest Private Sector Massachusetts Employers 2014 and 2005.....	13

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Changes in Net Position

For fiscal years ending June 30, 2005 through June 30, 2014

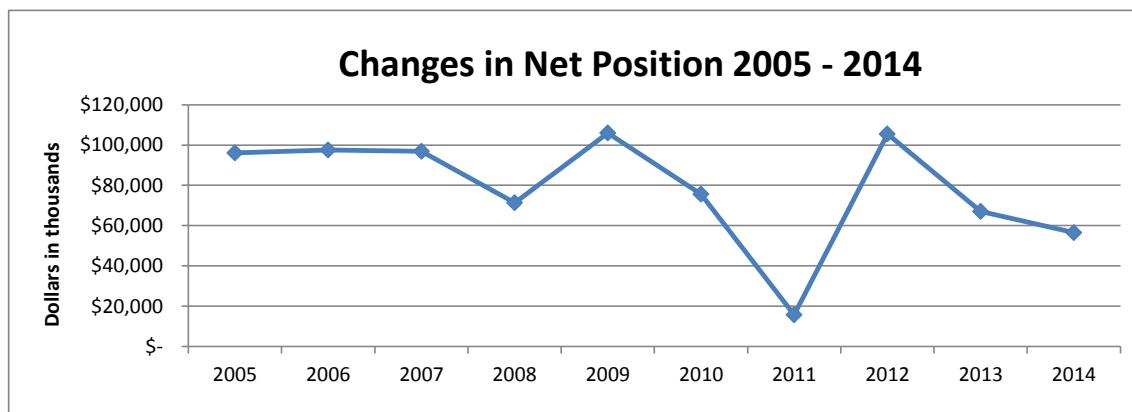
(in thousands)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Operating Assistance	Income (Loss) before Capital Contributions	Capitalization Grant	Increase in Net Position
2014	\$ 180,478	\$ 198,139 ***	\$ (17,661)	\$ -	\$ (17,661)	\$ 74,155	\$ 56,494
2013 **	190,947	202,622 *	(11,675)	-	(11,675)	78,670	66,995
2012 **	260,252	237,858 *	22,394	-	22,394	83,077	105,471
2011 **	201,146	273,500 *	(72,354)	-	(72,354)	88,050	15,696
2010	175,720	278,199 *	(102,479)	-	(102,479)	178,096	75,617
2009	194,359	192,139	2,220	-	2,220	103,748	105,968
2008	195,247	186,632	8,615	-	8,615	62,782	71,397
2007	184,646	154,527	30,119	7,853	37,972	58,873	96,845
2006	167,065	151,565	15,500	8,507	24,007	73,524	97,531
2005	174,249	173,396	853	10,983	11,836	84,269	96,105

* Includes a \$7.6 million, \$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, 2014, 2013, 2012, 2011 and 2010, respectively.

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

*** Includes \$20.8 million nonoperating expense, which represents the return to the Commonwealth of its investment in the Commonwealth Program.

