KPMG

MASSACHUSETTS CLEAN WATER TRUST

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

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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 (the Trust), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 – 11 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
October 21, 2015

Introduction

The Massachusetts Clean Water 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 revenue 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. As the loans are repaid, the funds "revolve" and become available for new projects.

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. 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. 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 storm water remediation.

The Drinking Water SRF provides low cost financing to publicly and privately own 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.

Financial Highlights – Fiscal Year 2015

- At the close of fiscal year 2015, assets and deferred outflows exceed liabilities by $2.24 billion compared to $2.13 billion for fiscal year 2014. Included in this number are total loans receivable, which increased to

$3.96 billion from $3.91 billion, total debt (bonds payable), which decreased to $3.33 billion from $3.39 billion was offset by a decrease in the total amount of long-term investments and long-term project fund investments (primarily reserve fund investments) to $1.00 billion from $1.03 billion.

- Total assets and deferred outflow of resources of $5.70 billion increased $77 million from $5.62 billion the year before. Total liabilities of $3.46 billion decreased $35 million from $3.49 billion the year before.
- On January 7, 2015, the Trust issued Series 18 (Green Bonds) bonds in the amount of $228,155,000. The Trust designated the Series 18 Bonds as "Green Bonds" based on the intended use of the proceeds for financing projects that adhere to the federal Clean Water Act and Safe Drinking Water Act, as determined by the Environmental Protection Agency (EPA). These monies were used to finance water pollution abatement and drinking water projects in 68 communities. The purpose of labeling the Series 18 Bonds as Green Bonds was to allow investors to invest directly in bonds which finance environmentally beneficial projects. The Trust pledged $81.7 million of direct loans for projects under the clean water SRF and $23.5 million of direct loans for projects under the drinking water SRF. The interest payments on the Series 18 pledged direct loans will be used to pay a portion of the debt service due on the Series 18 bonds. On October 30, 2014, the Trust used $40.5 million of its program equity cash to refund optimal current refunding candidates from Series 6, 7, 8, 9 and MWRA 99A. All of borrowed equity will be returned in approximately 12 years, increasing program capacity by approximately $16.4 million. On March 31, 2015, the Trust used $59.6 million of its program equity cash to advance refund optimal current refunding candidates from Series 12. Equity used for this transaction will be returned in approximately 16 years, increasing capacity by $43.6 million. The total debt defeased this fiscal year was $100.1 million.
- For FY 2015, the Trust recorded operating income of $36.0 million as compared to an operating income of $3.2 million in FY 2014. The $32.8 million change in the Trust's operating income in FY 2015 was primarily due to a $12.0 million decrease in operating expenses as principal forgiveness decreased $2.8 million due to timing of disbursements on qualifying projects and interest expense decreased $7.1 million due to higher interest rate bonds maturing or having been refunded with lower interest rate bonds. These decreases in expenses were also coupled with a $20.5 million increase in interest income due to an increase in the fair market value of investments.
- The statement of cash flows indicates an increase in cash for the year of $84.2 million.
- In FY 2015, 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 revenue of $47.0 million from the Clean Water Program and received $16.3 million in the Drinking Water Program. The Commonwealth provided a match of $12.8 million for these federally funded programs. The continued capitalization of the Trust, combined with the Trust's access to the bond market, has allowed the Trust to provide funding to all qualified borrowers.
- The Trust maintains the highest ratings of "Aaa," "AAA," and "AAA" from Moody's S&P, and Fitch rating agencies, respectively, on its recently issued bonds, allowing the Trust to continue to provide low cost funding to communities in the Commonwealth.

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 $17.0 million decrease in interest expense which exceeded the $10.4 million decrease in interest income and contract assistance by $6.7 million, primarily due to the Trust's recent refunding's 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 a 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.
- 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.

Overview of Financial Statements

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

The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles as applied to 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.

