

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

Financial Statements and
Required Supplementary Information

For the Years Ended June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Massachusetts Clean Water Trust
Boston, Massachusetts

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Massachusetts Clean Water Trust (the Trust), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Trust as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

Prior Period Financial Statements

The basic financial statements of the Trust as of June 30, 2021, were audited by other auditors whose report dated October 13, 2021, expressed unmodified opinions on the business-type activities and fiduciary activities, and included an emphasis of matter paragraph for the adoption of GASB Statement No. 84, *Fiduciary Activities*.

As part of our audit of the 2022 financial statements, we also audited adjustments described in Note 2 that were applied to restate the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the Trust other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

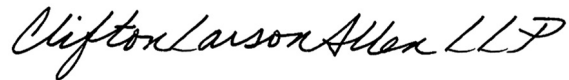
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 27, 2022 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 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.



CliftonLarsonAllen LLP

Boston, Massachusetts
October 27, 2022

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2022 and 2021

Introduction

The Massachusetts Clean Water Trust (the Trust) is a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth), created by Chapter 275 of the Acts of 1989. The Trust, in collaboration with the Massachusetts Department of Environmental Protection (MassDEP), helps communities build or replace water quality infrastructure that enhances ground 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 other eligible borrowers through the Massachusetts' Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs. 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 at a subsidized rate to the communities.

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.

The Trust and MassDEP administer the two SRF programs: the CWSRF established in 1987 under Title VI of the federal Clean Water Act, as amended from time to time, and the DWSRF established in 1996 under the federal Safe Drinking Water Act. The Trust manages the flow of funds to borrowers, while MassDEP evaluates projects, manages project development, and provides project oversight.

The Trust receives funding from the EPA in the form of annual capitalization grants, supplemented by 20% state matching grants and the repayment of loans (SRF Program Equity Funds). When loans to borrowers are paid back, the funds are then loaned out again, which is how the SRF programs "revolve". SRF Program Equity Funds are expected to be used for loans or to secure bonds through the Trust's SRF programs in perpetuity.

The Trust initially allocates SRF Program Equity Funds to make loans. The Trust's loan process for each SRF is guided by a list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles the two IUPs annually. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects 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 CWSRF project selection, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. For DWSRF project selection, the program emphasizes compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. Ultimately, MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

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The Trust provides each borrower a subsidized loan pursuant to a financing agreement between the Trust and the borrower. The Trust makes loans with terms up to thirty (30) years, but the loan term is limited by the expected useful life of the project being financed or refinanced. Twenty (20) year loans bear interest at a subsidized rate at or below 2% per annum set by statute and thirty (30) year loans bear a slightly higher interest rate. Borrowers deliver their own general or special obligation bond to the Trust referred to as a "local bond" in order to secure their respective loan repayment obligations.

The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF Federal Capitalization Grants as additional subsidy to these communities. The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants.

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. Except as otherwise specified, dollar amounts used herein are in thousands.

The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) 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. Effective for the year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

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

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

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

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The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities that are not part of the financial reporting entity. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position. Accordingly, this fiduciary activity is reported on a separate statements of fiduciary net position and statements of changes in fiduciary net position.

Condensed Financial Information and Financial Analysis

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

	June 30			Percentage change	
	2022	2021*	2020*	2022–2021	2021–2020
Cash and cash equivalents	\$ 968,958	1,058,177	646,082	(8.4)%	63.8 %
Investments	642,007	635,944	710,614	1.0	(10.5)
Project fund deposits	19,246	81,753	42,430	(76.5)	92.7
Grants receivable, EPA	40,965	40,983	41,663	—	(1.6)
Loans receivable	4,037,854	4,084,090	4,089,717	(1.1)	(0.1)
Accrued interest receivable	33,621	35,777	37,472	(6.0)	(4.5)
Other assets	4,339	1,354	—	220.5	—
Total assets	5,746,990	5,938,078	5,567,978	(3.2)	6.6
Deferred outflows of resources	26,759	32,121	42,459	(16.7)	(24.3)
Total assets and deferred outflows of resources	\$ 5,773,749	5,970,199	5,610,437	(3.3)%	6.4 %
Accrued expenses and interest payable	\$ 48,903	47,799	48,219	2.3 %	(0.9)%
Unearned revenue	30,552	15,894	15,901	92.2	—
Loan commitments and project funds payable	17,475	79,746	39,576	(78.1)	101.5
Long-term debt	2,689,048	2,931,745	2,724,344	(8.3)	7.6
Other commitments	6,303	7,805	—	(19.2)	100.0
Liability for derivative instruments	—	—	4,644	—	(100.0)
Total liabilities	2,792,281	3,082,989	2,832,684	(9.4)	8.8
Deferred inflows of resources	3,388	1,354	—	150.2	100.0
Total liabilities and deferred inflows of resources	\$ 2,795,669	3,084,343	2,832,684	(9.4)%	8.9 %
Net position:					
Restricted	\$ 2,375,750	2,277,366	2,180,047	4.3 %	4.5 %
Unrestricted	602,330	608,490	597,706	(1.0)	1.8
Total net position	\$ 2,978,080	2,885,856	2,777,753	3.2 %	3.9 %

*As restated - see note 2 to the financial statements

The Trust's net position as of June 30, 2022 and 2021 increased \$92,224, or 3.2%, to \$2.98 billion from \$2.89 billion, respectively. This increase reflects the receipt of the EPA federal grant funds for the CWSRF and DWSRF

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programs in the amounts of \$53,946 and \$25,763, respectively, as well as \$15,894 in state matching grant funds. Offsetting this increase was a net operating loss of (\$3,379).

The Trust's net position as of June 30, 2021 and 2020 increased \$108,103, or 3.9%, to \$2.89 billion from \$2.78 billion, respectively. This increase reflects the receipt of the EPA federal grant funds for the CWSRF and DWSRF programs in the amounts of \$53,954 and \$25,549, respectively, as well as a \$2,998 award from EPA to create a Massachusetts Expanded School Water Improvement Grant program and \$16,650 in state matching grant funds. Contributing to this increase was net operating income of \$8,952.

Long-term Debt/Bonds Payable

The following is a summary of bonds payable at June 30, 2022, 2021 and 2020 (in thousands). More detailed information can be found in note 8 to the financial statements.

	Summary of bonds payable at June 30,		
	2022	2021	2020
State Revolving Fund Revenue Bonds:			
Master Trust Agreement	\$ 1,160,150	1,212,205	898,990
Pool Loan Program	430,430	445,480	491,275
Single Obligor Bonds – MWRA	4,170	4,870	5,625
Subtotal revenue bonds	1,594,750	1,662,555	1,395,890
Subordinated Revenue Refunding Bonds:			
Master Trust Agreement	157,835	183,585	183,585
Pool Loan Program	562,950	680,280	811,555
Single Obligor Bonds – MWRA	3,845	3,845	3,845
Subtotal revenue refunding bonds	724,630	867,710	998,985
Total bonds	2,319,380	2,530,265	2,394,875
Add unamortized bond premium	369,668	401,480	329,469
Total bonds payable, net	\$ 2,689,048	2,931,745	2,724,344

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' projects under the CWSRF and DWSRF programs. The Trust uses a "leveraged model" to provide funding in excess of the federal and state grants received. SRF Bonds are issued in the capital markets and are secured by loans or reserves funded by SRF Program Equity Funds (pledged assets). The proceeds from the SRF Bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure. The balance of the Trust's pledged assets as of June 30, 2022 is \$ 361,545 in reserve funds and \$ 591,832 in loans to borrowers. The SRF Bonds are payable from borrower loan repayments, reserve fund earnings and contract assistance payments made by the Commonwealth to the Trust on behalf of the borrowers.

In connection with the issuance of its Series 18 Bonds in early 2015, the Trust entered into the Master Trust Agreement (MTA). The MTA replaced the Trust's older Program Resolution and simplified the security framework

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for new Trust SRF Bonds. The Series 18 Bonds and all other SRF Bonds issued and to be issued under the MTA (MTA Bonds) are secured on a parity basis by the assets pledged under the MTA. Prior to Series 18, the Trust issued bonds pursuant to the Trust's older Program Resolution and standalone bond resolutions 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, 2022, and 2021, 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.