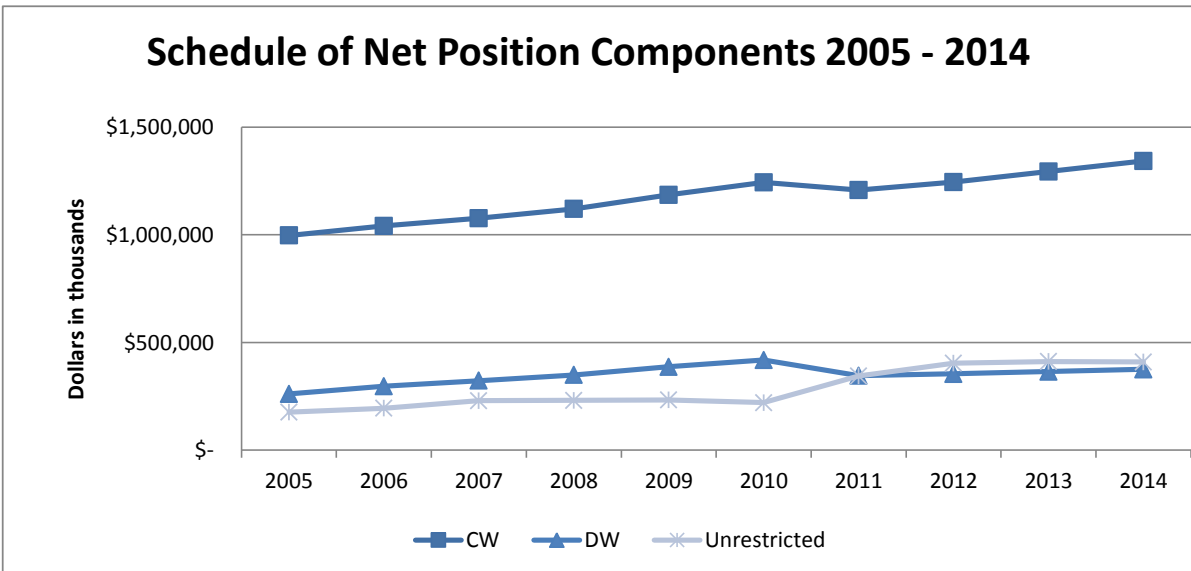


MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Net Position Components For fiscal years ending June 30, 2005 through June 30, 2014 (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>
2014	\$ 1,342,846	\$ 375,206	\$ 1,718,052	\$ 409,335	\$ 2,127,387
2013	1,293,838	365,050	1,658,888	412,005	2,070,893
2012 **	1,245,659	354,383	1,600,042	403,856	2,003,898
2011 **	1,207,423	346,412	1,553,835	344,592	1,898,427
2010	1,243,728	418,378	1,662,106	220,624	1,882,730
2009	1,186,119	387,472	1,573,591	233,522	1,807,113
2008	1,120,509	349,333	1,469,842	231,303	1,701,145
2007	1,076,902	322,890	1,399,792	229,956	1,629,748
2006	1,041,224	296,447	1,337,671	195,232	1,532,903
2005	997,321	260,902	1,258,223	177,149	1,435,372

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



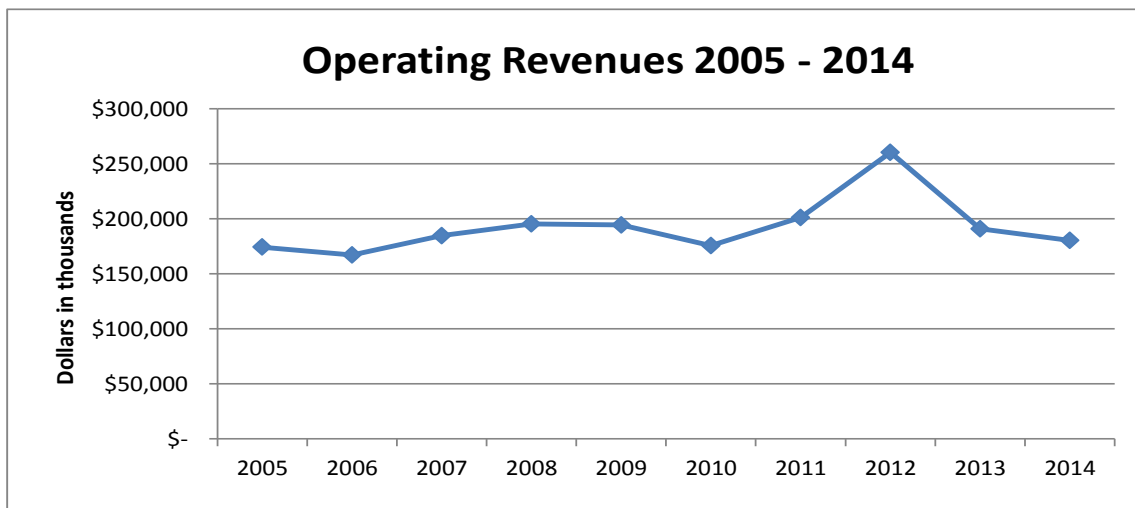
MASSACHUSETTS CLEAN WATER TRUST
Ten Year Combined Schedule of Operating Revenues by Source
For fiscal years ending June 30, 2005 through June 30, 2014
(in thousands)

OPERATING REVENUES

Fiscal Year	Loan Servicing Fees	Loan Origination Fees	Interest Income *	Total Operating Revenues
2014	\$ 5,137	\$ 19	\$ 175,322	\$ 180,478
2013	5,288	1,698	183,961	190,947
2012	5,270	2,243	252,739 **	260,252
2011	5,209	129	195,808	201,146
2010	5,092	89	170,539	175,720
2009	1,557	165	192,637	194,359
2008	4,320	1,760	189,167	195,247
2007	3,914	1,387	179,345	184,646
2006	3,646	28	163,391	167,065
2005	3,407	196	170,646	174,249

* 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 CLEAN WATER TRUST

Ten Year Debt Schedule
For fiscal years ending June 30, 2005 through June 30, 2014
(in thousands)