(Continued)

Condensed Financial Information and Financial Analysis

(In thousands)

		2015	2014	2013	Percentage change 2015–2014	Percentage change 2014–2013
Current assets	$	990,101	1,005,129	918,563	(1.5)%	9.4%
Loans receivable, long term		3,591,902	3,469,108	3,711,065	3.5	(6.5)
Investments, long term		977,104	1,029,899	1,262,224	(5.1)	(18.4)
Project fund investments		25,255	—	58,992	100.0	(100.0)
Deferred outflows		108,352	113,216	72,071	(4.3)	57.1
Other		1,928	42	1,469	4,490.5	(97.1)
Total assets and deferred outflows	$	5,694,642	5,617,394	6,024,384	1.4%	(6.8)%
Current liabilities	$	318,424	304,331	335,822	4.6%	(9.4)%
Loan commitments and project funds payable		25,233	—	58,979	100.0	(100.0)
Liability for derivative instruments		5,642	2,206	3,435	155.8	(35.8)
Long-term debt		3,105,887	3,183,470	3,555,255	(2.4)	(10.5)
Total liabilities		3,455,186	3,490,007	3,953,491	(1.0)%	(11.7)%
Net position:						
Restricted	$	1,866,407	1,718,052	1,658,888	8.6%	3.6%
Unrestricted		373,049	409,335	412,005	(8.9)	(0.6)
Total net position	$	2,239,456	2,127,387	2,070,893	5.3%	2.7%

Net position

The Trust's net position at June 30, 2015 and 2014 was $2.24 billion and $2.13 billion, respectively. Total assets and deferred outflow increased $77.2 million to $5.70 billion from $5.62 billion at June 30. This increase was driven primarily by a $53.7 million increase in loans receivable offset by a $39.4 million decrease in investments. This reflects the change in assets that are pledged to the Trust's bonds away from debt service reserve funds (i.e., investments) to pledging direct loans. Total liabilities decreased $34.8 million to $3.46 billion primarily due to the refunding of optimal current refunding candidates of Series 6, 7, 8, 9, MWRA 99A and 12 outstanding bond, as described in note 6.

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 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 resulted in a reduction of outstanding debt by scheduled maturities.

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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, 2015, 2014 and 2013 (in thousands). More detailed information can be found in note 6 to the financial statements.

		2015	2014	2013
Water Pollution Abatement Revenue Bonds:				
MWRA Loan Program	$	10,060	11,365	16,410
South Essex Sewage District Loan Program		890	1,855	2,765
New Bedford Loan Program		270	785	1,515
Pool Loan Program		1,362,395	1,328,845	2,078,738
Subtotal revenue bonds		1,373,615	1,342,850	2,099,428
Subordinated Revenue Refunding Bonds:				
MWRA Loan Program		54,040	63,620	63,775
New Bedford Loan Program		—	—	36,460
Pool Loan Program		1,583,935	1,678,245	1,311,580
Subtotal revenue refunding bonds		1,637,975	1,741,865	1,411,815
Total bonds		3,011,590	3,084,715	3,511,243
Add: unamortized bond premium		320,762	304,295	259,765
Total bonds payable, net	$	3,332,352	3,389,010	3,771,008

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	
	2015	**2014**	**2013**	**2015–2014**	**2014–2013**
Loan servicing fees	$ 5,315	5,137	5,288	3.5%	(2.9)%
Loan origination fees	2,150	19	1,698	11,215.8	(98.9)
Interest income	147,069	126,577	135,518	16.2	(6.6)
Contract assistance from Commonwealth of Massachusetts	30,375	32,388	33,895	(6.2)	(4.4)
Total operating revenues	184,909	164,121	176,399	12.7	(7.0)
Department of Environmental Protection programmatic support costs	$ 5,793	7,418	8,921	(21.9)	(16.8)
Principal forgiveness	4,797	7,567	12,335	(36.6)	(38.7)
General and administrative	5,923	7,860	5,046	(24.6)	55.8
Arbitrage rebate payments	1,538	166	6,725	826.5	(97.5)
Interest expense	130,888	137,959	155,047	(5.1)	(11.0)
Total operating expenses	148,939	160,970	188,074	(7.5)	(14.4)
Operating income (loss)	35,970	3,151	(11,675)	(1,041.5)	127.0
U.S. Environmental Protection Agency capitalization grants	63,290	61,950	65,671	2.2	(5.7)
Commonwealth of Massachusetts matching grants	12,809	12,205	12,999	4.9	(6.1)
Total nonoperating revenues	76,099	74,155	78,670	2.6	(5.7)
Return of Commonwealth initial investment	—	20,812	—	100.0	—
Total nonoperating expenses	—	20,812	—	100.0	—
Increase in net position	112,069	56,494	66,995	98.4	(15.7)
Net position, beginning of year	2,127,387	2,070,893	2,003,898	2.7	3.3
Net position, end of year	$ 2,239,456	2,127,387	2,070,893	5.3%	2.7%

