MASSACHUSETTS CLEAN WATER TRUST

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information

June 30, 2020 and 2019

(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
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Independent Auditors' Report

The Board of Trustees
Massachusetts Clean Water Trust:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Massachusetts Clean Water Trust (the Trust), a component unit of the Commonwealth of Massachusetts, which comprise the statements of net position as of and for the years ended June 30, 2020 and 2019, and the statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020 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 solely to describe the scope of our testing of our internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's 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 15, 2020

Introduction

The Massachusetts Clean Water Trust (the Trust) is a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth). The Trust, in collaboration with the Massachusetts Department of Environmental Protection (MassDEP), helps communities build or replace water quality infrastructure that enhances group and surface water resources, ensures the safety of drinking water, protects public health and develops resilient communities. It accomplishes these objectives by providing low-interest loans and grants to cities, towns and water utilities through the Massachusetts State Revolving Funds (SRFs). The SRF programs are partnerships between the United States Environmental Protection Agency (EPA) and the Trust. SRFs function like an environmental infrastructure bank by financing water infrastructure projects.

The Trust was established in 1989 to administer the Massachusetts Water Pollution Abatement Revolving Fund pursuant to Title VI of the Federal Clean Water Act establishing the Clean Water State Revolving Fund (Clean Water SRF). 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 (Drinking Water SRF).

The Trust receives funding from the EPA in the form of annual capitalization grants, supplemented by state matching grants and the repayment of loans. When loans to local governments are paid back, the funds are then loaned out again, which is how the fund "revolves".

The Trust uses a "leveraged model" to provide funding in excess of the federal and state grants. Bonds are issued in the capital markets and are secured by borrower repayments and reserve funds. The proceeds from the bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure. This model has allowed the Trust to finance approximately $7.6 billion in water infrastructure projects from nearly $2.6 billion in federal grants and state matching funds.

The Trust's loan process is dictated by an annual list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles two IUPs annually, one for each SRF program. Project eligibility is determined by the Clean Water Act and the Drinking Water Act for the Clean Water SRF and Drinking Water SRF, respectively. Projects that apply for financing are selected during an annual solicitation process. MassDEP engineers review detailed project specifications and rank them using an established set of criteria that measures the severity of the problem, the sensitivity of the environmental hazard, the public health risk, and the appropriateness of the proposed solution.

For Clean Water SRF projects, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. Drinking Water SRF projects emphasize compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. MassDEP compiles the annual IUPs using this rigorous selection process that establishes the Commonwealth's priorities for the upcoming year.

(Continued)

The Trust is administered by a three-member board of trustees that is chaired by the Treasurer of the Commonwealth. The Secretary of the Executive Office for Administration and Finance and the Commissioner of MassDEP serve as trustees. The Board of Trustees approves all financial commitments and program decisions during monthly meetings. Meeting agendas, minutes and other board materials can be found on the Trust's website.

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.

Condensed Financial Information and Financial Analysis

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

	June 30 2020	June 30 2019	June 30 2018	Percentage change 2020–2019	Percentage change 2019–2018
Cash and cash equivalents	$ 655,275	489,850	478,627	33.8 %	2.3 %
Investments	710,614	759,702	838,269	(6.5)	(9.4)
Project fund deposits	42,430	38,988	26,704	8.8	46.0
Grants receivable, EPA	41,663	46,926	40,536	(11.2)	15.8
Loans receivable	4,089,717	4,055,490	3,990,591	0.8	1.6
Accrued interest receivable and other assets	48,478	50,603	52,323	(4.2)	(3.3)
Total assets	5,588,177	5,441,559	5,427,050	2.7	0.3
Deferred outflows of resources	42,459	60,883	68,556	(30.3)	(11.2)
Total assets and deferred outflows of resources	$ 5,630,636	5,502,442	5,495,606	2.3 %	0.1 %
Accrued expenses and interest payable	$ 48,290	50,132	53,549	(3.7)%	(6.4)%
Unearned revenue	15,901	35,963	25,982	(55.8)	38.4
Loan commitments and project funds payable	40,202	37,844	26,739	6.2	41.5
Liability for derivative instruments	4,644	3,516	1,841	32.1	91.0
Long-term debt	2,724,344	2,762,192	2,932,678	(1.4)	(5.8)
Other liabilities	9,193	—	—	100.0	—
Total liabilities	2,842,574	2,889,647	3,040,789	(1.6)	(5.0)
Deferred inflows of resources	45,391	34,499	8,679	31.6	297.5
Total liabilities and deferred inflows of resources	$ 2,887,965	2,924,146	3,049,468	(1.2)%	(4.1)%
Net position:					
Restricted	$ 2,144,965	2,049,875	1,972,185	4.6 %	3.9 %
Unrestricted	597,706	528,421	473,953	13.1	11.5
Total net position	$ 2,742,671	2,578,296	2,446,138	6.4 %	5.4 %

The Trust's net position at June 30, 2020 and 2019 increased $164,375, or 6.4%, to $2.74 billion from $2.58 billion, respectively. This increase reflects the receipt of $199,547 in bond proceeds from the issuance of the Trust's Series 22 bonds that replenished program equity funds used to fund the construction phase of the projects financed. Program equity funds in the amount of $27,533 were used to fund loan project fund accounts pledged to the Series 22 bonds. Unearned revenue decreased $20,062 as the availability of the EPA grant funds changed allowing the full amount of the federal fiscal year 2019 grant to be recorded in the state's current fiscal year. In addition, the Trust received $19,700 in additional state grant funds to subsidize PFAS projects as well as increase program capacity. Offsetting these increases were a $49,088 reduction of debt service reserve funds, primarily driven by $75,375 in scheduled maturities net of $20,814 unrealized gain on investments.

The Trust's net position at June 30, 2019 and 2018 increased $132,158, or 5.4%, to $2.58 billion from $2.45 billion, respectively. This increase was primarily attributable to a reduction in outstanding long-term debt of $170,486 caused by a $95,885 partial defeasance of outstanding bonds along with scheduled principal maturities in the amount of $230,280 significantly exceeding the $163,460 of new issuance of debt. This reflects the Trust's migration away from its use of its program equity funds to establish debt service reserve funds in 2012, to using its program equity funds to finance loans that are pledged as security to the bonds, which resulted in significantly less loans being funded with bond proceeds. This also explains the steady reduction in the investment balances as the debt service reserve funds wind down. Offsetting the decrease in debt was a $25,820 increase in deferred inflows which represent funds received from the Commonwealth that will be used to provide future additional subsidies. These funds demonstrate the Commonwealth's support of this valuable infrastructure program and the communities it serves.

Long-term Debt/Bonds Payable

The following is a summary of bonds payable at June 30, 2020, 2019 and 2018 (in thousands). More detailed information can be found in note 8 to the financial statements.