	June 30, 2014	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
Water Pollution Abatement Revenue Bonds:										
Massachusetts Water Resources Authority Loan Program	\$ 11,365	\$ 16,410	\$ 22,370	\$ 48,200	\$ 54,545	\$ 63,315	\$ 70,350	\$ 77,520	\$ 115,700	\$ 123,095
South Essex Sewerage District Loan Program	1,855	2,765	3,780	5,015	6,440	8,030	9,775	11,645	13,625	15,705
New Bedford Loan Program	785	1,515	2,405	3,440	4,605	5,890	7,280	8,770	10,340	11,985
Pool Loan Program	1,328,845	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
Subtotal Revenue Bonds	1,342,850	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
Subordinated Revenue Refunding Bonds:										
Massachusetts Water Resources Authority Loan Program	63,620	63,775	63,775	63,775	63,775	261,170	272,450	283,005	292,850	302,085
New Bedford Loan Program	-	36,460	40,850	44,935	94,935	98,500	101,845	104,980	107,920	110,675
Pool Loan Program	1,678,245	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	1,741,865	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
Total Bonds Payable	3,084,715	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
Add (deduct) unamortized amounts:										
Bond premium	304,295	259,765	233,905	211,862	194,122	185,723	171,664	157,254	120,749	114,860
* 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)
Total Bonds Payable, net	\$ 3,389,010	\$ 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

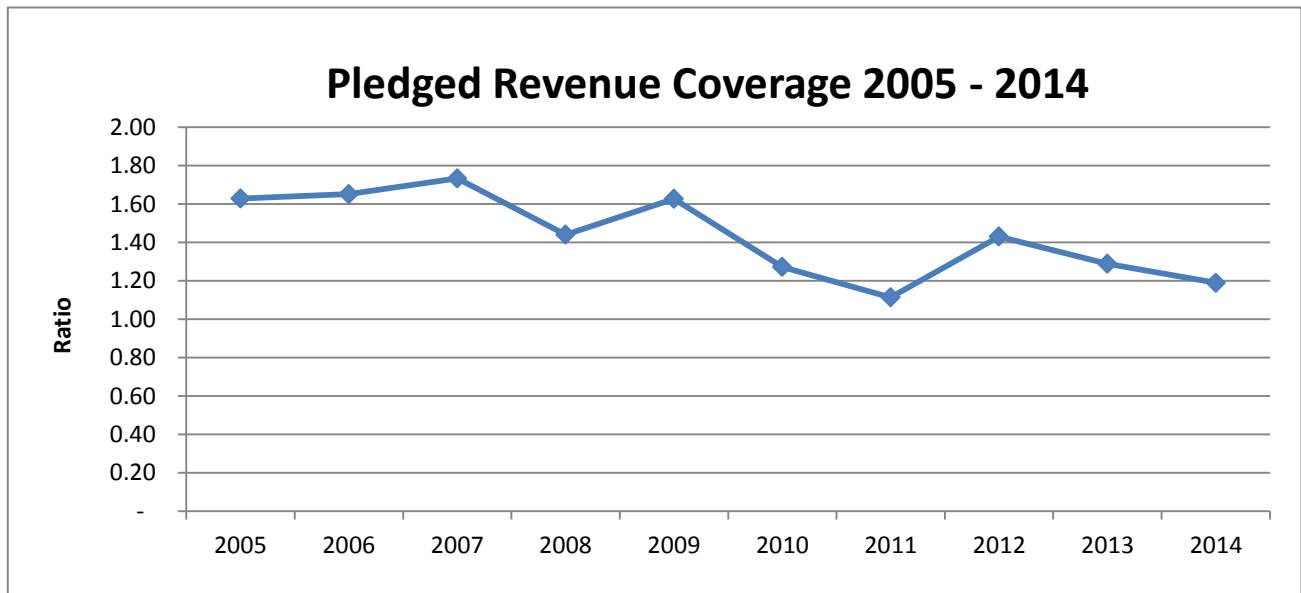
* Net Bonds Payable restated after the implementation of GASB 65, Items Previously Reported as Assets and Liabilities, which resulted in the write off of bond issuance costs as of July 1, 2011.

MASSACHUSETTS CLEAN WATER TRUST
Ten Year Schedule of Pledged Revenue Coverage
For fiscal years ending June 30, 2005 through June 30, 2014
(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	Debt Service Requirements			Coverage ratio
					Principal	Interest	Total Debt Service	
2014	\$ 56,494	\$ 62,491	\$ 332,531	\$ 451,516	\$ 215,753	\$ 163,928	\$ 379,681	1.19
2013	66,995	62,811	305,125	434,931	172,306	165,171	337,477	1.29
2012 **	105,471	64,986	338,173	508,630	183,102	172,561	355,663	1.43
2011 **	15,696	66,093	296,303	378,092	168,319	171,296	339,615	1.11
2010	75,617	67,262	295,797	438,676	175,090	169,777	344,867	1.27
2009	105,968	66,856	355,589	528,413	152,243	172,697	324,940	1.63
2008	71,397	67,489	287,235	426,121	139,393	156,479	295,872	1.44
2007	96,845	64,014	282,248	443,107	122,045	133,579	255,624	1.73
2006	97,531	63,979	233,625	395,135	111,655	127,699	239,354	1.65
2005	96,105	62,072	211,973	370,150	99,260	128,172	227,432	1.63