(Continued)

Results of Operations

For FY 2015, the Trust recorded operating income of $36.0 million as compared to an operating income of $3.2 million in FY 2014. The $32.8 million change in the Trust's operating income in FY 2015 was primarily due to a $12.0 million decrease in operating expenses as principal forgiveness decreased $2.8 million due to timing of disbursements on qualifying projects and bond interest expense decreased $7.1 million due to higher interest rate bonds maturing or having been refunded with lower interest rate bonds. These decrease in expenses were coupled with a $20.5 million increase in interest income due to an increase in the fair market value of investments.

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 $17.0 million decrease in interest expense, which exceeded the $10.4 million decrease in interest income and contract assistance by $6.7 million, primarily due to the Trust's recent refunding's 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 Trust's operating income (loss) is negatively impacted by the inclusion of expenses such as DEP programmatic support costs of $5.8 million, $7.4 million, and $8.9 million for FY 2015, FY 2014 and FY 2013, respectively, and principal forgiveness, which are funded by the capitalization grant revenue that is classified as nonoperating revenue.

The $1.9 million, or 2.6%, increase in nonoperating revenue in FY 2015 reflects an increase 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 $4.5 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.

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.

Future Economic Factors

In August 2014, the Commonwealth enacted Chapter 286 of the Acts of 2014 of the Commonwealth, which provided for $57.0 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, 2015 and 2014

(In thousands)

		2015	2014
Assets and deferred outflows:			
Current assets:			
Cash and cash equivalents (note 3)	$	451,885	367,669
Short-term investments (note 3)		46,526	43,576
Project fund investments (note 3)		1,690	16,540
Grants receivable:			
U.S. Environmental Protection Agency		64,340	81,507
Loans receivable, net (note 5)		368,201	437,317
Accrued interest receivable		57,459	58,520
Total current assets		990,101	1,005,129
Noncurrent assets:			
Project fund investments (note 3)		25,255	—
Loans receivable, long term (note 5)		3,591,902	3,469,108
Long-term investments (note 3)		977,104	1,029,899
Other assets		1,928	42
Total noncurrent assets		4,596,189	4,499,049
Deferred outflow of resources (note 10)		108,352	113,216
Total assets and deferred outflow of resources		5,694,642	5,617,394
Liabilities:			
Current liabilities:			
Accrued expenses and interest payable		61,611	54,326
Unearned revenue		28,834	28,065
Loan commitments and project funds payable		1,514	16,400
Long-term debt (note 6)		226,465	205,540
Total current liabilities		318,424	304,331
Noncurrent liabilities:			
Loan commitments and project funds payable		25,233	—
Liability for derivative instruments (note 9)		5,642	2,206
Long-term debt, net (note 6)		3,105,887	3,183,470
Total noncurrent liabilities		3,136,762	3,185,676
Total liabilities		3,455,186	3,490,007
Net position:			
Restricted for program purposes (note 7)		1,866,407	1,718,052
Unrestricted (note 7)		373,049	409,335
Total net position	$	2,239,456	2,127,387

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, 2015 and 2014

(In thousands)

		2015	2014
Operating revenues:			
Loan servicing fees	$	5,315	5,137
Loan origination fees		2,150	19
Interest income		147,069	126,577
Contract assistance from Commonwealth of Massachusetts		30,375	32,388
Total operating revenues		184,909	164,121
Operating expenses:			
Commonwealth of Massachusetts:			
Department of Environmental Protection – programmatic support costs		5,793	7,418
Principal forgiveness		4,797	7,567
General and administrative		5,923	7,860
Arbitrage rebate payments		1,538	166
Interest expense		130,888	137,959
Total operating expenses		148,939	160,970
Operating income		35,970	3,151
Nonoperating revenue:			
Capitalization grant revenue:			
U.S. Environmental Protection Agency capitalization grants (note 4)		63,290	61,950
Commonwealth of Massachusetts matching grants (note 4)		12,809	12,205
Total nonoperating revenue		76,099	74,155
Nonoperating expense:			
Return of Commonwealth initial investment (note 2(f))		—	20,812
Total nonoperating expense		—	20,812
Increase in net position		112,069	56,494
Net position – beginning of year		2,127,387	2,070,893
Net position – end of year	$	2,239,456	2,127,387