		Summary of bonds payable at June 30,		
		2020	**2019**	**2018**
Water Pollution Abatement Revenue Bonds:				
Master Trust Agreement	$	898,990	737,635	597,670
Pool Loan Program		491,275	668,690	836,630
Single Obligor Bonds – MWRA		5,625	6,430	7,280
Subtotal revenue bonds		1,395,890	1,412,755	1,441,580
Subordinated Revenue Refunding Bonds:				
Master Trust Agreement		183,585	96,280	96,280
Pool Loan Program		811,555	927,760	1,044,890
Single Obligor Bonds – MWRA		3,845	19,845	36,595
Subtotal revenue refunding bonds		998,985	1,043,885	1,177,765
Total bonds		2,394,875	2,456,640	2,619,345
Add unamortized bond premium		329,469	305,552	313,333
Total bonds payable, net	$	2,724,344	2,762,192	2,932,678

(Continued)

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' projects under the Clean Water and Drinking Water programs. The SRF Bonds are secured by Trust's assets that are pledged as a source of payment and security. Trust's pledged assets consist of either reserve funds or loans to borrowers, or a combination thereof, both of which are funded by the program equity funds. The balance of the Trust's pledged assets as of June 30, 2020 is $498,772 at fair market value in reserve funds and $614,127 in loans to borrowers. 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 called contract assistance.

The Trust issues its bonds under and secured by the Master Trust Agreement (MTA) dated as of January 1, 2015. The Trust entered into the MTA to replace the Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. The Trust has been issuing its bonds under the MTA beginning with its Series 18 Bonds. The Trust's prior bonds were issued pursuant to the Program Resolution to finance or refinance loans to several Borrowers concurrently (Pool Loan Program Bonds) or to finance or refinance loans to a single Borrower (Prior Single Obligor Bonds). The Prior Single Obligor Bonds were issued to provide loans to the following three obligors: (1) the Massachusetts Water Resources Authority (MWRA); (2) the South Essex Sewerage District (SESD); and (3) the City of New Bedford. As of June 30, 2020, and 2019, there are no longer Single Obligor Bonds outstanding for SESD or the City of New Bedford. The City of New Bedford, MWRA and SESD are also borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

(Continued)

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	
	2020		2019	2018	2020–2019	2019–2018
Loan servicing fees	$ 5,454		5,479	5,615	(0.5)%	(2.4)%
Loan origination fees	83		1,542	—	(94.6)	100.0
Interest income	111,526		119,554	114,850	(6.7)	4.1
Unrealized gain (loss) on investments	20,814		14,994	(6,822)	38.8	(319.8)
Contract assistance	32,172	(a)	24,401	26,003	31.8	(6.2)
Total operating revenues	170,049		165,970	139,646	2.5	18.9
DEP programmatic support costs	9,374		8,731	7,583	7.4	15.1
Principal forgiveness	21,097	(a)	7,698	7,372	174.1	4.4
General and administrative	3,263		2,693	2,331	21.2	15.5
Arbitrage rebate payments	12,242		1,468	—	733.9	100.0
Interest expense	94,839	(b)	104,561	125,293	(9.3)	(16.5)
Total operating expenses	140,815		125,151	142,579	12.5	(12.2)
Operating income (loss)	29,234		40,819	(2,933)	28.4	(1,491.7)
EPA capitalization grants	$ 99,545		75,285	60,453	32.2	24.5
State matching grants	35,596	(c)	16,054	12,067	121.7	33.0
Total nonoperating revenues	135,141		91,339	72,520	48.0	26.0
Increase in net position	164,375		132,158	69,587	24.4	89.9
Net position, beginning of year	2,578,296		2,446,138	2,376,551	5.4	2.9
Net position, end of year	$ 2,742,671		2,578,296	2,446,138	6.4 %	5.4 %

(a) Includes $10,273 in Commonwealth Contract Assistance to provide principal forgiveness subsidy to communities which met certain affordability criteri

(b) Includes $11,337 related to the accelerated amortization of excess of reacquisition price over carrying value of defeased bonds related to the cash defeasance of certain series of refunding bonds.

(c) Includes $19,700 grant from the Commonwealth to fund polyfluroalkyl substances (PFAS) remediation projects and increased project capacity.

A summary of the Trust's interest income is as follows:

Summary of Interest Income
(In thousands)

		June 30			Percentage change	
		2020	2019	2018	2020–2019	2019–2018
Loan interest income	$	69,201	68,078	68,349	1.6 %	(0.4)%
Investment income		37,222	47,106	42,215	(21.0)	11.6
BAB subsidy income		4,318	4,304	4,286	0.3	0.4
Other income		785 (a)	66	—	1,089.4	100.0
Total interest income	$	111,526	119,554	114,850	(6.7)%	4.1 %

(a) Includes $785 IRS refund for overpayment of Series 13 rebate liability.

Results of Operations

For fiscal year 2020, the Trust recorded operating income of $29,234 as compared to $40,819 in fiscal year 2019. This $11,585 decrease in the Trust's operating income for fiscal year 2020 resulted from an $13,399 increase in principal forgiveness as the Trust, through an increase in contract assistance from the Commonwealth, has been able to provide additional subsidy to assist communities with their water infrastructure projects. It also reflects an $9,884 reduction in investment income as the Trust's debt service reserve funds steadily decrease and an increase in arbitrage rebate payments made to the IRS in the amount of $10,774. Additionally, the Trust did not charge its borrowers loan origination fees for its fiscal year 2020 borrowing resulting in a $1,459 reduction in fee revenue. Offsetting these decreases was a $5,820 increase in the unrealized gain on the investment portfolio, specifically the US Treasuries and Agencies and a $9,722 reduction in interest expense resulting from the steady decrease in outstanding debt driven by cash defeasances and the previously discussed reduction in the size of new debt issuances.

Nonoperating revenues from the EPA federal grants totaled $99,545 for fiscal year 2020 as compared to $75,285 in fiscal year 2019, reflecting a $24,260 increase as the availability of the EPA grant funds changed allowing the full amount of the federal fiscal year 2019 grant to be recorded in the state's current fiscal year. Nonoperating revenues from State grants totaled $35,596 for fiscal year 2020 as compared to $16,054 in fiscal year 2019. The $19,542 increase reflects $19,700 in additional state grant funds received from the Commonwealth to fund polyfluoroalkyl substances (PFAS) remediation projects as well as increase program capacity.

For fiscal year 2019, the Trust recorded operating income of $40,819 as compared to an operating loss of $2,933 in fiscal year 2018. Excluding the unrealized gain (loss) on investments, fiscal year 2019 recorded operating income of $25,825 and fiscal year 2018 recorded an operating income of $3,889. This $21,936 change in the Trust's operating income in fiscal year 2019 was primarily attributed to the $20,732 reduction in interest expense resulting from the steady decrease in outstanding debt driven by cash defeasances and the previously discussed reduction in the size of new debt issuances. Nonoperating revenues comprised of EPA federal grants and state matching grants of $91,339 reflect an $18,819 increase over fiscal year 2018. This 26.0% increase reflects the increase in the federal appropriation levels for both the Clean Water and Drinking Water SRF grants as well as a significant increase in the state's drinking water allotment percentage. Refer to footnote 6 for additional information.