* 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 CLEAN WATER TRUST

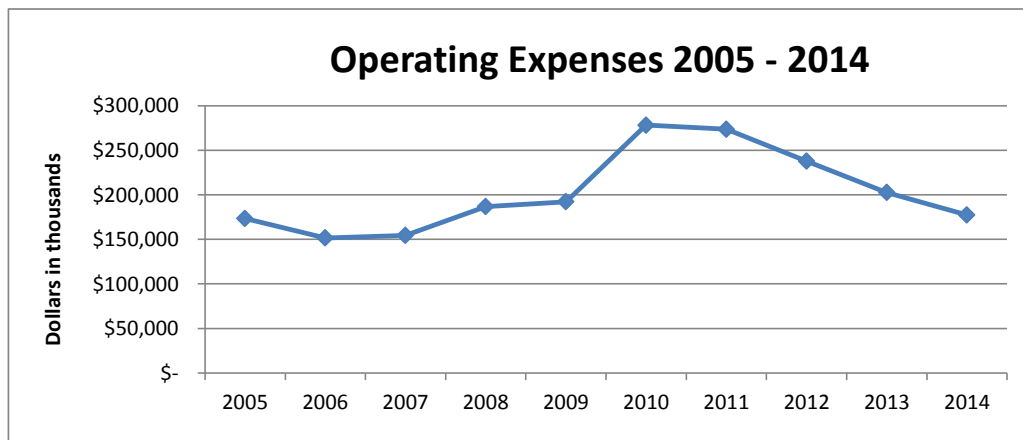
Ten Year Combined Schedule of Operating Expenses For fiscal years ending June 30, 2005 through June 30, 2014 (in thousands)

OPERATING EXPENSES

Fiscal Year	DEP Programmatic Support Costs	General and Adminstrative	Arbitrage Rebate Payments	Interest Expense	Grant Disbursement	Total Operating Expenses
2014	\$ 7,418	\$ 7,860	\$ 166	\$ 154,316	\$ 7,567 *	\$ 177,327
2013	8,921	5,046 **	6,725	169,595	12,335 *	202,622
2012	11,369	8,440 **	10,487	173,869	33,693 *	237,858
2011	10,482	8,843 **	1,122	182,035	71,018 *	273,500
2010	12,168	4,754	972	170,724	89,581 *	278,199
2009	8,711	4,232	1,979	177,217	-	192,139
2008	10,834	2,493	267	173,038	-	186,632
2007	16,602	4,511	3,886	129,528	-	154,527
2006	15,306	1,145	1,035	134,079	-	151,565
2005	13,215	1,362	1,526	136,457	20,836	173,396