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	
	2022	2021*	2020*	2022–2021	2021–2020
Loan servicing fees	\$ 5,473	5,280	5,454	3.7 %	(3.2)%
Loan origination fees	—	—	83	—	(100.0)
Interest income	94,784	94,803	113,451	—	(16.4)
Net decrease in the fair value of investments	(25,130)	(7,887)	20,814	218.6	(137.9)
Contract assistance	63,383	63,383	63,383	—	—
Total operating revenues	<u>138,510</u>	<u>155,579</u>	<u>203,185</u>	<u>(11.0)</u>	<u>(23.4)</u>
DEP programmatic support costs	12,381	9,399	9,374	31.7	0.3
Loan forgiveness	32,542	37,353	43,252	(12.9)	(13.6)
General and administrative	1,876	3,318	3,263	(43.5)	1.7
Arbitrage rebate payments	886	4,240	12,242	(79.1)	(65.4)
Interest expense	94,204	92,317	94,839	2.0	(2.7)
Total operating expenses	<u>141,889</u>	<u>146,627</u>	<u>162,970</u>	<u>(3.2)</u>	<u>(10.0)</u>
Operating (loss) income	<u>(3,379)</u>	<u>8,952</u>	<u>40,215</u>	<u>137.7</u>	<u>77.7</u>
EPA capitalization grants	79,709	82,501	99,545	(3.4)	(17.1)
State matching grants	15,894	16,650	35,596	(4.5)	(53.2)
Total nonoperating revenues	<u>95,603</u>	<u>99,151</u>	<u>135,141</u>	<u>(3.6)</u>	<u>(26.6)</u>
Increase in net position	92,224	108,103	175,356	(14.7)	(38.4)
Net position, beginning of year	<u>2,885,856</u>	<u>2,777,753</u>	<u>2,602,397</u>	3.9	6.7
Net position, end of year	<u>\$ 2,978,080</u>	<u>2,885,856</u>	<u>2,777,753</u>	<u>3.2 %</u>	<u>3.9 %</u>

*As restated - see note 2 to the financial statements

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Results of Operations

For fiscal year 2022, the Trust recorded an operating loss of (\$3,379) as compared to operating income of \$8,952 in fiscal year 2021. Excluding the net decrease in the fair value of investments of (\$25,130) in fiscal year 2022 and the net decrease in the fair value of investments of (\$7,887) for fiscal year 2021, the Trust recorded operating income of \$21,751 and \$16,839 for fiscal year 2022 and 2021, respectively. This \$4,912 increase in the Trust's operating income was primarily attributable to a \$6,382 decrease in scheduled debt service payments made on behalf of borrowers by Commonwealth contract assistance offset by an increase in additional subsidies provided on priority projects and other initiatives year over year.

For fiscal year 2021, the Trust recorded operating income of \$8,952 as compared to operating income of \$40,215 in fiscal year 2020. Excluding the net decrease in the fair value of investments of (\$7,887) in fiscal year 2021 and the net increase in the fair value of investments of \$20,814 in fiscal 2020, the Trust recorded operating income of \$16,839 and \$19,401 for fiscal year 2021 and 2020, respectively. This \$2,562 decrease in the Trust's operating income was primarily attributable to a \$18,648 decrease in interest income offset by a \$8,002 decrease in arbitrage rebate payments, a \$6,468 decrease in scheduled debt service payments made on behalf of borrowers by Commonwealth contract assistance and a \$2,522 decrease in interest expense.

The Trust's operating income is negatively impacted by the inclusion of expenses such as DEP programmatic support costs of \$12,381, \$9,399, and \$9,374, for fiscal years 2022, 2021 and 2020, respectively, and federal loan forgiveness funded by the capitalization grant revenue which is classified as nonoperating revenue. The Trust's operating income is positively impacted by additional contract assistance payments received from the Commonwealth to provide loan principal subsidies to borrowers for certain priority projects and or initiatives that are recorded as operating revenue when received; however, the operating expenses are recorded as funds are disbursed which occurs in subsequent fiscal years.

Nonoperating revenues from the EPA federal grants totaled \$79,709 for fiscal year 2022, representing the Trust's annual federal 2021 capitalization grants for CWSRF, \$53,946, and DWSRF, \$25,763.

Nonoperating revenues from the EPA federal grants totaled \$82,501 for fiscal year 2021, representing the Trust's annual federal 2020 capitalization grants for CWSRF, \$53,954, and DWSRF, \$25,549, and a \$2,998 grant awarded by the EPA to create the Massachusetts Expanded School Water Improvement Grant (ESWIG) program. The goal of the ESWIG program is to develop and implement improvement investments through projects that will reduce lead exposure in drinking water by replacing thousands of water fountains that have tested positive for lead with filtered water fountains and bottle filling stations in hundreds of schools and childcare facilities.

Nonoperating revenues from state grants totaled \$15,894, for fiscal year 2022 as compared to \$16,650 in fiscal year 2021. Refer to footnote 6 for additional information.

Contract Assistance and Loan Forgiveness

Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Most of the Trust's loans are subsidized to a 2% interest rate set by statute. Other loans made by the Trust may bear interest at lower rates, including a zero interest rate, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the

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Commonwealth for which its full faith and credit are pledged. These contract assistance funds are used to make debt service payments on behalf of the Trust's borrowers, both principal and interest, and are recorded as operating revenues upon receipt of funds from the Commonwealth. Total contract assistance funds used to make principal payments on behalf of the Trust's borrowers totaled \$9,305 and \$15,687 for fiscal years 2022 and 2021, respectively. These payment amounts were also recorded as loan forgiveness upon receipt of funds from the Commonwealth. Total contract assistance funds used to make interest payments on behalf of the Trust's borrowers totaled \$18,905 and \$20,863 for fiscal years 2022 and 2021, respectively.

Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to receive a higher rate of subsidy. These contract assistance payments are recorded as operating revenues upon receipt of funds from the Commonwealth and totaled \$35,173 and \$26,833 for fiscal years 2022 and 2021, respectively. As these funds are disbursed to borrowers they are recorded as operating expenses, specifically, loan forgiveness. The following loan programs work to further support various programs or state goals by providing a higher rate of subsidy.

0% Interest Rate Nutrient Enrichment Reduction Loans. Due to Massachusetts' geographic location and population distribution, many communities are coastal or on rivers that flow into saltwater bodies. This leads to wastewater pollution and additional nitrogen being deposited into saltwater areas. An increase in nitrogen in affected saltwater bodies can create algae blooms which negatively affect animal habitats, cause fish kills, and cause a reduction in the shellfish population. This CWSRF nutrient enrichment reduction loan program provides 0% interest rate loans to qualified projects to encourage communities to move such projects forward.

0% Interest Rate PFAS Mitigation Loans. PFAS are a family of chemicals used to manufacture firefighting, stain-resistant, water-resistant, and non-stick products. PFAS do not break down easily and will stay in the environment a long time, which is why they are sometimes called "forever chemicals." They can seep into surface soils and leach into ground and surface water which can contaminate drinking water. When ingested, PFAS may lead to negative health effects. In January 2020, the Trust launched a 0% interest rate pilot loan program for projects that remediate PFAS in public water supplies for the 2020 calendar year. The program was made permanent in July 2020. In April 2021, the Board approved expanding the program to the CWSRF. These 0% interest loans will help communities that have identified PFAS in their drinking water to expedite and complete the remediation projects that are vital to providing clean drinking water to residents.

Lead Abatement Loan Forgiveness Program. Lead has been a long-standing public health issue, especially given the severe health risk lead poses to infants and small children. The Trust is furthering the Commonwealth's commitment to providing lead-free drinking water by committing \$30 million for loan forgiveness to DWSRF projects that remediate lead in drinking water or planning projects that identify sources of lead for remediation.

Lead Service Line Planning Program. Starting July 2022, the Trust is offering \$20 million in loans with 100% loan forgiveness for planning activities assisting public water suppliers to complete planning projects for lead service line (LSL) inventories and for the development of LSL replacement programs.

0.5% Loan Interest Rate Reduction for Housing Choice Designation. Inadequate housing production is one of the core challenges facing the Commonwealth's families and economy. The Commonwealth has developed a multi-pronged effort (the Housing Choice Initiative) to help communities seeking assistance in increasing their housing supply. A crucial part of Housing Choice Initiative is the Housing Choice designation

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and grant program. The Trust has joined other state agencies in providing incentives to communities who achieve the designation by providing a 0.5% interest rate reduction to both CWSRF and DWSRF loans.

The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF federal capitalization grants as additional subsidy to these communities.

The Affordability Calculation is based on an adjusted per capita income (APCI) metric. Pursuant to EPA guidance, the criteria must be based upon income, unemployment data, population trends, and other data determined relevant by the state. The Trust calculates APCI for the Commonwealth and its 351 individual municipalities annually in connection with the IUP process. Communities that fall below the Commonwealth’s APCI are assigned into three (3) affordability tiers based on a community’s APCI as a percentage of the Commonwealth’s APCI. The highest level of subsidy goes to tier 3 communities that are below 60% of the statewide APCI. The second highest level of subsidy goes to tier 2 communities that fall within 60-80% of the statewide APCI. The third highest level of subsidy goes to tier 1 communities that fall between 80-100% of the statewide APCI.

The table below shows how the tiers are designated and the corresponding loan forgiveness percentage by program. For more information regarding the annual affordability calculation, see <https://www.mass.gov/info-details/the-disadvantaged-community-program#the-affordability-calculation>.