The Trust's operating income is negatively impacted by the inclusion of expenses such as DEP programmatic support costs of $9,374, $8,731, and $7,583, for fiscal years 2020, 2019 and 2018, respectively, and federal principal forgiveness, which are funded by the capitalization grant revenue that is classified as nonoperating revenue.

Future Economic Factors

In August 2018, the Commonwealth enacted *An Act Promoting Climate Change Adaptation, Environmental and Natural Resource Protection, and Investment in Recreational Assets and Opportunity,* which provided for $60,333 million in matching capitalization funds to the Clean Water SRF and Drinking Water SRF programs. This amount combined with the $46,446 balance remaining as of June 30, 2020, the Trust estimates will be sufficient to meet its clean water and drinking water matching needs through FY 2022, 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 addressed via email to Sue Perez, Executive Director, sperez@tre.state.ma.us or Sally Peacock, Controller, speacock@tre.state.ma.us or mail to Massachusetts Clean Water Trust, 1 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, 2020 and 2019

(In thousands)

	2020	2019
Assets and deferred outflows:		
Current assets:		
Cash and cash equivalents (note 3)	$ 655,275	489,850
Short-term investments (note 5)	206,298	204,741
Project fund deposits (note 4)	42,430	38,988
Grants receivable:		
U.S. Environmental Protection Agency (note 6)	41,663	46,926
Loans receivable, net (note 7)	620,814	621,568
Accrued interest receivable	48,478	50,603
Total current assets	1,614,958	1,452,676
Noncurrent assets:		
Loans receivable, long-term (note 7)	3,468,903	3,433,922
Long-term investments (note 5)	504,316	554,961
Total noncurrent assets	3,973,219	3,988,883
Total assets	5,588,177	5,441,559
Deferred outflows of resources (note 13)	42,459	60,883
Total assets and deferred outflows of resources	5,630,636	5,502,442
Liabilities and deferred inflows:		
Current liabilities:		
Accrued expenses and interest payable	48,290	50,132
Unearned revenue (note 6)	15,901	35,963
Loan commitments and project funds payable	40,202	37,844
Long-term debt (note 8)	213,180	232,395
Other liability (note 9)	9,193	—
Total current liabilities	326,766	356,334
Noncurrent liabilities:		
Liability for derivative instruments (note 12)	4,644	3,516
Long-term debt, net (note 8)	2,511,164	2,529,797
Total noncurrent liabilities	2,515,808	2,533,313
Total liabilities	2,842,574	2,889,647
Deferred inflows of resources (note 2)	45,391	34,499
Total liabilities and deferred inflows of resources	2,887,965	2,924,146
Net position:		
Restricted for program purposes (note 10)	2,144,965	2,049,875
Unrestricted (note 10)	597,706	528,421
Commitments (note 11)	—	—
Total net position	$ 2,742,671	2,578,296

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, 2020 and 2019

(In thousands)

		2020	2019
Operating revenues:			
Loan servicing fees	$	5,454	5,479
Loan origination fees		83	1,542
Interest income		111,526	119,554
Unrealized gain on investments		20,814	14,994
Contract assistance from Commonwealth of Massachusetts		32,172	24,401
Total operating revenues		170,049	165,970
Operating expenses:			
Commonwealth of Massachusetts:			
Department of Environmental Protection – programmatic support costs		9,374	8,731
Principal forgiveness		21,097	7,698
General and administrative		3,263	2,693
Arbitrage rebate payments		12,242	1,468
Interest expense		94,839	104,561
Total operating expenses		140,815	125,151
Operating income		29,234	40,819
Nonoperating revenue:			
Grant revenue:			
U.S. Environmental Protection Agency capitalization grants (note 6)		99,545	75,285
Commonwealth of Massachusetts grants (note 6)		35,596	16,054
Total nonoperating revenue		135,141	91,339
Increase in net position		164,375	132,158
Net position – beginning of year		2,578,296	2,446,138
Net position – end of year	$	2,742,671	2,578,296

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, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Other cash received from borrowers	$	5,537	7,020
Cash paid to vendors		(24,754)	(12,888)
Net cash used in operating activities		(19,217)	(5,868)
Cash flows from noncapital financing activities:			
Bond proceeds		348,595	189,523
Cash used in debt refunding		(110,259)	(98,235)
Repayment of bonds		(232,395)	(230,280)
Interest paid		(117,860)	(126,609)
Proceeds from U.S. Environmental Protection Agency capitalization grants		84,742	73,879
Proceeds from Commonwealth grants		35,601	21,051
Proceeds received for Cape Cod and Islands Water Protection Fund		9,193	—
Net cash provided by (used in) noncapital financing activities		17,617	(170,671)
Cash flows from investing activities:			
Loans disbursed to recipients		(340,174)	(353,380)
Cash received from borrowers		262,899	255,814
Contract assistance received – principal		39,928	47,475
Interest received		108,830	113,345
Contract assistance received – interest		23,456	25,908
Purchases of investments		(3,290)	(4,482)
Cash received from termination of guaranteed investment contracts		—	24,093
Sales/maturities of investments, net		75,376	78,989
Net cash provided by investing activities		167,025	187,762
Net increase in cash and cash equivalents		165,425	11,223
Cash and cash equivalents, beginning of year		489,850	478,627
Cash and cash equivalents, end of year	$	655,275	489,850
Reconciliation of operating income to net cash used in operating activities:			
Operating income	$	29,234	40,819
Adjustments to reconcile operating income to net cash used in operating activities:			
Reclassification of:			
Interest income		(111,526)	(119,554)
Unrealized gain on investments		(20,814)	(14,994)
Contract assistance		(32,172)	(24,401)
Interest expense		94,839	104,561
Principal forgiveness		21,097	7,698
Changes in operating assets and liabilities:			
Other assets and liabilities, net		125	3
Net cash used in operating activities	$	(19,217)	(5,868)

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 State Revolving Fund (Clean Water SRF) and Drinking Water State Revolving Fund (Drinking Water 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 administered by a three-member board of trustees that is chaired by the Treasurer of the Commonwealth. The Secretary of the Executive Office for Administration and Finance and the Commissioner of MassDEP serve as trustees. The Board of Trustees approves all financial commitments and program decisions during monthly meetings. Meeting agendas, minutes and other board materials can be found on the Trust's website.

(b) Description of Business

The Trust, in collaboration with the Massachusetts Department of Environmental Protection (MassDEP), helps communities build or replace water quality infrastructure that enhances group and surface water resources, ensures the safety of drinking water, protects public health and develops resilient communities. It accomplishes these objectives by providing low-interest loans and grants to cities, towns and water utilities through the Massachusetts State Revolving Funds (SRFs). The SRF programs are partnerships between the United States Environmental Protection Agency (EPA) and the Trust. SRFs function like an environmental infrastructure bank by financing water infrastructure projects.

The Trust receives funding from the EPA in the form of annual capitalization grants, supplemented by state matching grants and the repayment of loans. When loans to local governments are paid back, the funds are then loaned out again, which is how the fund "revolves".