* 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 CLEAN WATER TRUST

Ten Year Schedule of Full Time Equivalent Employees

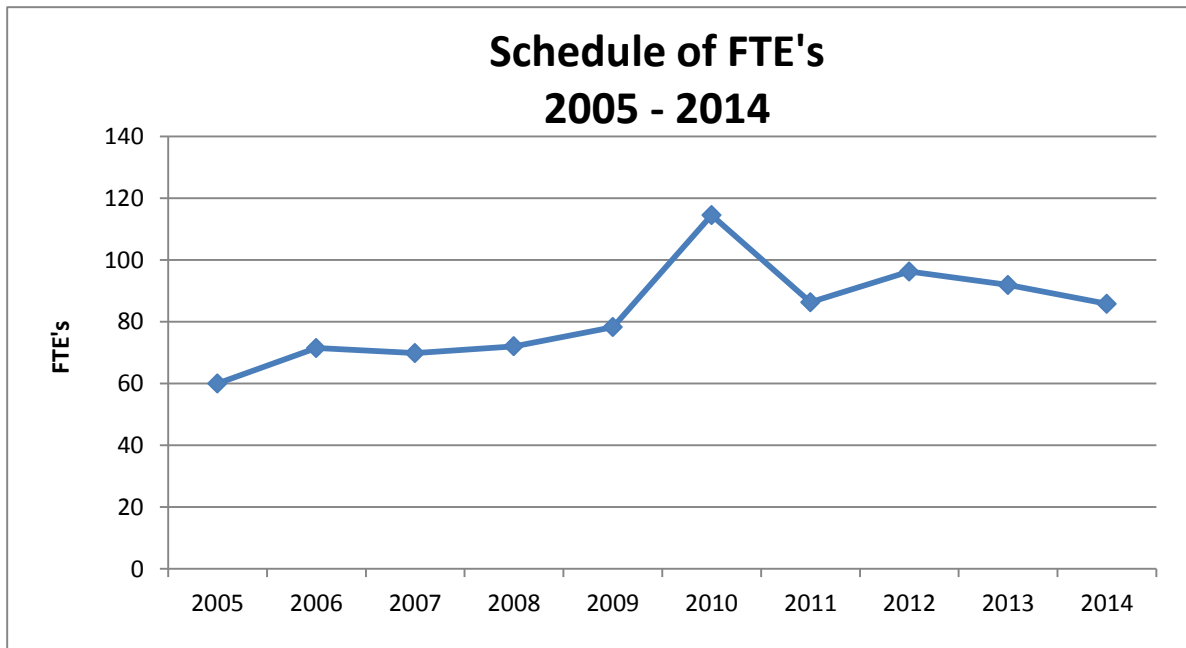
By Program and Agency

For fiscal years ending June 30, 2005 through June 30, 2014

<u>Year</u>	<u>MCWT - Administrative</u>	<u>DEP - Clean Water Program</u>	<u>DEP - Drinking Water Program</u>	<u>DEP - Admin Expendable Trust</u>	<u>Total</u>
2014	9.25	21.66	45.01	9.92	85.84
2013	9.75	21.49	50.17	10.50	91.91
2012	9.78	22.00	50.19	14.27	96.24
2011	9.27	21.50	51.77	3.79	86.33
2010	9.70	29.43	68.02	7.42	114.57
2009	8.50	9.15	37.50	23.14	78.29
2008	7.00	15.10	41.62	8.34	72.06
2007	7.00	17.48	45.40	0.00	69.88
2006	5.50	17.23	48.78	0.00	71.51
2005	6.00	12.44	41.58	0.00	60.02

MCWT - Mass Clean Water Trust

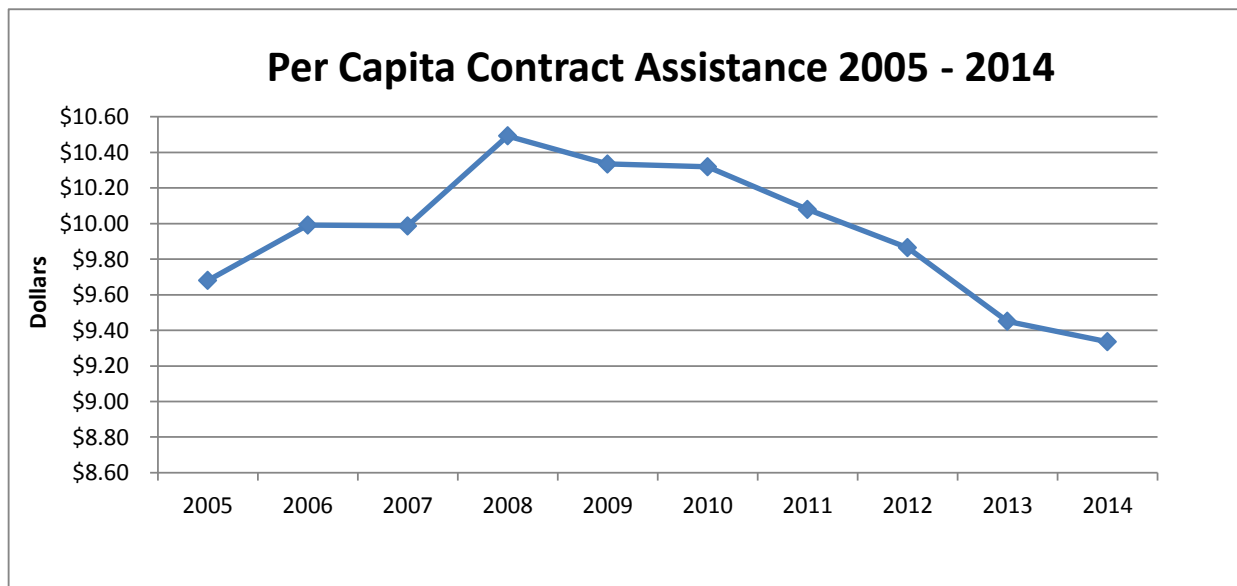
DEP - Department of Environmental Protection



MASSACHUSETTS CLEAN WATER 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, 2005 through June 30, 2014

Fiscal year ending June 30	Contract assistance provided (in thousands)	Population estimates ⁽¹⁾ (in thousands)	Per capita Contract assistance
2014	\$ 62,491	6,693	\$ 9.34
2013	62,811	6,646	9.45
2012	64,986	6,588	9.86
2011	66,093	6,557	10.08
2010	67,262	6,518	10.32
2009	66,856	6,469	10.33
2008	67,489	6,432	10.49
2007	64,014	6,410	9.99
2006	63,979	6,403	9.99
2005	62,072	6,412	9.68

(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).