Disadvantaged Community Tier Designation		Loan Forgiveness Percentage	
		CWSRF	DWSRF
Tier 1	APCI of ≥80% but <100% of the Commonwealth APCI	3.3%	6.6%
Tier 2	APCI of ≥60% but <80% of the Commonwealth APCI	6.6%	13.2%
Tier 3	APCI <60% of the Commonwealth APCI	9.9%	19.8%

The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants.

The additional subsidy is calculated based on construction contracts that are executed by June 30 of the year following the IUP year and is approved by the Trust’s Board of Trustees in the fall. For fiscal year 2022, the Trust’s Board of Trustees approved \$23,942 of additional affordability subsidy based on the 2020 IUP construction contracts executed by June 30, 2021. The federal grants provided funding for \$10,505 and the Commonwealth contract assistance provided the remaining \$13,437 of subsidy. For fiscal year 2021, the Trust’s Board of Trustees approved \$20,936 of additional affordability subsidy based on the 2019 IUP construction contracts executed by June 30, 2020. The 2019 federal grants provided funding for \$12,094 and the Commonwealth contract assistance provided the remaining \$8,842 of subsidy.

Loan forgiveness is recorded as an operating expense on a first-in, first-out basis as disbursements are processed, up to the total amount of the loan forgiveness awarded to the individual loans. For a loan receiving loan forgiveness, the first loan disbursements are deemed to be provided first from the federal grants and then from contract assistance until the full amount of committed loan forgiveness has been disbursed. For fiscal year 2022 and 2021, total loan forgiveness disbursed from federal grant funds totaled \$10,003 and \$12,127, respectively and loan forgiveness disbursed from contract assistance totaled \$12,054 and \$7,338, respectively.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2022 and 2021

Fiduciary Activity

Effective with the fiscal year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities with which the Trust does not have direct financial involvement with. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position.

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 \$64,000 in matching capitalization funds to the CWSRF and DWSRF programs, and Bipartisan Infrastructure Law ("BIL") federal grants. The Trust estimates that this amount, combined with the \$9,225 balance remaining as of June 30, 2022, will be sufficient to meet its clean water and drinking water matching needs through FY 2024, assuming current federal funding levels are maintained.

COVID-19

In response to the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, and the declaration by the World Health Organization on March 11, 2020 of a COVID-19 pandemic, international, federal, state, and local governments, as well as private organizations, undertook numerous measures intended to address the effects of COVID-19. The COVID-19 pandemic and the numerous measures taken in response to it continue to impact the global, national, and state economies. Even as the pandemic eases, the extent to which the COVID-19 impacts businesses, organizations and the residents of the Commonwealth is unknown.

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, 2022 and 2021

(In thousands)

	2022	2021
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 968,958	1,058,177
Short-term investments (note 5)	197,748	208,331
Project fund deposits (note 4)	19,246	81,753
Grants receivable - Environmental Protection Agency (note 6)	40,965	40,983
Loans receivable, net (note 7)	690,204	423,408
Accrued interest receivable	33,621	35,777
Total current assets	1,950,742	1,848,429
Noncurrent assets:		
Long-term investments (note 5)	444,259	427,613
Loans receivable, long-term (note 7)	3,347,650	3,660,682
Other assets (note 12)	4,339	1,354
Total noncurrent assets	3,796,248	4,089,649
Total assets	5,746,990	5,938,078
Deferred outflows of resources (note 8)	26,759	32,121
Total assets and deferred outflows of resources	5,773,749	5,970,199
Liabilities and deferred inflows of resources:		
Current liabilities:		
Accrued expenses and interest payable	48,903	47,799
Unearned revenue (note 6)	30,552	15,894
Loan commitments and project funds payable	17,475	79,746
Current portion long-term debt (note 8)	219,785	210,885
Other commitment (note 9)	6,303	7,805
Total current liabilities	323,018	362,129
Noncurrent liabilities:		
Long-term debt, net (note 8)	2,469,263	2,720,860
Total noncurrent liabilities	2,469,263	2,720,860
Total liabilities	2,792,281	3,082,989
Deferred inflows of resources (note 2)	3,388	1,354
Total liabilities and deferred inflows of resources	2,795,669	3,084,343
Net position:		
Restricted for program purposes (note 10)	2,375,750	2,277,366
Unrestricted (note 10)	602,330	608,490
Commitments (note 11)	—	—
Total net position	\$ 2,978,080	2,885,856

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, 2022 and 2021
(In thousands)

	2022	2021
Operating revenues:		
Loan servicing fees	\$ 5,473	5,280
Interest income	94,784	94,803
Net decrease in the fair value of investments	(25,130)	(7,887)
Contract assistance from Commonwealth of Massachusetts	63,383	63,383
Total operating revenues	138,510	155,579
Operating expenses:		
Commonwealth of Massachusetts:		
Department of Environmental Protection – programmatic support costs	12,381	9,399
Loan forgiveness	32,542	37,353
General and administrative	1,876	3,318
Arbitrage rebate payments	886	4,240
Interest expense	94,204	92,317
Total operating expenses	141,889	146,627
Operating income (loss)	(3,379)	8,952
Nonoperating revenue:		
Grant revenue:		
Environmental Protection Agency capitalization grants (note 6)	79,709	82,501
Commonwealth of Massachusetts grants (note 6)	15,894	16,650
Total nonoperating revenue	95,603	99,151
Increase in net position	92,224	108,103
Net position – beginning of year (as restated - note 2)	2,885,856	2,777,753
Net position – end of year	\$ 2,978,080	2,885,856

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, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities:		
Other cash received from borrowers	\$ 5,473	5,280
Cash paid to vendors	(14,674)	(17,041)
Net cash used in operating activities	(9,201)	(11,761)
Cash flows from noncapital financing activities:		
Bond proceeds	—	452,788
Cash used in debt refunding	—	(2,901)
Repayment of bonds	(210,885)	(213,180)
Interest paid	(115,299)	(112,170)
Proceeds from Environmental Protection Agency capitalization grants	79,727	83,181
Proceeds from Commonwealth of Massachusetts grants	30,552	15,894
Proceeds received from Cape Cod and Islands Water Protection Fund (note 3)	—	13,709
Net cash provided by (used in) noncapital financing activities	(215,905)	237,321
Cash flows from investing activities:		
Loans disbursed to recipients	(278,124)	(313,591)
Cash received from borrowers	283,989	272,787
Contract assistance received from Commonwealth of Massachusetts	63,383	63,383
Interest received	96,299	95,250
Purchases of investments	(102,099)	(3,425)
Sales/maturities of investments, net	72,439	72,131
Net cash provided by investing activities	135,887	186,535
Net increase in cash and cash equivalents	(89,219)	412,095
Cash and cash equivalents, beginning of year	1,058,177	646,082
Cash and cash equivalents, end of year	\$ 968,958	1,058,177
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (3,379)	8,952
Adjustments to reconcile operating income to net cash used in operating activities:		
Reclassification of:		
Interest income	(94,784)	(94,803)
Net decrease in the fair value of investments	25,130	7,887
Contract assistance from Commonwealth of Massachusetts	(63,383)	(63,383)
Interest expense	94,204	92,317
Loan forgiveness	32,542	37,353
Changes in operating assets and liabilities:		
Other assets and liabilities, net	469	(84)
Net cash used in operating activities	\$ (9,201)	(11,761)

See accompanying notes to financial statements.

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

Statements of Fiduciary Net Position

June 30, 2022 and 2021

(In thousands)

	2022	2021
Assets:		
Current assets:		
Cash and cash equivalents	\$ 27,785	9,341
Accrued receivables	2,459	2,017
Total assets	30,244	11,358
Net Position		
Net position restricted for other governments	30,244	11,358
Total net position	\$ 30,244	11,358

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Additions:		
Taxes collected	\$ 20,266	15,557
DSRRP loan repayment receipts	784	63
Interest income	101	26
Total additions	21,151	15,646
Deductions:		
Payment of subsidy for loan forgiveness	1,303	13,709
Fiduciary reimburseable costs	962	—
Total deductions	2,265	13,709
Increase in fiduciary net position	18,886	1,937
Net position – beginning of year	11,358	9,421
Net position – end of year	\$ 30,244	11,358

See accompanying notes to financial statements.

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

Notes to Financial Statements

Years ended June 30, 2022 and 2021

(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 Agreements between the United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (MassDEP), and the Trust, the Trust administers the Commonwealth's Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs.

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 Trust's 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, <https://www.mass.gov/orgs/the-massachusetts-clean-water-trust>.

(b) Description of Business

The Trust administers two State Revolving Fund (SRF) programs: the CWSRF was established in 1987 under Title VI of the federal Clean Water Act, as amended from time to time, and the DWSRF established in 1996 under the federal Safe Drinking Water Act. MassDEP evaluates projects, manages project development, and provides project oversight, while the Trust manages the flow of funds to borrowers. The Trust, in collaboration with MassDEP, helps communities build or replace water quality infrastructure that enhances ground 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 other eligible borrowers through the Massachusetts State Revolving Funds (SRF) programs. The SRF programs are partnerships between the 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 20% state matching grants and the repayment of loans. When loans to borrowers are repaid, the funds are then loaned out again, which is how the SRF programs "revolve". SRF Program Equity Funds are expected to be used for loans or to secure bonds through the Trust's SRF programs in perpetuity.