The Trust uses a "leveraged model" to provide funding in excess of the federal and state grants. Bonds are issued in the capital markets and are secured by borrower repayments and reserve funds. The proceeds from the bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure. This model has allowed the Trust to finance approximately $7.6 billion in water infrastructure projects from nearly $2.6 billion in federal grants and state matching funds.

The Trust's loan process is dictated by an annual list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles two IUPs annually, one for each SRF program. Project eligibility is determined by the Clean Water Act and the Drinking Water Act for the Clean Water SRF and Drinking Water SRF, respectively. Projects that apply for financing are selected during an annual solicitation process. MassDEP engineers review detailed project specifications and rank them using an established set of criteria that measures the severity of the problem, the sensitivity of the environmental hazard, the public health risk, and the appropriateness of the proposed solution.

For Clean Water SRF projects, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. Drinking Water SRF projects emphasize compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. MassDEP compiles the annual IUPs using this rigorous selection process that establishes the Commonwealth's priorities for the upcoming year.

Total project grant funds received, both federal and state, less the amounts provided as principal forgiveness, are required to remain in the SRF program in perpetuity in support of the state revolving fund per the Clean Water Act and Safe Drinking Water Act. As a result, these funds are classified as restricted on the statements of net position. The remaining funds are classified as unrestricted on the statements of net position, however, the use of these funds are governed by laws and regulations of the EPA and the Commonwealth.

(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, are generated through the issuance of loans to local government units within the Commonwealth. Operating expenses include interest expense related to the Trust's outstanding debt as well as programmatic and administrative 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 federal capitalization grants require 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 (GICs), repurchase agreements, and other permitted investments such as qualified municipal obligations.

The Trust categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. GASB 72, *Fair Value Measurement and Application* defines a certain hierarchy of inputs to valuation techniques used to measure fair value. All of the Trust's investments in U.S. Treasuries and Agencies are categorized as Level 2.

Inputs within Level 2 of the fair value hierarchy include inputs that are directly observable, these inputs are derived principally from or corroborated by observable market data through correlation or by other means. Investments in debt securities classified as Level 2 of the fair value hierarchy are valued using matrix pricing techniques, in accordance with market quotations or valuation methodologies from reliable financial industry services.

Under existing standards, several types of investments are not required to be reported at fair value. The investment in MMDT is valued at the share value of $1.00 and carried at fair value. The Short Term Bond Portfolio investments are carried at fair value. For purposes of risk categorization, MMDT shares are not categorized. The GICs are considered nonparticipating investment contracts and are also excluded from the Statement on fair value measurement. These investment values will continue to be measured in accordance with existing accounting standards and are recorded at contract value.

(e) Allowance for Uncollectible Amounts and Principal Forgiveness

The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions. Receivables are reported at the gross amount and an allowance for doubtful accounts would be recognized for that portion of receivables that is deemed uncollectible, based upon a review of outstanding receivables, historical collection information, and existing economic conditions and trends. Because of the absence of any delinquent loans, there is no provision for uncollectible amounts.

Loans are reported net of principal forgiveness expected to be provided upon project completion. The amount of principal forgiveness is determined by the Trust's board and is recorded on a first-in, first-out basis as disbursements are processed, up to the total amount of the principal forgiveness awarded to the individual loans.

(f) Loan Origination Fees and Costs of Issuance

The Trust may charge loan origination fees from borrowers. Payments would be collected at the time of the first debt service payment. This origination fee revenue, if any, 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.

(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) 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 year 2020, the Trust has reported deferred inflows of resources that represent the funds received from the Commonwealth in the amount of $45,391 that will be used to provide future additional subsidies. For fiscal years 2020 and 2019, the Trust has reported deferred outflows of resources pertaining to its hedging derivative instruments and to the accounting losses on its debt refunding transactions. Refer to note 8 and note 12.

(j) 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.

(k) Reclassifications

Certain reclassifications have been made to the FY 2019 balances to conform to the presentation used in FY 2020.

(Dollars in thousands, unless noted)

(3) Cash and Cash Equivalents

Cash and cash equivalents for the years ended June 30, 2020 and 2019 are as follows:

		2020		2019
Program equity funds	$	470,781		336,272
Revenue funds		25,029		29,512
Administrative funds		32,024		31,711
State match funds		17,011		16,791
Rebate funds		9,283		9,578
Additional subsidy funds		90,120	(a)	63,812
Cape Cod and Islands Water Protection Fund		9,193		—
Other cash funds		1,834		2,174
Total cash and cash equivalents	$	655,275		489,850

(a) Includes $19,700 grant funding from the Commonwealth for polyfluoroalkyl substances (PFAS) remediation projects and increase project capacity.

The Trust's cash and cash equivalents primarily consist of the SRF program equity funds. Use of these funds are governed by the Clean Water Act and Safe Drinking Water Act and are required to be kept in perpetuity in support of the State Revolving Fund. 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) borrower loan repayments; (5) interest earnings on investments or deposits of amounts held in the program equity accounts; (6) proportional amounts released from the pledged assets available as a result of loan repayments in accordance with the provisions specified in the applicable bond resolutions; and (7) other amounts derived from financing activities of the Trust.

Revenue fund balances primarily represent proceeds collected from the Trust's specific revenue sources: borrower repayments, pledged assets earnings and contract assistance that are restricted or committed for specific purposes including debt service. Administrative funds are primarily funded with the annual loan servicing fee equal to 0.15% of outstanding loan principal charged pursuant to financing agreements, all origination fees payable to any loan, and any other amount received by the Trust for such purposes and applied to the payment of reimbursement of administrative costs of the Trust. Rebate funds represent amounts set aside to pay arbitrage rebate liabilities to the United States Treasury when due. State match funds represents the net balance of the Commonwealth matching grant and related interest earnings. Additional subsidy funds consist of additional contract assistance funds set aside by the Commonwealth to provide future subsidies, the amount and timing of which will be determined by the Board. During fiscal year 2020, the Board of Trustees approved an additional subsidy pursuant to Chapter 259 of the Acts of 2014 in the amount of $19,866. In fiscal year 2020, a separate fund was established to hold the expanded room occupancy excise tax revenue on short-term rentals on behalf of the Cape Cod and Islands Water

(Continued)

Protection Fund ("CCIWPF") Management Board. Refer to note 9 for additional information on the CCIWPF.

Cash and cash equivalents include investments in Massachusetts Municipal Depository Trust (MMDT). The Office of the Treasurer and Receiver-General (Treasury) manages MMDT, the Commonwealth's short-term external mixed investment pool. 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 investment in MMDT is valued at the share value of $1.00 and 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.

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, 2020 and 2019.

(4) Project Fund Deposits

The project fund deposits are held by the Trustee and disbursed in accordance with executed loan agreements. Project fund deposits are disbursed to borrowers for eligible project costs as needed. These funds are restricted and are to be disbursed solely for the applicable project costs associated with the applicable loan financing agreement. When all costs have been paid, any amounts remaining unexpended in the project fund deposits will normally be applied to the repayment of the applicable borrower's principal. Project fund deposits are invested as part of the MMDT Cash Portfolio. As of June 30, 2020, and 2019, the Trust had $42,430 and $38,988, respectively, held in project fund deposits related to executed loan agreements for State Revolving Fund Bonds.