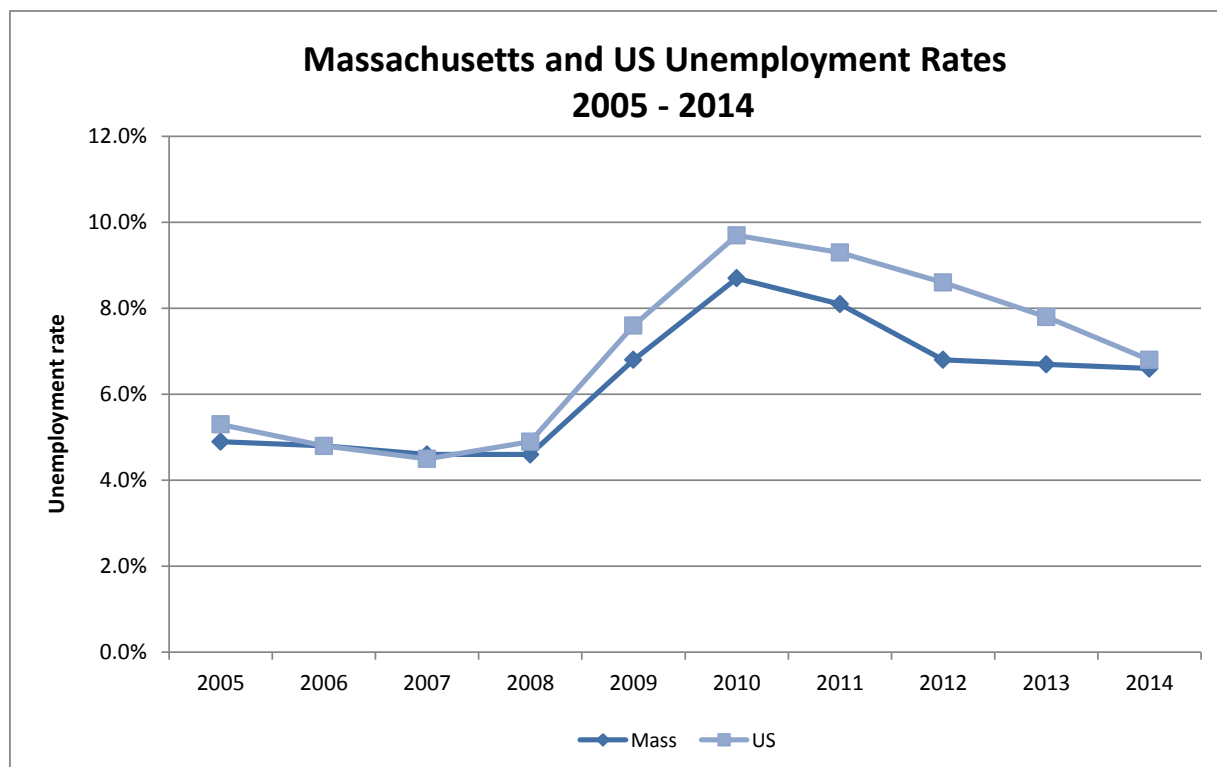
MASSACHUSETTS CLEAN WATER TRUST

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 %	
2014	3,492	232	6.6%	155,466	10,534	6.8%	98.1%
2013	3,477	232	6.7%	155,337	12,092	7.8%	85.7%
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.5%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.4%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%

Source-Federal Bureau of Labor Statistics, August 2013. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.