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 loans or reserves funded by SRF Program Equity 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 leverage nearly \$2.8 billion in federal capitalization grants and Commonwealth matching grants to finance approximately \$8.1 billion in water infrastructure loans.

The Trust's loan process for each SRF is guided by an annual list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles the two IUPs annually. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects 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.

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

Years ended June 30, 2022 and 2021

For CWSRF 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. DWSRF projects emphasize compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

Total project grant funds received, both federal and state, less the amounts provided as loan 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 is 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.

Effective with the fiscal year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

(b) Revenue Recognition

Operating revenues, including interest income, are generated through the issuance of loans to borrowers within the Commonwealth. Operating expenses include interest expense related to the Trust's outstanding debt as well as programmatic and administrative expenses.

Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Most of the Trust's loans are subsidized to a 2% interest rate set by statute. Other loans made by the Trust may bear interest at lower rates, including a zero percent interest rate, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged. These contract assistance funds are used to make debt service payments on behalf of the Trust's borrowers, both principal and interest, and are recorded as operating revenues upon receipt of funds from the Commonwealth. Total contract assistance funds used to make principal payments on behalf of the Trust's borrowers totaled \$9,305 and \$15,687 for fiscal years 2022 and 2021, respectively. These payment amounts were also recorded as loan forgiveness upon receipt of funds from the

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

Years ended June 30, 2022 and 2021

Commonwealth. Total contract assistance funds used to make interest payments on behalf of the Trust's borrowers totaled \$18,905 and \$20,863 for fiscal years 2022 and 2021, respectively.

Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to receive a higher rate of subsidy for certain loans as approved by the Board of Trustees. The Trust receives additional contract assistance payments from the Commonwealth to provide these subsidies. For detail of these various program, refer to note 3. These additional contract assistance payments are recorded as operating revenues upon receipt of funds from the Commonwealth and totaled \$35,173 and \$26,833 for fiscal years 2022 and 2021, respectively. Disbursements of funds related to these priority projects and/or initiatives are recorded as operating expenses when disbursed to borrowers.

The Trust has restated its July 1, 2020 beginning net position of the business-type activities to correct revenue recognition of contract assistance from the Commonwealth.

	July 1, 2020
Net position as previously reported	\$ 2,742,671
Restatement	35,082
Net position as restated	\$ 2,777,753

The change in net position for the year ended June 30, 2021 is as follows:

	June 30, 2021 Amount Previously Reported	Restatement Adjustment	June 30, 2021 As Restated
Increase in Net Position	\$ 87,727	\$ -	\$ 87,727
Revenues	-	36,063	36,063
Expenses	-	(15,687)	(15,687)
Increase in Net Position	\$ 87,727	20,376	\$ 108,103

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 loan forgiveness, grants, or negative interest loans. The Trust provides the additional subsidization in the form of loan forgiveness, which is recorded as an operating expense when the funds are disbursed to borrowers.

(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.

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

Years ended June 30, 2022 and 2021

(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 Statement No. 72, *Fair Value Measurement and Application* defines a certain hierarchy of inputs to valuation techniques used to measure fair value. All 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 the MMDT cash portfolio (cash and cash equivalents) is valued at the share value of \$1.00 and carried at amortized cost. The short-term bond investment portfolio is 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 GASB Statement No. 72, *Fair Value Measurement and Application*. 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 Loan 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 loan forgiveness expected to be provided upon project completion. The amount of loan forgiveness is determined by the Trust's Board of Trustees and is recorded on a first-in, first-out basis as disbursements are processed, up to the total amount of the loan 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.

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

Years ended June 30, 2022 and 2021

(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 Office of the State Treasurer, MassDEP, 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 Premiums

Bond premiums, included in long-term debt, are 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. At June 30, 2022 and 2021, the Trust has reported deferred inflows of resources representing the payment due from JP Morgan, in the amounts of \$3,388 and \$1,354, respectively, for the positive valuation of its hedging derivative instruments in the accompanying financial statements. Refer to note 12. At June 30, 2022 and 2021, the Trust has reported deferred outflows of resources related to the calculated difference between the reacquisition price and the net carrying amount of refunded bonds of \$26,759 and \$32,121, respectively. Refer to note 8.

(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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 amounts in the statements of net position for the year ended June 30, 2021 have been reclassified to conform with the June 30, 2022 presentation.

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

Years ended June 30, 2022 and 2021

(3) Cash and Cash Equivalents

Cash and cash equivalents for the years ended June 30, 2022 and 2021 are as follows.

	2022	2021
Program equity funds	\$ 762,282	889,481
Other restricted funds	124,945	104,248
State match funds	32,397	17,775
Administrative funds	29,048	29,639
Debt service funds	8,922	4,822
Revenue funds	6,549	5,644
Rebate funds	4,113	5,871
Other cash funds	702	697
Total cash and cash equivalents	\$ 968,958	1,058,177

SRF Program Equity Funds. The Trust receives funding from the EPA in the form of annual capitalization grants, supplemented by 20% state matching grants and the repayment of loans (SRF Program Equity Funds). When loans to local governments are paid back, the funds are then loaned out again, which is how the SRF programs “revolve”. 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 SRF. These funds are also derived from interest earnings on investments or deposits of amounts held in the program equity accounts; 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; amounts derived from financing activities of the Trust; and other amounts appropriated to the Trust by the Commonwealth for purposes of the SRF programs.

On June 29, 2022, the Trust invested \$99,509 of program equity funds in U.S. Treasury securities. See footnote 5 for more information.

The Trust initially allocates SRF Program Equity Funds to make loans. On May 11, 2021, the Trust issued Series 23A Green Bonds and Series 23B Sustainability Bonds (Series 23 Bonds) in the par amount of \$351,440. Proceeds from the Series 23 Bonds replenished SRF Program Equity Funds used to fund the construction phase of financed projects in the amount of \$367,143.

Other Restricted Funds. Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to provide additional subsidy. The balances in these funds reflect the committed and unexpended or unallocated balance as of June 30, 2022 and 2021. These priority projects and initiatives include the following.

School Water Improvement Grant (SWIG) Program. On January 8, 2020, the Trust’s Board of Trustees approved the pilot round of the School Water Improvement Grant (SWIG) program. The goal of the SWIG program is to reduce lead in school drinking water to the lowest levels possible by incentivizing schools to test their drinking water fixtures and remediate any lead exceedances that are detected. It accomplishes this by providing funds to purchase and install point-of-use filtered water bottle filling stations to replace drinking water fixtures that tested above the remediation lead action level of 1 ppb. SWIG was launched in concert with MassDEP’s expanded version of the lead testing program using

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Years ended June 30, 2022 and 2021

funds from the EPA's Lead Testing in School and Child Care Program Drinking Water Grant. In FY 2021, the Trust was awarded a grant from the EPA to create the Massachusetts Expanded School Water Improvement Grant (ESWIG) program. The goal of the ESWIG program is to expand to SWIG program described above to eligible childcare and early education facilities.

SWIG provides \$3 thousand per eligible fixture that tests positive for lead. The funding covers the purchase of bottle filling stations, installation, and post installation testing of the unit, and allows the school district to use the remaining funds for future operation and maintenance cost. The Trust has committed \$5,000 to date to this program.

Asset Management Planning (AMP) Program. Asset management for water, wastewater, and stormwater utilities is a systematic approach to physical infrastructure cataloging, process management and criticality tracking that allows the utility to make informed financial decisions that are most likely to achieve long-term sustainability and deliver consistent cost-efficient service. In June 2018, the Trust's Board of Trustees approved the AMP Grant program to assist eligible applicants with completing, updating, or implementing an asset management program for wastewater, drinking water, stormwater utilities or any combination of the three. Grant funds are provided to eligible applicants as reimbursement of expenses incurred. To date, \$5,400 has been committed to this program. The committed but unexpended balance as of June 30, 2022, and 2021 was \$2,391 and \$3,571, respectively.

Additional Subsidy – Affordability Criteria. The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of construction needed for water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF federal capitalization grants as additional subsidy to these communities.

The Affordability Calculation is based on an APCI metric. Pursuant to EPA guidance, the criteria must be based upon income, unemployment data, population trends, and other data determined relevant by the states. The Trust calculates APCI for the Commonwealth and its 351 individual municipalities annually in connection with the IUP process. Communities that fall below the Commonwealth's APCI are assigned into three (3) affordability tiers based on a community's APCI as a percentage of the Commonwealth's APCI.

The highest level of subsidy goes to tier 3 communities that are below 60% of the statewide APCI. The second highest level of subsidy goes to tier 2 communities that fall within 60-80% of the statewide APCI. The third highest level of subsidy goes to tier 1 communities that fall between 80-100% of the statewide APCI. The percentage of subsidy provided ranges from 3.3% to 9.9% for tiers 1 to 3 for the CWSRF program and 6.6% to 19.8% for tiers 1 to 3 for the DWSRF program. The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants.