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Other cash received from borrowers	$	5,558	6,556
Cash paid to vendors		(10,827)	(14,906)
Net cash used in operating activities		(5,269)	(8,350)
Cash flows from noncapital financing activities:			
Bonds proceeds		268,686	—
Cash used in debt refunding		(99,633)	(197,738)
Repayment of bonds		(205,540)	(215,753)
Interest paid		(134,400)	(163,928)
Return of Commonwealth initial investment		—	(20,812)
Proceeds from U.S. Environmental Protection Agency capitalization grants		81,210	40,929
Proceeds from Commonwealth matching capitalization grants		12,823	12,809
Net cash used in noncapital financing activities		(76,854)	(544,493)
Cash flows from investing activities:			
Loans disbursed to recipients		(300,344)	(168,511)
Cash received from borrowers		209,803	210,697
Contract assistance received – principal		29,905	29,612
Interest received		108,278	121,834
Contract assistance received – interest		31,897	32,879
Purchases of investments		(7,192)	(13,726)
Cash received from termination of guaranteed investment contracts		—	160,102
Sales/maturities of investments, net		93,993	93,173
Net cash provided by investing activities		166,339	466,060
Net increase (decrease) in cash and cash equivalents		84,216	(86,783)
Cash and cash equivalents, beginning of year		367,669	454,452
Cash and cash equivalents, end of year	$	451,885	367,669
Reconciliation of operating income to net cash used in operating activities:			
Operating income	$	35,970	3,151
Adjustments to reconcile operating income to net cash used in operating activities:			
Reclassification of:			
Interest income		(147,069)	(126,577)
Contract assistance		(30,375)	(32,388)
Interest expense		130,888	137,959
Principal forgiveness		4,797	7,567
Changes in operating assets and liabilities:			
Other assets and liabilities, net		520	1,938
Net cash used in operating activities	$	(5,269)	(8,350)

See accompanying notes to financial statements.

(1) General

(a) Organization

The Massachusetts Clean Water 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.

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.

Investments are generally carried at fair value. The investment in MMDT is valued at the share value of $1.00 and carried at fair value. The guaranteed investment contracts (GICs) are considered nonparticipating investment contracts and therefore are recorded at amortized cost.

Under the Trust's Master Trust Agreement, dated January 1, 2015, the Trust's Program Resolution, as amended through January 7, 2015, 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.

(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, under GASB Statement No. 65, related to the bonds is recorded to general and administrative expenses when incurred.

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.

(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 are either deferred or 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 2015 and 2014, the Trust has reported deferred outflows of resources pertaining to its hedging derivative instruments and to the losses on its debt refunding transactions.

(l) Reclassifications

Certain reclassifications have been made to the FY 2014 balances to conform to the presentation used in FY 2015.

(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 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, 2015 and 2014.

(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.

(Dollars in thousands, unless noted)

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

Investment type	2015	Investment maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Guaranteed investment contracts	$ 659,912	$ 113,063	$ 239,663	$ 210,802	$ 96,384
U.S. Treasuries – federally guaranteed	322,262	23,550	67,838	79,465	151,409
Cash equivalents:					
Massachusetts Municipal Depository Trust (MMDT)	520,286	495,031	25,255	—	—
Total investments and cash equivalents	$ 1,502,460	631,644	332,756	290,267	247,793

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 and cash equivalents	$ 1,457,684	560,918	317,698	323,498	293,344

(Dollars in thousands, unless noted)

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 2015	Percentage of total investments 2014
Provider:		
Dexia Credit Local/FSA Capital Management Services, LLC	21%	22%
NATIXIS Funding Corp.	17	17
Trinity Funding Company, LLC	15	14
Citigroup	10	10

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, 2015 and 2014 are as follows:

	Clean Water Program		Drinking Water Program	
	2015	2014	2015	2014
Federal capitalization	$ 47,603	45,328	16,441	15,699
State match on federal funds	9,520	9,065	3,288	3,140
Total capitalization	57,123	54,393	19,729	18,839
Less administrative allowance and set asides	(2,285)	(2,176)	(5,096)	(4,866)
Project capitalization	$ 54,838	52,217	14,633	13,973

(Dollars in thousands, unless noted)