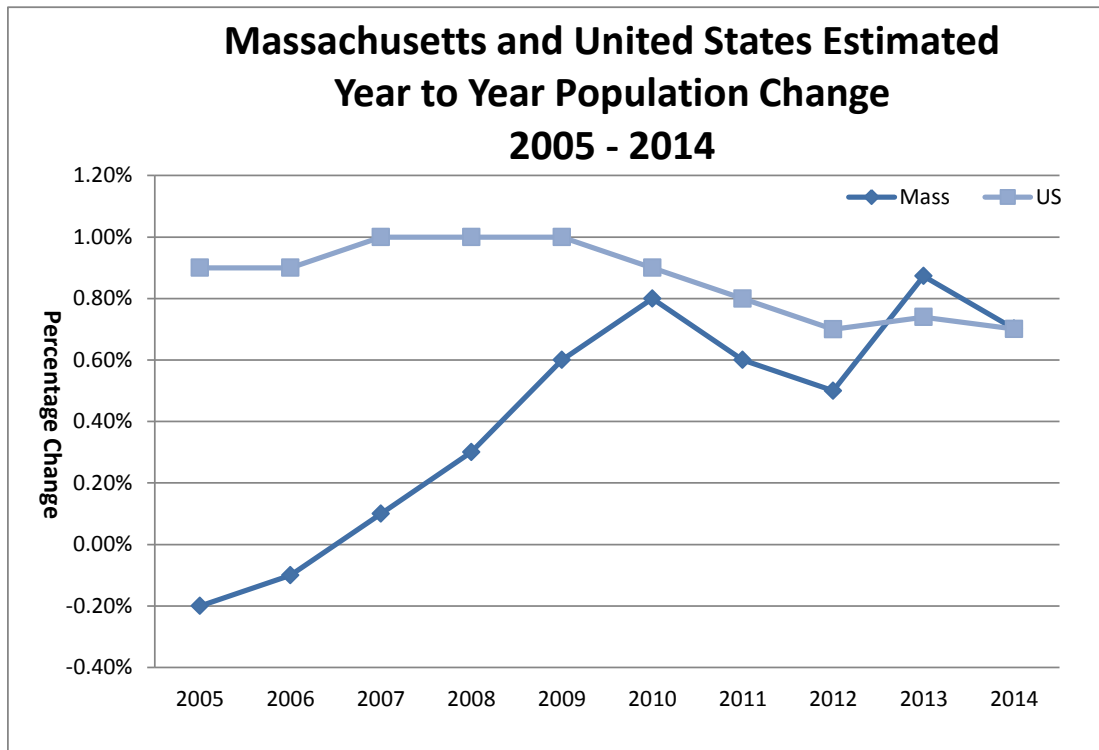
MASSACHUSETTS CLEAN WATER TRUST

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.
2014	316,129	0.7%	6,693	0.7%	2.1%
2013	313,914	0.7%	6,646	0.9%	2.1%
2012	311,592	0.7%	6,588	0.5%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%

⁽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).