The additional subsidy is calculated based on construction contracts that are executed by June 30 of the year following the IUP year and is approved by the Trust's Board of Trustees in the fall. For fiscal year 2022, the Trust's Board of Trustees approved \$23,942 of additional affordability subsidy based on the 2020 IUP construction contracts executed by June 30, 2021. The 2020 federal grants provided funding

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for \$10,505 and the Commonwealth additional contract assistance provided the remaining \$13,437 of subsidy.

For fiscal year 2021, the Trust's Board of Trustees approved \$20,936 of additional affordability subsidy based on the 2019 IUP construction contracts executed by June 30, 2020. The 2019 federal grants provided funding for \$12,094 and the Commonwealth additional contract assistance provided the remaining \$8,842 of subsidy.

The additional contract assistance committed but unexpended balance as of June 30, 2022, and 2021 was \$3,067 and \$2,075, respectively. The additional contract assistance funds received but uncommitted as of June 30, 2022 and 2021 was \$109,846 and \$87,469, respectively.

Cape Cod and Islands Water Protection Fund (CCIWPF). The CCIWPF was created pursuant to Chapter 337 of the Acts of 2018 "An Act Regulating and Insuring Short-Term Rentals". The legislation added a 2.75% local option excise tax on traditional lodging and short-term rentals for communities on Cape Cod, Nantucket, and Martha's Vineyard (Cape Cod and Islands). This 2.75% excise tax can only be collected by communities participating in the fund and may only be deposited to the fund. The fund is owned and managed by the CCIWPF Management Board which is comprised of representatives from each Cape Cod and Islands community.

Monies from the fund may be used to provide loan forgiveness to eligible CWSRF projects financed by the Trust or to pay for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. In fiscal year 2022, the CCIWPF Management Board approved commitment amounts for \$108,265 of eligible projects and \$52,105 for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. In fiscal year 2021, the CCIWPF Management Board approved commitment amounts for \$54,835 of eligible projects. These commitment amounts for the pre-existing debt will be provided over a period of ten years while the other committed amounts will be paid over four years. In fiscal year 2022 and 2021, the Trust received instructions from the CCIWPF Management Board to transfer \$1,303 and \$13,709, respectively, from the fiduciary account to a designated account at the Trust. These funds will be disbursed to the respective projects as reimbursement requests are received; or used to reimburse the Trust for disbursements already made; or remain in the account until project disbursement requests are received. As of June 30, 2022, and 2021 the balance of committed but unexpended funds in this account was \$6,303 and \$7,805, respectively.

Administrative Funds. Annual loan servicing fees equal to 0.15% of outstanding loan principal charged pursuant to financing agreements as well as origination fees, if any, and any other amount received by the Trust for such purposes are used to fund the administrative costs of the Trust.

State Match Funds. The Trust receives the state matching grant from the Commonwealth capital budget. The Trust is required to obtain the matching grant prior to receiving its federal annual grants. The Bipartisan Infrastructure Law (BIL) signed into law on November 15, 2021, provided a significant investment in the water sector. The BIL appropriated \$55 billion to EPA to improve drinking water and wastewater infrastructure. Most of the water infrastructure dollars will flow through the DWSRF and CWSRF. The BIL appropriation for federal fiscal years 2022 through 2026 will represent a substantial increase over regular annual appropriations to this program. The Trust's 2022 total EPA grant allotments and their respective state match requirements are listed below.

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EPA Grant	FFY 2022 Allotment	Required State Match	FFY 2021 Allotment	Required State Match
CWSRF Base Grant	\$39,285	\$7,857	\$53,946	\$10,789
CWSRF Supplemental Grant*	60,428	6,043	--	--
CWSRF Emerging Contaminant Grant*	3,175	--	--	--
Total CWSRF Grants	102,888	13,900	53,946	10,789
DWSRF Base Grant	16,260	3,252	25,526	5,105
DWSRF Supplemental Grant*	41,750	4,175	--	--
DWSRF Emerging Contaminant Grant*	17,531	--	--	--
DWSRF Lead Service Line Replacement Grant*	65,783	--	--	--
Total DWSRF Grants	141,324	7,427	25,526	5,105
TOTAL SRF GRANTS	\$244,212	\$21,327	\$79,472	\$15,894

*New grants provided by BIL.

The state match fund balance as of June 30, 2022, includes the federal fiscal year 2022 required state match amounts listed above totaling \$21,327, the \$749 state match for the ESWIG grant as well as a \$9,225 reserve for future incremental match and \$1,096 in accumulated interest earnings.

The state match balance as of June 30, 2021, includes the federal fiscal year 2021 required state match amounts listed above totaling \$15,894, the \$749 state match for the ESWIG grant and \$1,131 in accumulated interest earnings.

Rebate Funds. The Trust sets aside certain amounts of its revenue funds collected to pay arbitrage rebate liabilities to the United States Treasury when due. Arbitrage rebate filings are due on the fifth anniversary of the respective bond issuance dates and every five years thereafter until bonds are matured and/or no longer outstanding.

Revenue Funds. Program revenues including borrower repayments, pledged assets earnings and contract assistance are deposited to this fund and are restricted or committed for specific purposes including the payment of debt service on February 1 or August 1.

Debt Service Funds. These funds accumulate the amounts required to pay principal and interest due on debt service payment dates. The balance at June 30, 2022 and June 30, 2021 reflect principal maturities and related accrued interest payments related to U.S. Treasury and Agencies debt service reserve fund investments received prior to the respective August debt service payment dates.

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Cash and cash equivalents include investments in 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 amortized cost.

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, 2022 and 2021.

(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, 2022, project fund deposits represented \$17,475 in project fund deposits related to executed loan agreements for SRF Bonds and \$1,771 of interest earnings for a total balance of \$19,246. The Trust recorded an offsetting \$17,475 commitment and project fund payable in its statement of net position. As of June 30, 2021, project fund deposits represented \$79,746 in project fund deposits related to executed loan agreements for SRF Bonds and \$2,007 of interest earnings for a total balance of \$81,753. The Trust recorded an offsetting \$79,746 commitment and project fund payable in its statement of net position. The June 30, 2021 balance reflects the new project fund deposits in the amount of \$85,641 from the May 2021 bond sale. There was no bond sale in fiscal year 2022.

(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 amounts deposited in each debt service reserve account were 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 Funds. 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

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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 Trust invests a portion of its program equity in accordance with its investment policy.

The table below provides details of the Trust's investments as of June 30, 2022 and 2021.

	2022	2021
Total Investments		
Debt Service Reserve Funds		
GICs by Provider:		
Mass Mutual Financial Group	\$ 79,176	93,033
Mass Mutual Financial Group (formerly FSA)*	65,636	77,609
Natixis Funding Corporation	58,664	69,610
Citigroup Global Markets Inc.	43,747	52,484
Total GIC's	247,223	292,736
U.S. Treasuries and Agencies	114,322	140,994
Total debt service reserve fund investments	361,545	433,730
Program Equity Fund Investments		
MMDT Short-term Bond Portfolio	104,148	102,293
U.S. Treasuries and Agencies	175,570	99,451
Citigroup Global Markets Inc. GIC	744	470
Total program equity fund investments	280,462	202,214
Total Investments	\$ 642,007	635,944

*Mass Mutual Financial Group purchased FSA Capital Management Services outstanding GICs on 2/2/2022.

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 Trust does not have a concentration of credit risk policy. The following list sets forth the GIC providers with which the Trust's investments exceed 5% of the Trust's total investment balance.

Provider	2022		2021	
Mass Mutual Financial Group	\$ 79,176	12 %	\$ 93,033	15 %
Mass Mutual Financial Group (formerly FSA)	65,636	10	77,609	12
Natixis Funding Corp.	58,664	9	69,610	11
Citigroup Global Markets Inc.	44,491	7	52,954	8

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

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“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. The MMDT Short-term Bond Portfolio 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 in the debt service reserve funds was structured in its principal and interest return to support debt service on the related bonds.

For the years ended June 30, 2022 and 2021 the Trust’s total investment portfolio matures as follows.

June 30, 2022					
		GICs	U.S. Treasuries and Agencies	MMDT Short-term Bond Portfolio	Total investments
Less than 1 year	\$	80,750	12,850	104,148	197,748
One to five years		120,919	170,223	—	291,142
Six to ten years		39,499	65,567	—	105,066
More than ten years		6,799	41,252	—	48,051
	\$	247,967	289,892	104,148	642,007

June 30, 2021					
		GICs	U.S. Treasuries and Agencies	MMDT Short-term Bond Portfolio	Total investments
Less than 1 year	\$	80,876	25,162	102,293	208,331
One to five years		156,045	76,673	—	232,718
Six to ten years		42,338	85,553	—	127,891
More than ten years		13,947	53,057	—	67,004
	\$	293,206	240,445	102,293	635,944

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(6) Capitalization Grants

The CWSRF and DWSRF 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 base capitalization grants as state matching funds in order to receive a grant.