(5) Investments

Investments primarily consist of debt service reserve accounts that were established as security for certain series of bonds issued by the Trust. The amount deposited in each debt service reserve account was determined at the time of the issuance of the bonds and varied from 33% to 50% of the par amount of the bonds issued. In most cases, debt service reserve funds were funded from the SRF program equity accounts. Interest earnings on the debt service reserve accounts are used for debt service payments. The Trust's debt service reserve accounts are invested in either GICs or U.S. Treasuries and Agencies.

GICs are recorded at contract value and U.S. Treasuries and Agencies are reported at fair market value. Reductions in GIC balances year over year reflect the scheduled maturities that correspond to debt service principal payments. As the Trust pays principal on its debt, proportional amounts are released from the pledged assets securing the related debt. Since 2012, the Trust has been pledging direct loans as security for its bonds rather than establishing debt service reserve funds. As a result, the debt service reserve fund investment balance continues to decline as scheduled maturities occur. The table below provides details of the Trust's debt service reserve funds as of June 30, 2020 and 2019.

(Dollars in thousands, unless noted)

Debt Service Reserve Funds

Provider	Bond series	2020	2019
GICs:			
Mass Mutual Financial Group	Series 9, 1999A Ref	$ 106,402	119,329
FSA Capital Management Services, LLC.	Series 6, 11, 2004A Ref, 2014 Ref	93,033	108,905
Natixis Funding Corporation	Series 6, 7, 8, 2002A Ref	80,912	98,210
Citigroup Global Markets Inc.	Series 12, 2006 Ref	60,627	68,498
	Total GICs	340,974	394,942
U.S. Treasuries and Agencies	Series 6, 7, 8, 9, 12, 15, 2014 Ref	157,798	153,617
Total debt service reserve fund investments		$ 498,772	548,559

A portion of the Trust's program equity funds are invested as follows.

	2020	2019
U.S Treasuries and Agencies	$ 110,929	112,350
MMDT Short-Term Bond portfolio	100,370	98,185
Citigroup Global Markets Inc. GIC	543	608
	$ 211,842	211,143

In fiscal year 2019, Series 14 bonds were partially defeased by the Trust. There was a debt service reserve fund pledged to the Series 14 bonds that was invested in U.S. Treasuries and Agencies. As this debt service reserve fund was no longer required to secure the bonds, these investments were transferred to the program equity fund.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The following list sets forth the GIC providers with which the Trust's investments exceed 5% of the Trust's total investment balance.

Provider	2020		2019	
Mass Mutual Financial Group	$ 106,402	15 %	$ 119,329	16 %
FSA Capital Management Services, LLC.	93,033	13	108,905	14
Natixis Funding Corp.	80,912	11	98,210	13
Citigroup Global Markets Inc.	61,170	9	69,107	9

(Dollars in thousands, unless noted)

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 S&P Global Ratings 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 GICs or in U.S. Treasuries and Agencies. The U.S. Treasuries and Agencies 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 take 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 an 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 the related bonds.

For the years ended June 30, 2020 and 2019 the Trust's total investment portfolio matures as follows:

	June 30, 2020			
	GICs	**U.S. Treasuries and Agencies**	**MMDT short-term bond portfolio**	**Total investments**
Less than 1 year	$ 85,237	20,691	100,370	206,298
One to five years	181,703	89,840	—	271,543
Six to ten years	53,682	95,482	—	149,164
More than ten years	20,895	62,714	—	83,609
	$ 341,517	268,727	100,370	710,614

(Dollars in thousands, unless noted)

		June 30, 2019			
		GICs	U.S. Treasuries and Agencies	MMDT short-term bond portfolio	Total investments
Less than 1 year	$	88,364	18,192	98,185	204,741
One to five years		210,803	83,619	—	294,422
Six to ten years		68,786	99,863	—	168,649
More than ten years		27,598	64,292	—	91,890
	$	395,551	265,966	98,185	759,702

In fiscal year 2019, the Trust terminated its investment with the GIC provider, Portigon, in exchange for cash proceeds in the amount of $24,093.

(6) Capitalization Grants

The Clean Water SRF and Drinking Water SRF programs were established in each state by capitalization grants from the EPA. These capitalization grants have been available to states annually, typically received in August or September before the beginning of each federal fiscal year. EPA implemented the SRF programs in a manner that preserves a high degree of flexibility for states in operating their revolving funds in accordance with each state's unique needs and circumstances. States are required to provide an amount equal to 20 percent of the capitalization grant as state matching funds in order to receive a grant. The Trust receives its state match funds in June prior to the receipt of the federal grants.

These grants require that the Trust enter into binding commitments with local government units within one year of the receipt of each federal grant award to provide assistance in an amount equal to 120% (including 20% state matching grant) of each grant award. The clean water grant contains a 4% administrative allowance. The drinking water grant provides the Trust with set asides to provide a 4% administrative allowance, a 15% local assistance set-aside to support the public water system supervision programs, and a 2% small system technical assistance set-aside.

Each of these grants require the Trust to provide a portion of the grant funds as additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these). The clean water and drinking water grants required subsidy is 10% and 20%, respectively, of the funds available under the respective capitalization grants. Additionally, the Trust provides additional subsidy through contract assistance received from the Commonwealth of Massachusetts intending to match the federal amount. For the 2018 grants this amounted to $10,899,000 and is expected to total approximately $12,000,000 for the 2019 grant.

The Trust provides the additional subsidy in the form of loan forgiveness based on the affordability tier system based upon its established affordability criteria. The highest level of subsidy goes to communities that are below 60% of the statewide Adjusted Per Capita Income (APCI). The second level of subsidy goes to those communities that fall within 60-80% of the statewide APCI. The third level of subsidy goes to those communities between 80-100% of the statewide APCI.

(Dollars in thousands, unless noted)

States may opt to transfer a portion of its clean water capitalization grant, not to exceed 33 percent of its drinking water SRF capitalization grant, to the drinking water SRF program. The Trust has taken advantage of this option in each year beginning with its 2013 clean water capitalization grant to provide additional capacity to its drinking water program.

Grant draws may begin in the quarter in which the grant is awarded and end no later than eight quarters after the grant is awarded. The Trust draws on its federal grants based on the amount of incurred costs for certain eligible projects or activities.