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

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

		Clean Water		Drinking Water		Total Programs	
		2015	2014	2015	2014	2015	2014
Federal FY 2014 grant	$	35,702	—	12,331		48,033	—
Federal FY 2013 grant		11,332	33,996	3,925	11,775	15,257	45,771
Federal FY 2012 grant		—	11,996	—	4,183	—	16,179
Total grant revenue – EPA	$	47,034	45,992	16,256	15,958	63,290	61,950
State match – FY 2014 grant	$	9,521	—	3,288	—	12,809	—
State match – FY 2013 grant		—	9,065	—	3,140	—	12,205
State match – FY 2012 grant		—	—	—	—	—	—
Total grant revenue – State Match	$	9,521	9,065	3,288	3,140	12,809	12,205

(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 is in the form of either a loan or the bond purchase agreement, and is pursuant to a financing agreement between the Trust and the borrower. Pursuant to an agreement made with the EPA, projects financed for greater than 20 years are financed through a bond purchase agreement. 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's loans to borrowers are funded either through SRF bond proceeds (leveraged loans), or funded with SRF program equity funds (direct loans).

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.

(Dollars in thousands, unless noted)

A summary of loan receivables as of June 30, 2015 and 2014 is as follows:

		2015	2014
Leveraged loans or bonds purchased	$	3,519,380	3,483,433
Pledged loans		309,871	210,198
Direct loans		10,574	14,145
Interim loans		266,500	365,629
Principal forgiveness		(146,222)	(166,980)
Total loans receivable		3,960,103	3,906,425
Less current portion loans receivable		368,201	437,317
Long-term portion – loans receivable	$	3,591,902	3,469,108

The interim loan receivable balances were $266,500 and $365,629 as of June 30, 2015 and 2014, respectively. Additionally, the interim loan balances represent disbursements of construction funds of $146,222 and $166,980, 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 18 bond issuance occurred in January 2015 and interim loans totaling $251,572 were permanently financed as part of the Series 18 bond issue.

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

Years ending June 30:		
2016	$	233,934
2017		241,692
2018		233,234
2019		238,646
2020		232,822
2021–2025		1,050,076
2026–2030		731,649
2031–2035		394,661
2036–2040		129,192
2041–2045		33,474
Total leveraged loans or bonds purchased	$	3,519,380

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 $366.4 million. This obligation of the Commonwealth to the Trust is a general obligation of the Commonwealth, for which its full faith and credit are pledged. Annual appropriations are made each year by the Commonwealth to fund the current year's obligation.

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

(6) Bonds Payable

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

The Series 18 Bonds that were issued on January 7, 2015, were the first series of the Trust's bonds to be issued under and secured by the Master Trust Agreement ("MTA"). MTA Bonds are payable solely from the funds pledged to the MTA which include repayments on all loans financed through the MTA Program, together with contract assistance payments, and earnings on certain funds held under the MTA. All other series of Trust bonds are payable from amounts pledged pursuant to the individual Water Pollution Abatement Project Bond Resolutions, which include payments by local governmental units of principal and interest on the loans, contract assistance, and earnings on 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 payment, when received by the Trust is pledged as security for the bonds.

(Dollars in thousands, unless noted)

The following is a summary of bonds payable at June 30, 2015 and 2014:

	Beginning balance, June 30, 2014	Additions	Reductions	Ending balance, June 30, 2015	Due within one year
Water Pollution Abatement Revenue Bonds:					
MWRA Loan Program:					
Series 1993B, 4.3% to 5.25%, issued January 6, 1994, due 2000 to 2014	$ 315	—	315	—	—
Series 2002A, 3.0% to 5.25% issued October 15, 2002, due 2003 to 2032	11,050	—	990	10,060	960
South Essex Sewage District Loan Program:					
Series 1994A, 5.3% to 6.375%, issued November 1, 1994, due 2001 to 2015	390	—	390	—	—
Series 1996A, 4.25% to 6.0%, issued December 5, 1996, due 2000 to 2016	1,465	—	575	890	605
New Bedford Loan Program:					
Series 1996A, 4.8% to 6.0%, issued July 10, 1996, due 2000 to 2016	785	—	515	270	270
Pool Loan Program:					
Series 2, 4.9% to 6.125%, issued June 1, 1995, due 2001 to 2015	105	—	105	—	—
Series 6, 4.5% to 5.66% issued November 6, 2000, due 2001 to 2030	18,515	—	14,430	4,085	920
Series 7, 3.0% to 5.25% issued July 15, 2001, due 2001 to 2031	8,070	—	6,540	1,530	—
Series 8, 3.0% to 5.0%, issued November 15, 2002, due 2003 to 2032	18,975	—	6,825	12,150	1,790
Series 9, 2.0% to 5.0%, issued October 10, 2003, due 2004 to 2033	47,840	—	18,935	28,905	13,255
Series 10, 2.5% to 5.25%, issued August 25, 2004, due 2005 to 2034	13,100	—	13,100	—	—
Series 11, 3.0% to 5.25%, issued October 19, 2005, due 2006 to 2035	67,020	—	12,340	54,680	12,720