These base 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 CWSRF base grant contains a 4% administrative allowance. The DWSRF base 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.

The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF federal capitalization grants as additional subsidy to these communities.

The Affordability Calculation is based on an adjusted per capita income (APCI) metric. Pursuant to EPA guidance, the criteria must be based upon income, unemployment data, population trends, and other data determined relevant by the state. The Trust calculates APCI for the Commonwealth and its 351 individual municipalities annually in connection with the IUP process. Communities that fall below the Commonwealth's APCI are assigned into three (3) affordability tiers based on a community's APCI as a percentage of the Commonwealth's APCI.

The highest level of subsidy goes to tier 3 communities that are below 60% of the statewide APCI. The second highest level of subsidy goes to tier 2 communities that fall within 60-80% of the statewide APCI. The third highest level of subsidy goes to tier 1 communities that fall between 80-100% of the statewide APCI. The percentage of subsidy provided ranges from 3.3% to 9.9% for tiers 1 to 3 for the CWSRF program and 6.6% to 19.8% for tiers 1 to 3 for the DWSRF program. The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants.

Each state may opt to transfer a portion of its CWSRF base capitalization grant, not to exceed 33 percent of its DWSRF base capitalization grant, to the DWSRF 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. In total, \$60,014 has been transferred from CWSRF to DWSRF to date under this option.

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.

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The following table depicts the Trust's EPA grants receivable by program. The Trust receives its state match funds in June prior to the receipt of the federal grants.

	EPA Grants Receivable		
	Clean Water	Drinking Water	Total Program
Grants receivable at June 30, 2020	\$ 32,628	9,035	41,663
Project grant award/match – FFY 2020	51,796	20,184	71,980
Admin/Set asides grant – FFY 2020	2,158	5,365	7,523
Expanded school water improvement grant FFY2020	—	2,998	2,998
Total grant award/match	53,954	28,547	82,501
Grant funds drawn	(58,610)	(24,571)	(83,181)
Grants receivable at June 30, 2021	27,972	13,011	40,983
Project grant award/match – FFY 2021	51,788	24,732	76,520
Admin/Set asides grant – FFY 2021	2,158	1,031	3,189
Total grant award/match	53,946	25,763	79,709
Grant funds drawn	(54,876)	(24,851)	(79,727)
Grants receivable at June 30, 2022	\$ 27,042	13,923	40,965

Federal grant revenue is recognized in accordance with the funding schedules contained within the individual grant agreements. Under the state matching grant, typically drawn prior to fiscal year end, revenue is unearned until the Federal grant is awarded, typically in August or September, at which time state matching revenue is recognized in accordance with each corresponding federal grant's funding schedules.

EPA federal grant revenue totaled \$79,709 for fiscal year 2022 and represents the Trust's annual federal 2021 base capitalization grants for CWSRF in the amount of \$53,946, and DWSRF in the amount of \$25,763.

EPA federal grant revenue totaled \$82,501 for fiscal year 2021 and represents the Trust's annual federal 2020 capitalization grants for CWSRF in the amount of \$53,954, and DWSRF in the amount of \$25,549. Additionally, the Trust was awarded a \$2,998 from the EPA to create the Massachusetts Expanded School Water Improvement Grant (ESWIG) program. The goal of the ESWIG program is to develop and implement improvement investments through projects that will reduce lead exposure in drinking water by replacing thousands of water fountains that have tested positive for lead with filtered water fountains and bottle filling stations in hundreds of schools and childcare facilities.

State grant revenue totaled \$15,894, for fiscal year 2022 as compared to \$16,650 in fiscal year 2021. Fiscal year 2021 included an additional \$749 state grant for the Massachusetts Expanded School Water Improvement Grant (ESWIG) the Trust was awarded by the EPA in fiscal year 2021.

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On November 15, 2021, President Biden signed into law the Bipartisan Infrastructure Law (BIL). The BIL provides two new federal grants through the CWSRF and three new federal grants through the DWSRF

- CWSRF Supplemental Grant
- CWSRF Emerging Contaminants Grant
- DWSRF Supplemental Grant
- DWSRF Emerging Contaminants Grant
- DWSRF Lead Service Line Replacement Grant

These grants will be provided annually over the next five years beginning with federal fiscal year 2022. The CWSRF Supplemental Grant, the DWSRF Supplemental Grant and the DWSRF Lead Service Line Replacement Grant require that 49% of the total grant amounts be provided as loan forgiveness to disadvantaged communities. The CWSRF and DWSRF Emerging Contaminants Grants are expected to target PFAS remediation projects and require that the full amount of the grant amounts be provided as loan forgiveness and that at least 25% of the grant be directed to disadvantaged communities.

The Trust receives its state match prior to applying for the federal EPA grants. The Trust records the receipt of the state match funds prior to receipt of the grant as unearned revenue in its statements of net position. The unearned revenue balance as of June 30, 2022, includes the federal fiscal year 2022 required state match amounts totaling \$21,327 and a \$9,225 reserve for future incremental match. See footnote 3 for more details on the specific state match funds received.

The unearned revenue balance as of June 30, 2021, includes the federal fiscal year 2021 required state match amounts totaling \$15,894.

(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 CWSRF, DWSRF, and Community Septic Management Programs.

The Trust's loan process is dictated by the IUPs MassDEP compiles annually, one for each SRF program. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects 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 CWSRF project selection, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. For DWSRF project selection, the program emphasizes compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. Ultimately, MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

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The Trust provides each borrower a subsidized loan pursuant to a financing agreement between the Trust and the borrower. The Trust makes loans with terms up to thirty (30) years, but the loan term is limited by the expected useful life of the project being financed or refinanced. Twenty (20) year loans bear interest at a subsidized rate of 2% per annum set by statute and thirty (30) year loans bear a slightly higher interest rate. Borrowers deliver their own general or special obligation bond to the Trust referred to as a “local bond” in order to secure their respective loan repayment obligations.

A summary of loan receivables as of June 30, 2022 and 2021 is as follows.

	<u>2022</u>	<u>2021</u>
Leveraged loans	\$ 3,061,058	3,332,063
Direct loans pledged for bond debt service	586,570	621,571
Other direct loans	<u>5,262</u>	<u>5,890</u>
Total permanently financed loans receivable	3,652,890	3,959,524
Interim loans	469,228	189,675
Loan forgiveness	<u>(84,264)</u>	<u>(65,109)</u>
Total interim loans net loan forgiveness	384,964	124,566
Total loans receivable	<u>4,037,854</u>	<u>4,084,090</u>
Less current portion loans receivable		
Permanently financed	305,240	298,842
Interim loans	<u>384,964</u>	<u>124,566</u>
Total current portion loans receivable	<u>690,204</u>	<u>423,408</u>
Long-term portion – loans receivable	<u>\$ 3,347,650</u>	<u>3,660,682</u>

The increase in interim loans is due to the Trust not issuing bonds in fiscal year 2022. This number is expected to decrease in fiscal year 2023 when a portion of these interim loans is permanently financed with a bond issuance early in fiscal year 2023.

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. The Trust initially allocates SRF Program Equity Funds to make these interim loans. 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 at a zero percent interest rate with no fees. The interim loan receivable balances were \$469,228 and \$189,675 as of June 30, 2022 and 2021, respectively.

The Trust issues revenue bonds (SRF Bonds) in order to fund communities’ projects under the CWSRF and DWSRF programs. The Trust uses a “leveraged model” to provide funding in excess of the federal and state grants received. SRF Bonds are issued in the capital markets and are secured by loans or reserves funded by SRF Program Equity Funds (pledged assets). The proceeds from the SRF Bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure, referred to in the table above

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as leveraged loans. The loans securing the SRF Bonds that are funded with SRF Equity Program Funds are referred in the table above as direct loans pledged for bond debt service.

The June 30, 2021 leveraged loan balance reflects the issuance of the Trust's Series 23 Bonds in May 2021. Proceeds from the Series 23 Bonds replenished SRF Program Equity Funds applied to fund the construction phase of financed projects in the amount of \$367,143, and an additional \$85,641 of bond proceeds were deposited to project funds for the remaining project expenses for these leveraged loans.

The Trust did not issue any bonds in fiscal year 2022. As a result, the leveraged loan balance decreased \$271,005 during the fiscal year reflecting loan repayments. Offsetting this decrease was a \$279,553 increase in the interim loan balance reflecting the continued construction financing during the year.