The following table depicts the Trust's grant receivable by program:

		EPA Grant Receivable			State Match		
		Clean Water	Drinking Water	Total Program	Clean Water	Drinking Water	Total Program
Grants receivable at June 30, 2018	$	38,780	1,756	40,536	—	—	—
Project Grant Award/Match – FFY 2018		52,315	20,361	72,676	10,463	5,155	15,618
Admin/Set Asides Grant – FFY 2018		2,180	5,413	7,593	436	—	436
Total Grant Award/Match		54,495	25,774	80,269	10,899	5,155	16,054
Grant Funds Drawn		(49,521)	(24,358)	(73,879)	(10,899)	(5,155)	(16,054)
Grants receivable at June 30, 2019		43,754	3,172	46,926	—	—	—
Project Grant Award/Match – FFY 2019		51,788	20,171	71,959	10,358	5,107	15,465
Admin/Set Asides Grant – FFY 2019		2,158	5,362	7,520	431	—	431
Total Grant Award/Match		53,946	25,533	79,479	10,789	5,107	15,896
Grant Funds Drawn		(65,072)	(19,670)	(84,742)	(10,789)	(5,107)	(15,896)
Grants receivable at June 30, 2020	$	32,628	9,035	41,663	—	—	—

Federal grant revenue is recognized in accordance with the funding schedules contained within the individual grant agreements. The state matching grant, typically drawn prior to fiscal year end, revenue is unearned until the Federal grant is awarded, at which time state matching revenue is recognized.

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

		Clean Water Program		Drinking Water Program		Total Programs	
		2020	2019	2020	2019	2020	2019
Federal FY 2019 grant	$	53,946	—	25,533	—	79,479	—
Federal FY 2018 grant		13,623	40,871	6,443	19,331	20,066	60,202
Federal FY 2017 grant		—	11,253	—	3,830	—	15,083
Total grant revenue – EPA	$	67,569	52,124	31,976	23,161	99,545	75,285
State grant – FY 2020	$	—	—	19,700	—	19,700	—
State match – FY 2019 grant		10,789	—	5,107	—	15,896	—
State match – FY 2018 grant		—	10,899		5,155	—	16,054
Total grant revenue – State	$	10,789	10,899	24,807	5,155	35,596	16,054

(Dollars in thousands, unless noted)

In fiscal year 2020, pursuant to chapter 142 of the Acts of 2019, the Trust received a $10,650,000 operating transfer from the Commonwealth to support drinking water programs to remediate per- and polyfluoroalkyl substances (PFAS) contamination of public water supplies, including, but not limited to no-interest loans. Additionally, the Trust received $9,050,000 to supports its purposes as set forth in chapter 29C of the General Laws, including to increase project capacity.

(7) 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 SRF, Drinking Water SRF, and Community Septic Management Programs.

A summary of loan receivables as of June 30, 2020 and 2019 is as follows:

		2020	2019
Leveraged loans	$	3,147,216	3,174,838
Direct loans pledged for bond debt service		607,616	536,978
Other direct loans		6,511	7,139
Total permanently financed loans receivable		3,761,343	3,718,955
Interim loans		381,839	371,833
Principal forgiveness		(53,465)	(35,298)
Total loans receivable		4,089,717	4,055,490
Less current portion loans receivable		620,814	621,568
Long-term portion – loans receivable	$	3,468,903	3,433,922

Each loan to a borrower is in the form of either a loan or a 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 may provide loans under its Clean Water SRF and Drinking Water SRF programs with terms up to 30 years, 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 communities 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 eligible borrowers in accordance with a financing agreement for all or any part of the costs of a project in anticipation of a leveraged or direct loan. This interim construction financing is offered to communities as a zero percent interest rate. The interim loan receivable balances were $381,839 and $371,833 as of June 30, 2020 and 2019, respectively.

(Dollars in thousands, unless noted)

The Trust offers principal forgiveness to borrowers, based on eligibility criteria defined by the Trust's board. Principal forgiveness can assist borrowers in their efforts to comply with water quality standards by making projects even more affordable. Loans funded by principal forgiveness grants are advanced to local agencies on a cost reimbursement basis up to the amount of the awarded principal forgiveness. The amount of interim loan balances for which a subsidy was provided in the form of principal forgiveness was $53,465 and $35,298, at June 30, 2020 and 2019, respectively. The subsidized interim loan amounts will be legally forgiven as the applicable projects are completed. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

Interim loans totaling $267,058 were permanently financed as part of the Trust's Series 22 bond issuance in October 2019. Interim loans totaling $199,547 were permanently financed as leveraged loans, that is, bond proceeds were used to replenish the program equity funds that were used to fund these project loan expenses prior to the bond issuance. Additional $38,334 of bond proceeds were deposited to project funds for the remaining project expenses for these leveraged loans. Interim loans totaling $67,511 were permanently financed as direct loans, that is, program equity funds were used to fund these project loan expenses. An additional $27,533 of program equity funds were deposited to project funds for the remaining project expenses for these direct loans. The Trust pledged $95,044 of its direct loans to the MTA Bonds. The interest collected on these loans will be applied to pay a portion of the debt service on the Series 22 bonds, thereby supplementing the loan repayment obligations of the local borrowers while the principal payments collected on the direct loans are pledged as further security for the Trust's bonds. The MTA bonds are the fifth Series of Trust SRF Bonds to use this approach. As of June 30, 2020, the Trust has $614,127 in direct loans pledged for the purpose of paying debt service on Trust bonds.

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

		Leveraged loans	Direct loans used for bond debt service	Other direct loans	Total permanently financed loans
Years ending June 30:					
2021	$	264,227	27,592	620	292,439
2022		251,520	28,065	629	280,214
2023		257,422	28,623	629	286,674
2024		245,748	29,193	629	275,570
2025		230,952	29,776	630	261,358
2026–2030		938,725	149,025	3,129	1,090,879
2031–2035		614,274	140,779	245	755,298
2036–2040		285,118	78,691	—	363,809
2041–2045		52,834	60,427	—	113,261
2046–2050		6,396	35,445	—	41,841
	$	3,147,216	607,616	6,511	3,761,343

The Trust's loans to its borrowers are subsidized by interest earnings on its pledged assets which include debt service reserve funds, direct loans and contract assistance provided to the Trust by the Commonwealth. Although borrowers are obligated to the Trust to make scheduled payments, these subsidies are expected to be available for the duration of the loan financing agreements. The Commonwealth has committed to provide contract assistance as subsidy to borrowers' debt service obligations in the amount of $202,219 over 30 years. 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.

(8) Bonds Payable

The Trust issues special obligation bonds under its SRF programs to provide low cost financing to cities, towns and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. Coupons on the bonds range from approximately 2.0% to 5.3% and each series is payable semiannually with the latest maturity occurring in FY 2047. The financial assistance is provided pursuant to leveraged loans and bond purchase agreements between the Trust and each borrower as described in note 7.

The Trust issues its bonds under and secured by the Master Trust Agreement (MTA) dated as of January 1, 2015. The Trust entered into the MTA to replace the Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. The Trust has been issuing bonds under the MTA beginning with its Series 18 Bonds and expects to continue to conduct its SRF program through the Master Trust Agreement. The Trust's prior bonds were issued pursuant to the Program Resolution to finance or refinance loans to several Borrowers concurrently (Pool Loan Program Bonds) or to finance or refinance loans to a single Borrower (Prior Single Obligor Bonds). The Prior Single Obligor Bonds were issued to provide loans to the following three obligors: (1) the Massachusetts Water Resources Authority (MWRA); (2) the South Essex Sewerage District (SESD); and (3) the City of New Bedford. As of June 30, 2020, and 2019, there are no longer Single Obligor Bonds outstanding for SESD or the City of New Bedford. The City of New Bedford, MWRA and SESD also are borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

The Series 22 Bonds, issued on October 24, 2019, was the fifth 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 and Drinking Water 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 or interest received on certain direct loans made by the Trust.