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2014	Additions	Reductions	Ending balance, June 30, 2015	Due within one year
Series 12, 3.0% to 5.25%, issued December 14, 2006, due 2007 to 2036	$ 132,115	—	73,475	58,640	17,660
Series 14, 1.0% to 5.0%, issued March 18, 2009, due 2009 to 2038	195,345	—	15,965	179,380	16,260
Series 15, 2.0% to 5.192%, issued July 8, 2010, due 2012 to 2040	399,585	—	16,605	382,980	17,120
Series 16A and B, 2.0% to 5.0%, issued June 13, 2012, due 2013 to 2032	234,085	—	8,955	225,130	9,170
Series 17A and B, 0.25% to 5.0%, issued May 22, 2013, due 2014 to 2043	194,090	—	7,330	186,760	7,365
Series 18, 0.25% to 5.0%, issued January 7, 2015, due 2016 to 2045	—	228,155	—	228,155	7,240
Subordinated Revenue Refunding Bonds:					
MWRA Loan Program:					
Series 1999A, 4.2% to 6.0%, issued November 3, 1999, due 2000 to 2029	63,620	—	9,580	54,040	—
Pool Program Refunding Bonds:					
Series A and B, 2.0% to 5.25%, issued August 25, 2004, due 2005 to 2028	373,895	—	63,915	309,980	48,870
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	175,335	—	13,445	161,890	13,560
Series 2010A, 3.0% to 5.0%, issued July 8, 2010 due 2014 to 2026	37,430	—	4,905	32,525	5,270

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2014	Additions	Reductions	Ending balance, June 30, 2015	Due within one year
Series 2012A and B, 3.0% to 5.0%, issued June 13, 2012 due 2013 to 2032	$ 117,760	—	12,045	105,715	12,695
Series 2014, 2.0% to 5.0%, issued June 12, 2014 due 2015 to 2028	565,610	—	—	565,610	40,735
Subtotal	3,084,715	228,155	301,280	3,011,590	226,465
Add: Unamortized bond premiums	304,295	40,531	24,064	320,762	—
Total bonds payable	$ 3,389,010	268,686	325,344	3,332,352	226,465

The following is a summary of bonds payable at June 30, 2014 and 2013:

	Beginning balance, June 30, 2013	Additions	Reductions	Ending balance, June 30, 2014	Due within one year
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

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2013	Additions	Reductions	Ending balance, June 30, 2014	Due within one year
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
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

(Dollars in thousands, unless noted)

	Beginning balance, June 30, 2013	Additions	Reductions	Ending balance, June 30, 2014	Due within one year
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
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

On January 7, 2015 the Trust issued Series 18 Green Bonds in the amount of $228,155,000. These monies were used to finance or refinance certain wastewater and drinking water projects in 68 communities. The Trust has designated the Series 18 bonds as “Green Bonds” based on the intended use of the proceeds of the Series 18 Bonds for the financing of projects that adhere to the federal Clean Water Act and Safe Drinking Water Act, as determined by the Environmental Protection Agency (EPA). Proceeds in the amount of $203.5 million were applied to fund loans for projects under the clean water SRF and $65.2 million of proceeds were applied to fund loans for projects under the drinking water SRF. The Trust anticipates expending all of the proceeds within three years. The Trust pledged $81.7 million of direct loans for projects under the clean water SRF and $26.3 million of direct loans for projects under the drinking water SRF. The interest payments on this Series 18 pledged direct loans will be used to pay a portion of the debt service due on the Series 18 bonds.