The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF federal capitalization grants as additional subsidy to these communities. The Trust provides this additional subsidization in the form of loan forgiveness. Loan forgiveness can assist borrowers in their efforts to comply with water quality standards by making projects even more affordable. Loans funded by loan forgiveness grants are advanced to local communities on a cost reimbursement basis up to the amount of the awarded loan forgiveness. The amount of interim loan balances for which a subsidy was provided in the form of loan forgiveness was \$84,264 and \$65,109, as of June 30, 2022 and 2021, respectively. The subsidized interim loan amounts will be legally forgiven as the applicable projects are completed. Financing agreements require repayment of the forgiven loan if all program requirements are not met.

Aggregate principal maturities on loans receivable are as follows.

	<u>Leveraged loans</u>	<u>Direct loans pledged for bond debt service</u>	<u>Other direct loans</u>	<u>Total permanently financed loans receivable</u>
Years ending June 30:				
2023	\$ 274,367	30,244	629	305,240
2024	263,187	30,834	629	294,650
2025	248,706	31,436	630	280,772
2026	237,928	30,539	630	269,097
2027	216,341	31,137	631	248,109
2028–2032	897,725	161,618	2,113	1,061,456
2033–2037	592,015	124,285	—	716,300
2038–2042	253,266	74,074	—	327,340
2043–2047	57,185	54,052	—	111,237
2048–2052	20,338	18,351	—	38,689
Total	<u>\$ 3,061,058</u>	<u>586,570</u>	<u>5,262</u>	<u>3,652,890</u>

Payments on loans are due to the Trust fifteen (15) days in advance of debt service payments on the Trust's bonds: February 1 and August 1. Accordingly, the Trust records in its statements of net position accrued

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interest receivable equal to 5/6ths of the interest received from borrowers on August 1 at fiscal year-end. On June 30, 2022 and 2021 accrued interest receivable totaled \$33,621 and \$35,777, respectively.

The Trust's loans to its borrowers are subsidized by interest earnings on its pledged assets which include debt service reserve funds and direct loans. Additionally, contract assistance is provided to the Trust by the Commonwealth on behalf of certain loan financing agreements. 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 as described in note 8. These contract assistance funds are used to make debt service payments on behalf of the Trust's borrowers, both principal and interest. These funds are received by the Trust in advance of debt service payments on the Trust's bonds: February 1 and August 1. These funds are recorded upon receipt of funds from the Commonwealth with no accrued receivable recorded in the statements of net position.

(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 2.00% to 5.75% and each series is payable semiannually with the latest maturity occurring in FY 2047. Bond proceeds are used to provide financial assistance through leveraged loans from the Trust to the borrowers as described in note 7.

In connection with the issuance of its Series 18 Bonds in early 2015, the Trust entered into the Master Trust Agreement (MTA). The MTA replaced the Trust's older Program Resolution and simplified the security framework for new Trust SRF Bonds. The Series 18 Bonds and all other SRF Bonds issued and to be issued under the MTA (MTA Bonds) are secured on a parity basis by the assets pledged under the MTA. Prior to Series 18, the Trust issued bonds pursuant to the Trust's older Program Resolution and standalone bond resolutions 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. 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 MTA Bonds are special obligations of the Trust and do not constitute a pledge of its full faith and credit. The MTA Bonds are payable solely from the funds pledged pursuant 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 borrowers 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. Debt service is paid semi-annually, with principal and interest payments due February 1 and August 1.

The Commonwealth and the Trust have entered into a contract pursuant to which the Commonwealth has committed to provide contract assistance payments to the Trust to reduce the borrowers' debt service obligations to the Trust in the amount of \$165,708 over 30 years. This obligation of the Commonwealth to

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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.

The following is a summary of bonds payable as of June 30, 2022 and 2021.

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Balance June 30, 2022	Due within one year
Senior revenue bonds:									
Series 6	Pool Loan	11/8/2000	8/1/2023	\$ 2,650	—	925	1,725		885
Series 7	Pool Loan	7/26/2001	2/1/2023	790	—	400	390		390
Series 2002A	MWRA	10/31/2002	8/1/2032	4,870	—	700	4,170		635
Series 8	Pool Loan	11/26/2002	8/1/2026	4,165	—	575	3,590		310
Series 9	Pool Loan	11/6/2003	8/1/2027	6,390	—	905	5,485		685
Series 11	Pool Loan	11/16/2005	8/1/2025	16,600	—	310	16,290		15,130
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830		—
Series 15B	Pool Loan	6/8/2010	8/1/2040	252,595	—	3,000	249,595		21,990
Series 17A and B	Pool Loan	5/22/2013	2/1/2043	139,460	—	8,935	130,525		9,285
Series 18	MTA	1/7/2015	2/1/2045	179,790	—	8,995	170,795		9,315
Series 19	MTA	2/11/2016	2/1/2046	166,265	—	9,300	156,965		9,665
Series 20	MTA	4/13/2017	2/1/2047	179,060	—	7,460	171,600		7,670
Series 21	MTA	9/12/2018	8/1/2038	150,985	—	6,570	144,415		6,785
Series 22	MTA	10/24/2019	8/1/2039	184,665	—	6,720	177,945		6,960
Series 23	MTA	5/11/2021	2/1/2041	351,440	—	13,010	338,430		12,175
Subordinated revenue refunding bonds:									
Series 1999A	MWRA	11/3/1999	8/1/2029	3,845	—	—	3,845		—
Series 2004A	Pool Loan	9/9/2004	8/1/2027	42,400	—	12,975	29,425		11,415
Series 2006	Pool Loan	12/14/2006	8/1/2034	271,300	—	45,565	225,735		30,650
Series 2012A	Pool Loan	6/13/2012	8/1/2032	43,855	—	11,910	31,945		16,900
Series 2014	Pool Loan	6/12/2014	8/1/2028	322,725	—	46,880	275,845		48,120
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	25,750	70,530		10,820
Series 2020	MTA	5/21/2020	8/1/2042	87,305	—	—	87,305		—
Subtotal				2,530,265	—	210,885	2,319,380		219,785
Add unamortized bond premiums				401,480	—	31,812	369,668		—
Total bonds payable				<u>\$ 2,931,745</u>	<u>—</u>	<u>242,697</u>	<u>2,689,048</u>		<u>219,785</u>

Total bonds payable decreased \$242,697 during fiscal year 2022 due to scheduled debt service payments, and premium amortization. In fiscal year 2022, the Trust did not issue any new bonds that would offset this decrease. The Trust anticipates a bond issuance in November 2022.

On May 11, 2021, the Trust issued State Revolving Fund Bonds Series 23A and 23B (Green Bonds and Sustainability Bonds) in the par amount of \$351,440 with a premium of \$101,348. The \$141,945 Series 23A Bonds were designated by the Trust 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, and represented the Trust's sixth Green Bond issuance. The \$209,495 Series 23B were designated by the Trust as "Sustainability Bonds" providing both environmental and social benefits. The

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Series 23B Bonds were the first issuance of Sustainability Bonds for the Trust and for any SRF program in the country and provided investors an opportunity to support Massachusetts communities identified as the most economically disadvantaged.

Series 23 Bond proceeds were applied to fund \$452,784 in loans for CWSRF and DWSRF projects. The Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 23 Bonds, the Trust pledged \$44,815 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.

The Trust issued its Series 15B Bonds in the form of "Build America Bonds" (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Trust is entitled to receive cash subsidy payments from the federal government equal to 35% of the interest payable on the BABs provided that the Trust makes certain required filings in accordance with applicable federal rules. Receipt of these subsidy payments 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 2021 through 2030, the sequestration reduction rate has been set at 5.7%, unless a law is enacted that modifies or amends the rate, at which time the sequestration reduction may be subject to change. Such interest subsidy payments could become subject to a much larger sequestration reduction, and potentially eliminated altogether, under the Statutory Pay-As-You-Go (PAYGO) Act of 2010, which is designed to limit the federal deficit spending. Since the enactment of the PAYGO Act, the U.S. Congress has consistently acted to prevent its implementation, but there can be no assurance that it will continue to do so. The Trust received \$4,277 and \$4,360 in BABs subsidies for fiscal year 2022 and 2021, respectively.

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The following is a summary of bonds payable as of June 30, 2021 and 2020.