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 pledged as security for the bonds; and contract assistance payments, when received by the Trust are pledged as security for the bonds.

(Dollars in thousands, unless noted)

The following is a summary of bonds payable at June 30, 2020 and 2019:

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/8/2000	8/1/2023	$ 3,165	—	260	2,905	255
Series 7	Pool Loan	7/26/2001	2/1/2023	1,285	—	245	1,040	250
Series 2002A	MWRA	10/31/2002	8/1/2032	6,430	—	805	5,625	755
Series 8	Pool Loan	11/26/2002	8/1/2026	6,025	—	1,045	4,980	815
Series 9	Pool Loan	11/6/2003	8/1/2027	8,795	—	1,295	7,500	1,110
Series 11	Pool Loan	11/16/2005	8/1/2025	29,065	—	11,915	17,150	550
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 14	Pool Loan	3/18/2009	8/1/2019	15,965	—	15,965	—	—
Series 15	Pool Loan	6/8/2010	8/1/2040	292,790	—	19,685	273,105	20,510
Series 16 A and B	Pool Loan	6/13/2012	8/1/2025	132,430	—	118,725	13,705	10,835
Series 17 A and B	Pool Loan	5/22/2013	2/1/2043	156,340	—	8,280	148,060	8,600
Series 18	MTA	1/7/2015	2/1/2045	196,945	—	8,440	188,505	8,715
Series 19	MTA	2/11/2016	2/1/2046	183,890	—	8,640	175,250	8,985
Series 20	MTA	4/13/2017	2/1/2047	193,340	—	7,075	186,265	7,205
Series 21	MTA	9/12/2018	8/1/2038	163,460	—	6,100	157,360	6,375
Series 22	MTA	10/24/2019	8/1/2039	—	191,610	—	191,610	6,945
Subordinated revenue refunding bonds:								
Series 1999A	MWRA	11/3/1999	8/1/2029	19,845	—	16,000	3,845	—
Series 2004A	Pool Loan	9/9/2004	8/1/2027	119,890	—	42,870	77,020	34,620
Series 2006	Pool Loan	12/14/2006	8/1/2034	339,355	—	26,335	313,020	41,720
Series 2009A	Pool Loan	8/11/2009	8/1/2019	18,275	—	18,275	—	—
Series 2010A	Pool Loan	6/8/2010	2/1/2020	2,520	—	2,520	—	—
Series 2012A	Pool Loan	6/13/2012	8/1/2032	43,855	—	—	43,855	—
Series 2014	Pool Loan	6/12/2014	8/1/2028	403,865	—	26,205	377,660	54,935
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	—	96,280	—
Series 2020	MTA	5/21/2020	8/1/2042	—	87,305	—	87,305	—
Subtotal				2,456,640	278,915	340,680	2,394,875	213,180
Add unamortized bond premiums				305,552	69,680	45,763	329,469	—
Total bonds payable				$ 2,762,192	348,595	386,443	2,724,344	213,180

The Trust designated its Series 15B Bonds as “Build America Bonds” (“BABs”) for purposes of the American Recovery and Reinvestment Act of 2009 (“ARRA”) and is thereby entitled to receive cash subsidy payments from the United States Treasury (“Federal Subsidy Payments”) equal to 35% of the interest payable on the Series 15B Bonds provided it makes certain required filings in accordance with applicable federal rules pertaining to the Federal Subsidy Payments. Receipt of Federal Subsidy Payments by the Trust has been and will be adversely affected by implementation of certain provisions of federal law. In federal fiscal year 2016, such payments were subject to a sequestration reduction of 6.8%, with the Bipartisan Budget Act of 2015, approved by the President on November 2, 2015, extending the sequestration provisions through federal fiscal year 2025. For federal fiscal years 2017, 2018, 2019, and 2020 such payments were subject to reductions of 6.9%, 6.6%, 6.2% and 5.9%, respectively.

On October 24, 2019, the Trust issued State Revolving Fund Bonds Series 22 (Green Bonds) in the amount of $191,610 with a premium of $46,273. The Trust has designated the Series 22 bonds as “Green Bonds” based on the intended use of the bond proceeds for the financing of projects that adhere to the federal Clean Water Act and Safe Drinking Water Act, as determined by the EPA. Series 22 Bond proceeds were applied to fund $237,881 in loans for clean water and drinking water projects under the SRF. The

(Dollars in thousands, unless noted)

Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 22 bonds, the Trust pledged $95,044 of its loans to borrowers funded with SRF program equity funds. The interest collected on these loans will be applied to pay a portion of the debt service on the MTA bonds, thereby supplementing the loan repayment obligations of the local borrowers while the principal payments collected on the direct loans are pledged as further security for the Trust’s bonds.

On June 13, 2019, the Trust used $98,235 of its program equity to defease a portion of the State Revolving Bonds, Series 14. This equity was 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 transaction was $95,885, resulting in a cash flow savings of $62,379.

The following is a summary of bonds payable at June 30, 2019 and 2018:

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/8/2000	8/1/2023	$ 3,165	—	—	3,165	260
Series 7	Pool Loan	7/26/2001	2/1/2023	1,530	—	245	1,285	245
Series 2002A	MWRA	10/31/2002	8/1/2032	7,280	—	850	6,430	805
Series 8	Pool Loan	11/26/2002	8/1/2026	7,280	—	1,255	6,025	1,045
Series 9	Pool Loan	11/6/2003	8/1/2027	12,415	—	3,620	8,795	1,295
Series 11	Pool Loan	11/16/2005	8/1/2025	41,490	—	12,425	29,065	11,915
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 14	Pool Loan	3/18/2009	8/1/2019	129,415	—	113,450	15,965	15,965
Series 15	Pool Loan	6/8/2010	8/1/2040	311,690	—	18,900	292,790	19,685
Series 16 A and B	Pool Loan	6/13/2012	8/1/2042	142,500	—	10,070	132,430	10,440
Series 17 A and B	Pool Loan	5/22/2013	2/1/2043	164,315	—	7,975	156,340	8,280
Series 18	MTA	1/7/2015	2/1/2045	205,150	—	8,205	196,945	8,440
Series 19	MTA	2/11/2016	2/1/2046	192,210	—	8,320	183,890	8,640
Series 20	MTA	4/13/2017	2/1/2047	200,310	—	6,970	193,340	7,075
Series 21	MTA	9/12/2018	8/1/2038	—	163,460	—	163,460	6,100
Subordinated revenue refunding bonds:								
Series 1999A	MWRA	11/3/1999	8/1/2029	36,595	—	16,750	19,845	16,000
Series 2004A	Pool Loan	9/9/2004	8/1/2027	161,320	—	41,430	119,890	42,870
Series 2006	Pool Loan	12/14/2006	8/1/2034	362,235	—	22,880	339,355	26,335
Series 2009A	Pool Loan	8/11/2009	8/1/2019	34,770	—	16,495	18,275	18,275
Series 2010A	Pool Loan	6/8/2010	2/1/2020	4,915	—	2,395	2,520	2,520
Series 2012A	Pool Loan	6/13/2012	8/1/2032	46,340	—	2,485	43,855	—
Series 2014	Pool Loan	6/12/2014	8/1/2028	435,310	—	31,445	403,865	26,205
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	—	96,280	—
Subtotal				2,619,345	163,460	326,165	2,456,640	232,395
Add unamortized bond premiums				313,333	26,063	33,844	305,552	—
Total bonds payable				$ 2,932,678	189,523	360,009	2,762,192	232,395