On October 30, 2014, the Trust used $40.5 million of its program equity cash to refund optimal current refunding candidates from Series 6, 7, 8, 9 and MWRA 99A. All of borrowed equity will be returned in approximately 12 years, increasing program capacity by approximately $16.4 million. On March 31, 2015, the Trust used $59.6 million of its program equity cash to advance refund optimal current refunding candidates from Series 12. Equity used for this transaction will be returned in approximately 16 years, increasing capacity by $43.6 million. The total debt defeased this fiscal year was $100.1 million.

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.

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.

(Dollars in thousands, unless noted)

At June 30, 2015, debt service requirements to maturity for principal and interest are as follows:

		Total debt service	Principal	Interest
Year ending June 30:				
2016	$	367,954	226,465	141,489
2017		349,628	218,350	131,278
2018		337,676	216,395	121,281
2019		325,524	214,990	110,534
2020		310,470	210,580	99,890
2021–2025		1,282,253	928,175	354,078
2026–2030		765,690	601,225	164,465
2031–2035		338,068	278,525	59,543
2036–2040		102,174	84,185	17,989
2041–2045		36,013	32,700	3,313
Total debt service requirements	$	4,215,450	3,011,590	1,203,860

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, 2015 are as follows:

Description	Redemption date		Outstanding principal amount 2015	2014
MWRA Loan Program:				
Series 1993B	November 3, 1999	$	—	6,145
Series 1995A	November 3, 1999		6,270	12,230
Series 1998A	November 3, 1999		32,565	39,790
Series 1998A	June 12, 2014		2,035	2,800
Pool Loan Program:				
Pool 9	December 14, 2006	$	139,560	139,560
Pool 9	June 12, 2014		12,050	12,050
Pool 10	December 14, 2006		168,620	168,620
Pool 10	June 12, 2014		33,540	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	162,385
Pool 12	March 31, 2015		56,280	—
Pool 13	June 12, 2014		270,280	283,220
Pool 14	June 12, 2014		137,595	137,595

(Continued)

(Dollars in thousands, unless noted)

When the Trust refunds or advance refunds it 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:

		2015	2014
Beginning balance	$	111,010	68,636
Additions		—	52,427
Reductions		(8,300)	(10,053)
Ending balance	$	102,710	111,010

(7) Net Position

As of June 30, 2015 and 2014, the Trust has a restricted net position in the amount of $1,886,407 and $1,718,052, respectively, and an unrestricted net position in the amount of $373,049 and $409,335, 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, 2015 and 2014, the Trust has agreed to provide loans to various local government units amounting to approximately $111,586 and $175,600, 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).

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:

(Dollars in thousands, unless noted)

		2022 Termination	2023 Termination
Trade date		November 21, 2006	November 21, 2006
Effective date		December 14, 2006	December 14, 2006
Termination date		August 1, 2022	August 1, 2023
Notional amount	$	30,650	46,605
Fair value at June 30, 2015		(2,169)	(3,473)
Fair value at June 30, 2014		(865)	(1,341)
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, 2015 and 2014, which means on the August 1, 2015 debt service payment date the Trust will make a payment to the swap counterparty. At June 30, 2015 and 2014, 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, 2015 and 2014, 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 credit support provider below BBB-/Baa3 by Standard & Poor’s, and Moody’s Investors Service, respectively.

(Dollars in thousands, unless noted)

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, 2015, the variable rate was calculated using the May 31, 2015 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 bonds[1]		Net swap	Total
	Principal	**Interest**	**payments[2]**	**debt service**
Fiscal year ending June 30:				
2016	$ —	728	2,279	3,007
2017	—	728	2,279	3,007
2018	—	728	2,279	3,007
2019	—	728	2,279	3,007
2020	—	728	2,279	3,007
2021	—	728	2,279	3,007
2022	—	728	2,279	3,007
2023	30,650	583	1,829	33,062
2024	46,605	220	689	47,514

[1] Calculated rate uses May 31, 2015 Muni-CPI rate to reflect debt service payment for August 1, 2015.

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

(Dollars in thousands, unless noted)

(10) Deferred Outflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2015 and 2014:

		2015	**2014**
Deferred outflows of resources:			
Derivative instruments (note 9)	$	5,642	2,206
Excess of reacquisition price over net carrying value of defeased bonds (note 6)		102,710	111,010
	$	108,352	113,216