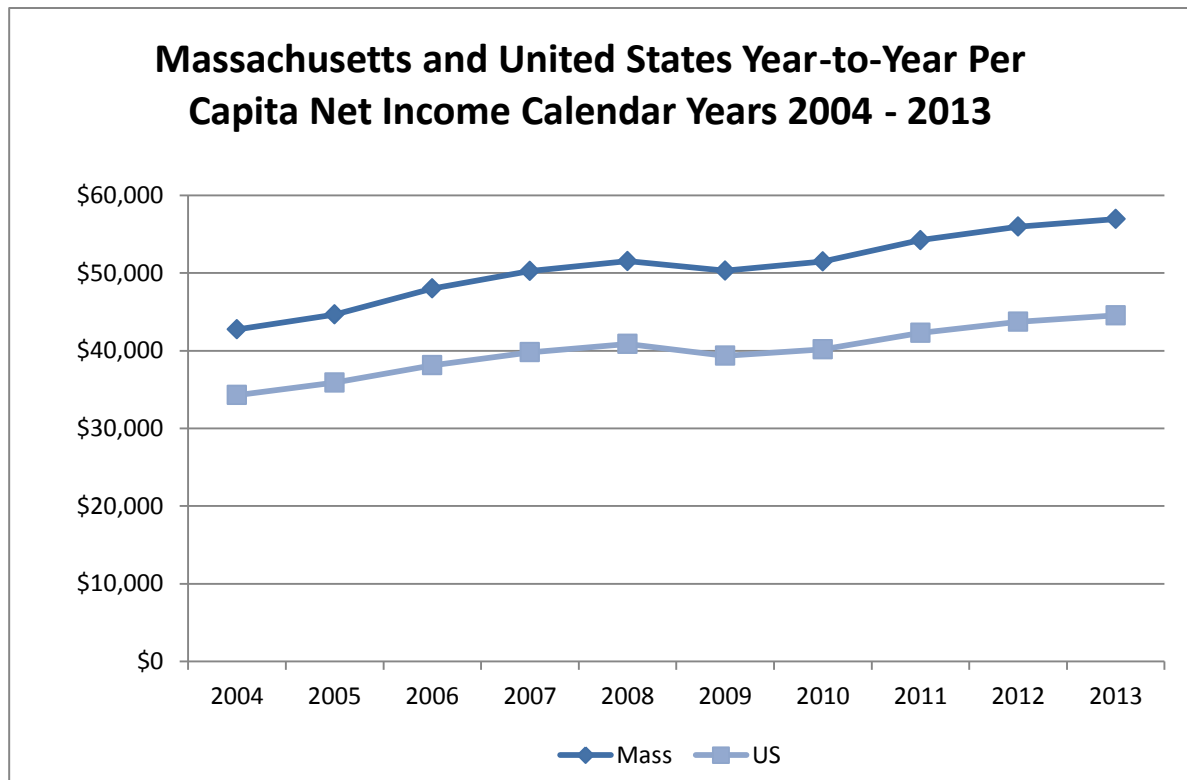


MASSACHUSETTS CLEAN WATER TRUST

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.
2013	\$ 44,543	1.8%	\$ 56,923	1.7%	127.8%
2012	43,735	3.4%	55,976	3.2%	128.0%
2011	42,298	5.3%	54,218	5.3%	128.2%
2010	40,163	2.0%	51,488	2.4%	128.2%
2009	39,357	-3.7%	50,304	-2.4%	127.8%
2008	40,873	2.7%	51,515	2.5%	126.0%
2007	39,804	4.4%	50,257	4.7%	126.3%
2006	38,127	6.2%	47,993	7.5%	125.9%
2005	35,888	4.6%	44,646	4.5%	124.4%
2004	34,300	5.0%	42,726	5.2%	124.6%

⁽¹⁾ Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released May 30, 2014.

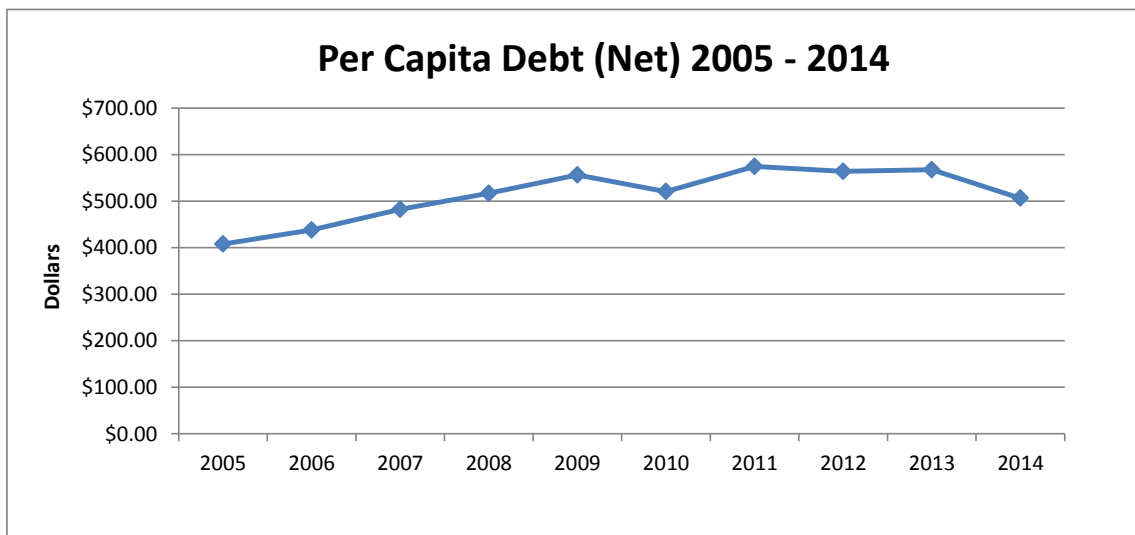


MASSACHUSETTS CLEAN WATER TRUST
Ten Year Schedule of Total Net Debt, Massachusetts Resident Population, and Debt Per Capita
For fiscal years ending June 30, 2005 through June 30, 2014

Fiscal year ending June 30	Total Debt (Net) (in thousands)	Population estimates ⁽¹⁾ (in thousands)	Per capita Debt (Net)
2014	\$3,389,010	6,693	\$506.35
2013	\$3,771,008	6,646	567.41
2012	\$3,715,203 **	6,588	563.93
2011	\$3,766,617	6,557	574.44
2010	\$3,394,046	6,518	520.72
2009	\$3,597,861	6,469	556.17
2008	\$3,323,503	6,432	516.71
2007	\$3,093,155	6,410	482.55
2006	\$2,804,158	6,403	437.94
2005	\$2,613,921	6,412	407.66

(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 CLEAN WATER TRUST
Largest Private Sector Massachusetts Employers 2014 and 2005
(Alphabetical Order)

2014			2005		
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
The Stop & Shop Supermarkets, Co	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
Tufts University	Medford	University	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 2013 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.





MASSACHUSETTS
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