(Dollars in thousands, unless noted)

At June 30, 2020, debt service requirements to maturity for principal and interest are as follows:

		Total debt service	Principal	Interest
Year ending June 30:				
2021	$	325,421	213,180	112,241
2022		301,409	198,440	102,969
2023		301,145	208,195	92,950
2024		275,992	192,510	83,482
2025		257,936	183,460	74,476
2026–2030		957,894	703,910	253,984
2031–2035		555,069	441,075	113,994
2036–2040		234,807	199,185	35,622
2041–2045		55,402	48,040	7,362
2046–2050		7,335	6,880	455
Total debt service requirements	$	3,272,410	2,394,875	877,535

The Trust defeased certain bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus program funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. The balance of bonds defeased in irrevocable trusts outstanding as of June 30, 2020, are as follows:

Description	Redemption date	Final escrow payment date		Outstanding principal amount 2020	2019
Series 14	6/12/2014	8/1/2019	$	—	137,595
Series 15	4/13/2017	8/1/2020		18,320	18,320
Series 16	4/13/2017	8/1/2020		54,285	54,285
Series 2012	4/13/2017	8/1/2022		29,660	29,660
Series 2009A	6/13/2018	8/1/2019		—	99,695
Series 2010A	6/13/2018	2/1/2020		—	17,875
Series 14	6/6/2019	8/1/2019		—	95,885
Series 16	5/21/2020	8/1/2020		108,285	—

(Continued)

(Dollars in thousands, unless noted)

When the Trust refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the bonds being refunded. The resulting accounting gain or loss is recorded as deferred outflow of resources on the Statement of Net Position and is amortized generally over the life of the refunding bonds. The net loss on debt refunding as of June 30, 2020 is as follows:

		2020	2019
Beginning balance	$	57,367	66,715
Gain on Series 16 Refunding		12,010	—
Amortization		(7,542)	(9,348)
Ending balance	$	37,815	57,367

(9) Other Liability

As of June 30, 2020, the Trust has a $9,193 liability for the separate fund established with expanded room occupancy excise tax on short-term rentals collected and held on behalf of the Cape Cod and Islands Water Protection Fund Management Board. The Cape Cod and Islands Water Protection Fund ("CCIWPF") was established pursuant to Chapter 337 of the Acts of 2018 "Act Regulating and Insuring Short-Term Rentals (the "Act"). The Act expanded the application of the room occupancy excise tax in M.G.L. C. 64G to operators of short-term rentals as of July 1, 2019. The Act also allowed for additional local option 2.75% excise tax for those cities and towns that are members of the Fund. Revenues received from the 2.75% excise tax imposed will be credited to the CCIWPF, as well as any investment income earned on the fund's assets. The Trust shall apply and disburse amounts credited to the fund, without further appropriation, subsidies and other assistance, which may include principal forgiveness, to municipalities that are members of the Fund in the payment of debt service costs on loans and other forms of financial assistance made by the Trust for water pollution abatement projects. Amounts credited to the fund shall be expended or applied only with the approval of the Cape Cod and Islands Water Protection Fund Management Board established under Section 20 and in a manner determined by the board. Any amounts remaining in the fund at the end of a fiscal year shall be carried forward into the following fiscal year and shall remain available for application and disbursement without further appropriation. As of June 30, 2020, the Cape Cod and Islands Water Protection Fund Management Board has not approved funding to be expended or applied to projects.

(10) Net Position

As of June 30, 2020, and 2019, the Trust has a restricted net position in the amount of $2,144,965 and $2,049,875, respectively, and an unrestricted net position in the amount of $597,706 and $528,421, respectively. Restricted net position represents capitalization grants received cumulative to date from the EPA and corresponding matching amounts received from the Commonwealth, required to revolve back to the program. 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.

(Dollars in thousands, unless noted)

(11) Commitment

As of June 30, 2020, and 2019, the Trust has agreed to provide interim financing loans to eligible borrowers amounting to approximately $299,233 and $267,330, respectively, excluding loan amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

(12) 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 JPMorgan Chase & Co. The terms of each swap agreement are summarized below:

	2022 Termination	2023 Termination
Trade date	November 21, 2006	November 21, 2006
Effective date	December 14, 2006	December 14, 2006
Termination date	August 1, 2022	August 1, 2023
Notional amount	$ 30,650	46,605
Fair value at June 30, 2020	(1,559)	(3,085)
Fair value at June 30, 2019	(1,212)	(2,304)
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, 2020 and 2019, which means on the August 1, 2020 debt service payment date the Trust will make a payment to the swap counterparty. At June 30, 2020 and 2019, the fair value of these swaps is reflected as a liability for derivative instruments and deferred outflows in the accompanying financial statements. GASB defines certain hierarchy of inputs to valuation techniques used to measure fair value. Derivative instruments are classified as Level 2 of the fair value hierarchy 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. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2020 and 2019 were recognized as deferred outflows resulting in no impact on the Statement of Revenues, Expenses, and Changes in Net Position.

Credit Risk – As of June 30, 2020 and 2019, the Trust is not exposed to credit risk because the swaps had a negative fair value. The swap counterparty is JPMorgan Chase & Co. and is rated AA-/Aa1/AA-by S&P Global Ratings, 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 S&P Global Ratings, and Moody's Investors Service, respectively.

Termination Risk – The swap contract uses the International Swaps and Derivatives 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."

(Continued)

(Dollars in thousands, unless noted)

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, 2020, the variable rate was calculated using the May 31, 2020 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 on the following page. 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:				
2021	$ —	851	2,156	3,007
2022	—	851	2,156	3,007
2023	30,650	682	1,730	33,062
2024	46,605	257	652	47,514

[1] Calculated rate uses May 31, 2020 Muni-CPI rate to reflect debt service payment for August 1, 2020.

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

(13) Deferred Outflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2020 and 2019:

	2020	2019
Deferred outflows of resources:		
Derivative instruments (note 12)	$ 4,644	3,516
Excess of reacquisition price over net carrying value of defeased bonds (note 8)	37,815	57,367
	$ 42,459	60,883