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/8/2000	8/1/2023	\$ 2,905	—	255	2,650	925
Series 7	Pool Loan	7/26/2001	2/1/2023	1,040	—	250	790	400
Series 2002A	MWRA	10/31/2002	8/1/2032	5,625	—	755	4,870	700
Series 8	Pool Loan	11/26/2002	8/1/2026	4,980	—	815	4,165	575
Series 9	Pool Loan	11/6/2003	8/1/2027	7,500	—	1,110	6,390	905
Series 11	Pool Loan	11/16/2005	8/1/2025	17,150	—	550	16,600	310
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 15B	Pool Loan	6/8/2010	8/1/2040	273,105	—	20,510	252,595	3,000
Series 16A and B	Pool Loan	6/13/2012	8/1/2025	13,705	—	13,705	—	—
Series 17A and B	Pool Loan	5/22/2013	2/1/2043	148,060	—	8,600	139,460	8,935
Series 18	MTA	1/7/2015	2/1/2045	188,505	—	8,715	179,790	8,995
Series 19	MTA	2/11/2016	2/1/2046	175,250	—	8,985	166,265	9,300
Series 20	MTA	4/13/2017	2/1/2047	186,265	—	7,205	179,060	7,460
Series 21	MTA	9/12/2018	8/1/2038	157,360	—	6,375	150,985	6,570
Series 22	MTA	10/24/2019	8/1/2039	191,610	—	6,945	184,665	6,720
Series 23	MTA	5/11/2021	2/1/2041	—	351,440	—	351,440	13,010
Subordinated revenue refunding bonds:								
Series 1999A	MWRA	11/3/1999	8/1/2029	3,845	—	—	3,845	—
Series 2004A	Pool Loan	9/9/2004	8/1/2027	77,020	—	34,620	42,400	12,975
Series 2006	Pool Loan	12/14/2006	8/1/2034	313,020	—	41,720	271,300	45,565
Series 2012A	Pool Loan	6/13/2012	8/1/2032	43,855	—	—	43,855	11,910
Series 2014	Pool Loan	6/12/2014	8/1/2028	377,660	—	54,935	322,725	46,880
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	—	96,280	25,750
Series 2020	MTA	5/21/2020	8/1/2042	87,305	—	—	87,305	—
Subtotal				2,394,875	351,440	216,050	2,530,265	210,885
Add unamortized bond premiums				329,469	101,348	29,337	401,480	—
Total bonds payable				<u>\$ 2,724,344</u>	<u>452,788</u>	<u>245,387</u>	<u>2,931,745</u>	<u>210,885</u>

Debt service payments on the Trust's bonds are due semi-annually on February 1 and August 1. Accordingly, the Trust records in its statements of net position an accrued interest payable equal to 5/6ths of the interest paid on August 1 at fiscal yearend. On June 30, 2022 and 2021 accrued expenses and interest payable totaled \$48,903 and \$47,799, respectively.

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As of June 30, 2022, debt service requirements to maturity for principal and interest are as follows.

		<u>Total debt service</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:				
2023	\$	329,342	219,785	109,557
2024		304,165	204,605	99,560
2025		286,033	196,030	90,003
2026		264,592	184,090	80,502
2027		247,221	175,565	71,656
2028–2032		908,096	657,555	250,541
2033–2037		545,659	431,075	114,584
2038–2042		251,196	219,590	31,606
2043–2047		34,609	31,085	3,524
Total debt service requirements	\$	<u>3,170,913</u>	<u>2,319,380</u>	<u>851,533</u>

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 irrevocable trust's assets and the liabilities for the defeased bonds are not included in the Trust's financial statements. The balance of bonds defeased in irrevocable trusts outstanding as of June 30, 2022 and June 30, 2021, was \$29,660 related to the Series 2012A Refunding Bonds that were redeemed on April 13, 2017 and have a final escrow payment date of August 1, 2022.

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 statements of net position and is amortized generally over the life of the refunding bonds. The amortization is recorded as a component of interest expense on the statements of revenues, expenses, and changes in net position. The net accounting loss on debt refunding as of June 30, 2022 and 2021 is as follows.

Deferred Outflow of Resources

		<u>2022</u>	<u>2021</u>
Beginning net accounting loss	\$	32,121	37,815
Amortization		<u>(5,362)</u>	<u>(5,694)</u>
Ending net accounting loss	\$	<u>26,759</u>	<u>32,121</u>

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(9) Other Commitments

The Trust acts as custodian for the Cape Cod and Islands Water Protection Fund (CCIWPF) that was created pursuant to Chapter 337 of the Acts of 2018 “Act Regulating and Insuring Short-Term Rentals.” The legislation added a 2.75% local option excise tax on traditional lodging and short-term rentals for communities on Cape Cod and Islands. This 2.75% excise tax can only be collected by communities participating in the fund and may only be deposited to the fund. The fund is owned and managed by the CCIWPF Management Board which is comprised of representatives from each Cape Cod and Islands community.

Monies from the fund may be used to provide loan forgiveness to eligible CWSRF projects financed by the Trust or to pay for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. In fiscal year 2022, the CCIWPF Management Board approved commitment amounts for \$108,265 of eligible projects and \$52,105 for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. In fiscal year 2021, the CCIWPF Management Board approved commitment amounts for \$54,835 of eligible projects. These commitment amounts for the pre-existing debt will be provided over a period of ten years while the other committed amounts will be paid over four years. In fiscal year 2022 and 2021, the Trust received instructions from the CCIWPF Management Board to transfer \$1,303 and \$13,709, respectively, from the fiduciary account to a designated account at the Trust. These funds will be disbursed to the respective projects as reimbursement requests are received; or used to reimburse the Trust for disbursements already made; or remain in the account until project disbursement requests are received. As of June 30, 2022, and 2021 the balance of committed but unexpended funds in this account was \$6,303 and \$7,805, respectively.

The Trust provides additional subsidization to communities that are in need of additional subsidization to afford the costs of construction needed for water infrastructure projects. The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants. The contract assistance committed but unexpended balance of the as of June 30, 2022, and 2021 was \$3,067 and \$2,075, respectively as described in note 3.

(10) Net Position

As of June 30, 2022 and 2021, the Trust has a restricted net position in the amount of \$2.98 billion and \$2.89 billion, respectively, and an unrestricted net position in the amount of \$602 and \$608 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. Restricted net position also includes additional contract assistance provided by the Commonwealth to the Trust to provide a higher rate of subsidy on certain priority projects and/or initiatives approved by the Board of Trustees.

(11) Commitment

As of June 30, 2022 and 2021, the Trust has agreed to provide interim financing loans to eligible borrowers amounting to approximately \$490,282 and \$217,584, respectively, excluding loan amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

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(12) Derivative Instrument 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	2023
	<u>Termination</u>	<u>Termination</u>
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, 2022	859	2,529
Fair value at June 30, 2021	631	723
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. Reference period refers to 15 months preceding the debt service payment date.

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Fair Value – Because the Muni-CPI rate increased in excess of the synthetic fixed rate, the swaps had positive fair values as of June 30, 2022 and 2021. This means that on the next debt service payment dates of August 1, 2022 and August 1, 2021, the Trust receives a payment from its swap counterparty. At June 30, 2022 and 2021, the fair value of these swaps is reflected as an asset from derivative instruments, in the amounts of \$3,388 and \$1,354, respectively, and is recorded as a component of other assets, and deferred inflow from derivative instruments in the accompanying financial statements.

The fair value (Level 2) of the derivative instrument 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. Because the coupons on the Trust's variable rate bonds adjust to the changing Muni-CPI rates, the bonds do not have corresponding fair value increase or decrease.

Credit Risk – As of June 30, 2022, the Trust is exposed to credit risk equal to the amount of the derivative instrument's 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 swap 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, 2022, the variable rate was calculated using the May 31, 2022, Muni-CPI rate. As the Muni-CPI rate varies, the variable rate payments on the bonds and the variable rate receipts from the swap are equal, and the net debt service will remain fixed. 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.

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	Variable rate bonds ¹		Net swap	Total
	Principal	Interest	payments ²	debt service
Years ending June 30:				
2023	30,650	5,879	(3,467)	33,062
2024	46,605	2,212	(1,303)	47,514

¹ Calculated rate uses May 31, 2022 Muni-CPI rate to reflect debt service payment for August 1, 2022.

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

The derivative instrument is not exposed to basis risk.

(13) Fiduciary Activities

The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities that are not part of the financial reporting entity. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position.

The Trust acts as custodian for a separate fund established with expanded room occupancy excise tax on short-term rentals collected and held on behalf of the CCIWPF Management Board. The CCIWPF was established pursuant to Chapter 337 of the Acts of 2018 "An Act Regulating and Insuring Short-Term Rentals". 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 CCIWPF. 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. Amounts credited to the fund shall be expended or applied only with the approval of the CCIWPF Management Board established under the act and in a manner determined by the CCIWPF Management 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.

The Trust acts as servicer to the Executive Office of Energy and Environmental Affairs ("EOEEA") to provide loan servicing administration with respect to the Dam and Seawall Repair or Removal Program ("DSRRP"). The EOEEA administers and provides loans to qualified cities, towns, and municipalities under the DSRRP for projects that enhance, preserve, and protect the natural resources and the scenic, historic, and aesthetic qualities of the Commonwealth. Pursuant to M.G.L. C 40.4D the Trust performs routine duties in accordance with the loan servicing standards; invoicing borrowers for amounts due on the DSRRP loans, monitoring collection and receipt from the DSRRP borrowers, keeping proper books and records with respect to any DSRRP debt service payments, and providing EOEEA with summary reports. The Trust maintains a separate fund on behalf of EOEEA for receipts of DSRRP borrower loan repayments which are subsequently transferred to EOEEA's DSRRP fund. In consideration of the Trust's services, any investment earnings from amounts on deposit in this separate fund are transferred to the Trust on each debt service cycle.